GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
January 06, 2006

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

FORM 10-Q

MARK ONE

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

FOR QUARTER ENDED DECEMBER 3, 2005

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-4141

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

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

2 PARAGON DRIVE
MONTVALE, NEW JERSEY 07645
(Address of principal executive offices)

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES [X] NO [ ]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT. YES [X] NO [ ]

AS OF JANUARY 3, 2005 THE REGISTRANT HAD A TOTAL OF 41,008,716 SHARES OF COMMON STOCK - $1 PAR VALUE OUTSTANDING.

PART I - FINANCIAL INFORMATION

ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
STATEMENTS OF CONSOLIDATED OPERATIONS
(Dollars in thousands, except share and per share amounts)
(Unaudited)

	12 Weeks Ended	
	Dec. 3, 2005	Dec. 4, 2004 (RESTATED SEE NOTE 2)
Sales	$ 1,580,942	$ 2,523,759
Cost of merchandise sold	(1,116,399)	(1,827,221)
Gross margin	464,543	696,538
Store operating, general and administrative expense	(546,100)	(742,791)
Loss from operations	(81,557)	(46,253)
(Loss) gain on sale of Canadian operations	(6,083)	-
Interest expense	(15,398)	(24,874)
Interest income	4,803	485
Minority interest in earnings of consolidated franchisees	-	2,815
Equity in earnings of Metro, Inc.	3,397	-
(Loss) income from continuing operations before income taxes	(94,838)	(67,827)
Benefit from (provision for) income taxes	21,083	(4,924)
(Loss) income from continuing operations	(73,755)	(72,751)
Discontinued operations (Note 10):		
Income (loss) from operations of discontinued businesses, net of tax provision of $1,428 and $0 for the 12 weeks ended 12/3/05 and 12/4/04, respectively, and $1,232 and $0 for the 40 weeks ended 12/3/05 and 12/4/04, respectively	1,972	110
Gain (loss) on disposal of discontinued operations, net of tax provision of $417 and $0 for the 12 weeks ended 12/3/05 and 12/4/04, respectively, and $417 and $0 for the 40 weeks ended 12/3/05 and 12/4/04, respectively	577	(2,702)
Income (loss) from discontinued operations	2,549	(2,592)
Net (loss) income	$ (71,206)	$ (75,343)
Net (loss) income per share - basic:		
Continuing operations	$ (1.80)	$ (1.89)
Discontinued operations	0.06	(0.07)
Net (loss) income per share - basic	$ (1.74)	$ (1.96)
Net (loss) income per share - diluted:		
Continuing operations	$ (1.80)	$ (1.89)
Discontinued operations	0.06	(0.07)

Net (loss) income per share - diluted	$ (1.74)	$ (1.96)
Weighted average number of common shares outstanding	40,997,714	38,553,356
Common stock equivalents	622,161	255,997
Weighted average number of common and common equivalent shares outstanding	41,619,875	38,809,353

See Notes to Consolidated Financial Statements

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THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Dollars in thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated (Deficit) Earnings
	Shares	Amount		
40 WEEK PERIOD ENDED DECEMBER 3, 2005				
Balance at beginning of period	38,764,999	$ 38,765	$ 464,543	$ (266,198)
Net income				431,730
Other comprehensive income				
Stock options exercised	2,209,963	2,210	21,208	
Other share based awards	5,303	5	6,965	
Balance at end of period	40,980,265	$ 40,980	$ 492,716	$ 165,532
40 WEEK PERIOD ENDED DECEMBER 4, 2004				
Balance at beginning of period	38,518,905	$ 38,519	$ 459,579	$ (78,100)
Net loss				(182,391)
Other comprehensive income				
Stock options exercised	38,674	38	540	
Balance at end of period	38,557,579	$ 38,557	$ 460,119	$ (260,491)

COMPREHENSIVE (LOSS) INCOME

	12 Weeks Ended		4
	Dec. 3, 2005	Dec. 4, 2004	Dec. 3,

Net (loss) income	$ (71,206)	$ (75,343)	$ 431
Foreign currency translation adjustment	2,591	27,999	5
Net unrealized gain (loss) on derivatives, net of tax	-	104	
Net unrealized loss on marketable securities, net of tax	(891)	-	
Other comprehensive income	1,700	28,103	4
Total comprehensive (loss) income	$ (69,506)	$ (47,240)	$ 436

ACCUMULATED OTHER COMPREHENSIVE LOSS BALANCES

	Foreign Currency Translation	Net Unrealized Loss on Marketable Securities	Net Unrealized Gain (Loss) on Derivatives
Balance at February 26, 2005	$ 3,035	$ -	$ 57
Current period change	5,511	(806)	(57)
Balance at December 3, 2005	$ 8,546	$ (806)	$ -
Balance at February 28, 2004	$ (23,892)	$ -	$ (158)
Current period change	40,196	-	558
Balance at December 4, 2004	$ 16,304	$ -	$ 400

See Notes to Consolidated Financial Statements

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THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except share amounts)
(Unaudited)

	December 3, 2005
ASSETS	
Current assets:	
Cash and cash equivalents	$ 127,511
Restricted cash	146,651
Marketable securities	243,670
Accounts receivable, net of allowance for doubtful accounts of $5,252 and $5,713 at December 3, 2005 and February 26, 2005, respectively	145,570
Inventories	482,527
Prepaid expenses and other current assets	84,630
Total current assets	1,230,559

Non-current assets:	
Property:	
Property owned	874,252
Property leased under capital leases	23,683
Property - net	897,935
Equity investment in Metro, Inc.	331,699
Other assets	47,882
Total assets	$ 2,508,075
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 567
Current portion of obligations under capital leases	2,324
Accounts payable	221,399
Book overdrafts	67,517
Accrued salaries, wages and benefits	110,799
Accrued taxes	39,767
Other accruals	165,887
Total current liabilities	608,260
Non-current liabilities:	
Long-term debt	246,409
Long-term obligations under capital leases	32,698
Long-term real estate liabilities	276,670
Other non-current liabilities	643,470
Minority interest in consolidated franchisees	-
Total liabilities	1,807,507
Commitments and contingencies	
Stockholders' equity:	
Preferred stock--no par value; authorized - 3,000,000 shares; issued - none	-
Common stock--$1 par value; authorized - 80,000,000 shares; issued and outstanding - 40,980,265 and 38,764,999 shares at December 3, 2005 and February 26, 2005, respectively	40,980
Additional paid-in capital	492,716
Accumulated other comprehensive income (loss)	1,340
Accumulated earnings (deficit)	165,532
Total stockholders' equity	700,568
Total liabilities and stockholders' equity	$ 2,508,075

See Notes to Consolidated Financial Statements

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THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in thousands)
(Unaudited)

	40
	Dec. 3, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	$ 431,730
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Asset disposition initiative	100,372
Restructuring charge	62,736
Depreciation and amortization	164,042
Other non-current income taxes	119,643
Deferred income tax benefit	-
(Gain) loss on disposal of owned property	(25,836)
Impairment loss relating to Hurricane Katrina	6,090
Midwest long lived asset impairment charge	-
Other property impairments	23,018
(Gain) loss on sale of discontinued operations	(994)
Gain on sale of Canadian operations	(912,468)
Loss on derivatives	15,446
Equity in earnings of Metro, Inc.	(3,397)
Loss on early extinguishment of debt	28,623
Non-cash impact of early extinguishment of debt	809
Other share based awards	6,970
Other changes in assets and liabilities:	
(Increase) decrease in receivables	(25,770)
Decrease (increase) in inventories	33,432
Increase in prepaid expenses and other current assets	(15,890)
Increase in other assets	(44)
(Decrease) increase in accounts payable	(89,717)
Decrease in accrued salaries, wages, benefits and taxes	(36,152)
Increase (decrease) in other accruals	8,558
Increase (decrease) in minority interest	1,806
Decrease in other non-current liabilities	(59,721)
Other operating activities, net	6,191
Net cash used in operating activities	(160,523)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(134,762)
Proceeds from disposal of property	62,538
Proceeds from sale of Canadian operations, net of cash disposed	960,689
Disposal related expenditures for sale of Canadian operations	(53,543)
Payments for derivatives	(15,446)
Increase in restricted cash	(146,651)
Purchases of marketable securities	(517,883)
Proceeds from maturities of marketable securities	274,835
Proceeds from dividends from Metro, Inc.	3,061
Net cash provided by (used in) investing activities	432,838
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on long-term borrowings and other fees	(413,948)
Net proceeds from long-term real estate liabilities	1,339
Principal payments on capital leases	(9,635)
Proceeds from capital leases	10,000

(Decrease) increase in book overdrafts	(10,887)
Deferred financing fees	(2,921)
Proceeds from exercises of stock options	23,418
Net cash (used in) provided by financing activities	(402,634)
Effect of exchange rate changes on cash and cash equivalents	82
Net decrease in cash and cash equivalents	(130,237)
Cash and cash equivalents at beginning of period	257,748
Cash and cash equivalents at end of period	$ 127,511

See Notes to Consolidated Financial Statements

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THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share amounts)

1. BASIS OF PRESENTATION

The accompanying Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004, Consolidated Statements of Cash Flows for the 40 weeks ended December 3, 2005 and December 4, 2004, and the Consolidated Balance Sheets at December 3, 2005 and February 26, 2005, 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 2004 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company and all majority-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Our Company uses the equity method of accounting for our investment in Metro, Inc. as we can exert significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and joint purchasing and supplier arrangements.

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

On May 10, 2005, we announced plans for a major strategic restructuring that would focus future effort and investment on our core operations in the Northeastern United States. Therefore, we initiated efforts to divest our businesses in Canada and the Midwestern United States.

As further discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian business at the close of business on August 13, 2005 to Metro, Inc., a supermarket and pharmacy operator in the Provinces of Quebec and Ontario, Canada. Although the Canadian operations have been sold, the criteria necessary to classify the Canadian operations as discontinued have not been satisfied as our Company retained significant continuing involvement in the operations of this business upon its sale.

As we have not identified a buyer for our operations in the Midwestern United

States, our current plan is to operate this business as part of our core business going forward. Thus, the assets and liabilities relating to our operations in the Midwestern United States have not been classified as held for sale at December 3, 2005.

Restatement of Previously Issued Financial Statements

As discussed in Note 2 - Restatement of Previously Issued Financial Statements, our Company has restated our Consolidated Statements of Operations and Cash Flows for the 12 and 40 weeks ended December 4, 2004 for corrections in our accounting for leases. Readers of the financial statements should read this restated information as opposed to the previously filed information. All referenced amounts for prior periods reflect the balances and amounts on a restated basis.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

In connection with the preparation of our fiscal 2004 consolidated financial statements, our Company completed a review of our historical lease accounting to determine whether our accounting for leases was in accordance with generally accepted accounting principles. As a result of our review, we corrected our accounting for leases in fiscal 2004 and restated our historical annual financial statements and certain financial information for prior periods in our Fiscal 2004 Annual Report to Stockholders, primarily to correct our accounting for landlord allowances.

In certain situations, we receive allowances from our landlords in the form of direct cash reimbursements to offset the costs of structural improvements to the leased space. Historically, we have netted these reimbursements against the related leasehold improvement assets on the consolidated balance sheets and against capital expenditures in investing activities on the consolidated statements of cash flows. In accordance with SFAS 13, "Accounting Leases," Emerging Issues Task Force ("EITF") 97-10, "The Effect of Lessee Involvement in Asset Construction" and Question 2 of FASB Technical Bulletin 88-1 ("FTB 88-1"), "Issues Relating to Accounting for Leases," we should have accounted for our landlord allowances as follows:

- In those situations where we did not meet the criteria of EITF 97-10 for being deemed the owner of the construction projects during the construction period, we should have recorded the landlord allowances as deferred credits as opposed to an offset to leasehold improvements on the consolidated balance sheets and as a component of operating activities as opposed to a component of investing activities on the consolidated statements of cash flows. In addition, the deferred credits should have been amortized over the term of the lease as a decrease to rent expense as opposed to an offset to depreciation expense.

- In those situations where we did meet the criteria of EITF 97-10 for being deemed the owner of the construction projects, we should have been considered the owner of those construction projects during the construction period and we should have recorded the associated landlord allowances as long-term real estate liabilities as opposed to an offset to leasehold improvements as we had paid directly for a substantial portion of the structural improvement costs. In all situations upon completion of the construction, we were unable to meet the requirements under SFAS 98, "Accounting for Leases" to qualify for sale-leaseback treatment; thus, the long-term real estate liabilities should have been amortized based on rent payments designated in the lease agreements as opposed to an offset to depreciation expense.

These adjustments resulted in a correction of an understatement of Property - net, Long-term real estate liabilities and Other non-current liabilities on our consolidated balance sheets, an overstatement of rent expense and an understatement of interest on our consolidated statements of operations for the related periods.

CONSOLIDATED STATEMENT OF OPERATIONS

	Consolidated A&P for the 12 weeks ended Dec. 4, 2004 As Previously Reported	Correction to lease accounting
Sales	$ 2,523,759	$
Cost of merchandise sold	(1,827,221)	
Gross margin	696,538	
Store operating, general and administrative expense	(748,447)	5,6
(Loss) income from operations	(51,909)	5,6
Interest expense	(19,218)	(5,6
Interest income	485	
Minority interest in earnings of consolidated franchisees	2,815	
Loss from continuing operations before income taxes	(67,827)	
Provision for income taxes	(4,924)	
Loss from continuing operations	(72,751)	
Discontinued operations:		
Income from operations of discontinued businesses, net of tax	110	
Loss on disposal of discontinued operations, net of tax	(2,702)	
Loss from discontinued operations	(2,592)	
Net loss	$ (75,343)	$
Net loss - basic & diluted	$ (1.96)	$
Depreciation	$ (62,854)	$ 2

CONSOLIDATED STATEMENT OF OPERATIONS

	Consolidated A&P for the 40 weeks ended Dec. 4, 2004 As Previously Reported	Correcti to lea account
Sales	$ 8,294,617	$
Cost of merchandise sold	(5,982,570)	
Gross margin	2,312,047	
Store operating, general and administrative expense	(2,417,084)	18
(Loss) income from operations	(105,037)	18
Interest expense	(68,146)	(18
Interest income	2,094	
Minority interest in earnings of consolidated franchisees	1,097	
Loss from continuing operations before income taxes	(169,992)	
Provision for income taxes	(8,768)	
Loss from continuing operations	(178,760)	
Discontinued operations:		
Loss from operations of discontinued businesses, net of tax	(929)	
Loss on disposal of discontinued operations, net of tax	(2,702)	
Loss from discontinued operations	(3,631)	
Net loss	$ (182,391)	$
Net loss - basic & diluted	$ (4.74)	
Depreciation	$ (206,373)	$

SELECTED CONSOLIDATED STATEMENT OF CASH FLOW DATA FOR THE 40 WEEKS ENDED DECEMBER 4, 2004:

	As Previously Reported	Corre to L Accou

Other property impairments	$ 2,048	$ 1
Depreciation and amortization	206,373	
(Increase) decrease in prepaid expenses and other current assets	(26,523)	
(Increase) decrease in other assets	(22,666)	1
(Decrease) increase in other non-current liabilities	(8,353)	1
Net cash (used in) provided by operating activities	(15,500)	4
Expenditures for property	(150,146)	(14
Net cash used in investing activities	(134,481)	(14
Proceeds from long-term borrowings	19,321	(19
Net proceeds from long-term real estate liabilities	-	29
Principal payments on capital leases	(10,136)	
Net cash provided by financing activities	22,247	10
Effect of exchange rate changes on cash and cash equivalents	7,420	

3. IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standard Board ("FASB") issued SFAS 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 requires that handling costs and waste material (spoilage) be recognized as current-period charges regardless of whether they meet the previous requirement of being abnormal. In addition, this Statement requires that allocations of fixed overhead to the cost of inventory be based on the normal capacity of the production facilities. SFAS 151 is effective for our 2006 fiscal year. We are currently assessing the impact of this statement on our Consolidated Financial Statements; however, we do not expect it to have a material impact on our consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29" ("SFAS 153"). SFAS 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. This pronouncement amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005 (the quarter ended June 17, 2006 for our Company). We have evaluated the provisions of SFAS 153 and concluded that its adoption will not have a material impact on our consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS 123R (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, supersedes APB No. 25 and related interpretations and amends SFAS No. 95, "Statement of Cash Flows." Refer to Note 13 - Stock Based Compensation for further discussion regarding our Company's adoption of SFAS 123R.

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107, "Share Based Payments" ("SAB 107") to provide public companies additional guidance in applying the provisions of SFAS 123R. Among other things, SAB 107 describes the SEC staff's expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of Statement 123R with certain existing SEC guidance. We have adopted the provisions of SAB 107 in conjunction with the adoption of FAS 123R beginning February 27, 2005. Refer to Note 13 - Stock Based Compensation for further discussion and disclosure.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Contingent Asset Retirement Obligations" ("FIN 47"), an interpretation of FASB Statement No. 143, "Asset Retirement Obligations" ("SFAS 143"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005, or our fiscal year ending February 25, 2006. For existing contingent asset retirement obligations which are determined to be recognizable under FIN 47, the effect of applying FIN 47 would be recognized as a cumulative effect of a change in accounting principle. We have evaluated the provisions of FIN 47 and concluded that its adoption will not have a material impact on our consolidated financial position or results of operations.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, unless impracticable, as the required method for reporting a change in accounting principle and the reporting of a correction of an error and for reporting a change when retrospective application is impracticable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by our Company in the first quarter of fiscal 2006. Our Company is not currently contemplating an accounting change which would be impacted by SFAS 154.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination" ("EITF 05-6"). EITF 05-6 requires that leasehold improvements acquired in a business combination be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of acquisition. EITF 05-6 also requires that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 is effective for our third quarter beginning September 11, 2005. The impact of EITF 05-6 is not expected to have a material effect on our Company's financial condition and results of operations.

In September 2005, the FASB ratified the consensus reached in EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same

Counterparty" (EITF 04-13). EITF 04-13 defines when a purchase and a sale of inventory with the same party that operates in the same line of business should be considered a single nonmonetary transaction. EITF 04-13 is effective for new arrangements that a company enters into in periods beginning after March 15, 2006 (our second quarter beginning June 18, 2006). We have evaluated the provisions of EITF 04-13 and have adopted the guidance. This adoption did not have a material impact on our Company's financial condition or results of operations.

In October 2005, the FASB issued FASB Staff Position FAS 13-1 ("FSP FAS 13-1"), which requires companies to expense rental costs associated with ground or building operating leases that are incurred during a construction period. As a result, companies that are currently capitalizing these rental costs are required to expense them beginning in its first reporting period beginning after December 15, 2005. FSP FAS 13-1 is effective for our Company as of the first quarter of fiscal 2006. We evaluated the provisions of FSP FAS 13-1 and do not believe that its adoption will have a material impact on our Company's financial condition or results of operations.

On November 3, 2005, the FASB issued FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP FAS 115-1 and FAS 124-1"). FSP FAS 115-1 and FAS 124-1 address the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP FAS 115-1 and FAS 124-1 are effective for reporting periods beginning after December 15, 2005 and are required to be adopted by our Company in the first quarter of fiscal 2006. We have evaluated the impact of FSP FAS 115-1 and FAS 124-1 on our Company and concluded that its adoption will not have a material impact on our consolidated financial position or results of operations. We have included the necessary disclosures relating to unrealized losses that have not been recognized as other-than-temporary impairments in Note 8 - Cash, Restricted Cash, Cash Equivalents, and Marketable Securities at December 3, 2005.

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4. DIVESTITURE OF OUR BUSINESSES IN CANADA AND THE MIDWESTERN UNITED STATES

During the first quarter of fiscal 2005, we announced plans for a major strategic restructuring that focuses future effort and investment on our core operations in the Northeastern United States. Therefore, we initiated efforts to divest our businesses in Canada and the Midwestern United States.

Canadian Operations

At the close of business on August 13, 2005, our Company completed the sale of our Canadian business to Metro, Inc., a supermarket and pharmacy operator in the Provinces of Quebec and Ontario, Canada, for $1.5 billion in cash, stock and certain debt that was assumed by Metro, Inc. The stock received consisted of 18,076,645 Class A subordinate shares of Metro, Inc., representing approximately 15.83% of the outstanding shares of that class after issuance.

We use the equity method of accounting to account for our investment in Metro, Inc. as we can exert significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and joint purchasing and supplier arrangements. The value of our equity investment in Metro, Inc. based upon Metro, Inc.'s quoted market price is $492.1 million at December 3, 2005.

The following table summarizes the status and results of our Company's equity investment in Metro, Inc. from the date of ownership through December 3, 2005:

Beginning investment at August 13, 2005	$ 494,578
Deferred portion of gain on sale of A&P Canada	(171,714)
Dividends and distributions received	(3,061)
Equity earnings in Metro, Inc.	3,397
Foreign currency translation	8,499
Equity investment in Metro, Inc.	$ 331,699

In accordance with Emerging Issues Task Force ("EITF") 01-2, "Interpretations of APB Opinion No. 29," we have indefinitely deferred $171.7 million of the gain resulting from the sale of our Canadian operations that directly related to the economic interest we retained in Metro, Inc. We will record our equity earnings or losses relating to our equity investment in Metro, Inc. on about a three-month lag period as permitted by APB 18, "The Equity Method of Accounting for Investments in Common Stock." Thus, during the 12 and 40 weeks ended December 3, 2005, we recorded $3.4 million in equity earnings relating to our equity investment in Metro, Inc. and included this amount in "Equity in earnings of Metro, Inc." on our Consolidated Statements of Operations.

The difference between the carrying value of our investment of $331.7 million and the amount of our underlying equity in Metro, Inc.'s net assets of $241.1 million is $90.6 million.

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During the third quarter of fiscal 2005, we recorded additional costs relating to the sale of our Canadian operations of $6.1 million, which resulted in a year-to-date pretax gain of $912.5 million (gain of $780.4 million after tax), and are included in "(Loss) gain on sale of Canadian operations" in our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005, respectively. Although the Canadian operations have been sold at December 3, 2005, the criteria necessary to classify the Canadian operations as discontinued have not been satisfied as our Company retained significant continuing involvement in the operations of this business upon its sale through our equity investment in Metro, Inc.

Midwestern United States Operations

As we have not identified a buyer for our operations in the Midwestern United States, our current plan is to operate this business as part of our core business going forward. As further discussed in Note 11 - Asset Disposition Initiatives, we closed 35 of these stores during the 40 weeks ended December 3, 2005. None of these stores in any combination comprised a complete asset grouping and thus, have not been disclosed as discontinued operations. However, as discussed in Note 9 - Valuation of Long-Lived Assets, we recorded impairment losses on property, plant and equipment related to property write-downs as a result of the divestiture of this portion of our Midwestern U.S. business.

5. TENDER OFFER AND REPURCHASE OF 7.75% NOTES DUE 2007 AND 9.125% SENIOR NOTES DUE 2011

In August 2005, our Company commenced a cash tender offer for all of the outstanding principal amount of our 7.75% Notes due April 15, 2007 and 9.125%

Senior Notes due December 15, 2011. The tender offer expired on September 7, 2005. On September 8, 2005, our Company purchased pursuant to the tender offer $166.7 million of our $199 million 7.75% Notes due April 15, 2007 and $203.7 million of our $216.5 million 9.125% Senior Notes due December 15, 2011 using $370.4 million of the gross proceeds from the sale of our Canadian operations as discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States. Our Company also paid $28.6 million in tender premiums and other fees and expenses and wrote off approximately $3.9 million of unamortized debt discount and issuance costs related to this tender offer.

In addition, due to the early extinguishment of a significant portion of the 7.75% Notes due April 15, 2007, we recognized $3.1 million of the deferred gain that resulted from the termination of three interest rate swaps we entered into during fiscal 2002 to effectively convert a portion of our 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt. The portion of the deferred gain that was recognized related to the underlying debt instrument that was early extinguished. The remaining portion of the deferred gain will continue to be amortized as an offset to interest expense over the life of the remaining underlying debt instrument and is classified as "Long term debt" in our Consolidated Balance Sheets.

Both the tender premiums and other fees and expenses as well as the recognition of the deferred gain are included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 40 weeks ended December 3, 2005.

6. SALE OF OUR U.S. DISTRIBUTION OPERATIONS AND WAREHOUSES

During the first quarter of fiscal 2005, our Company held discussions to sell our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. On June 27, 2005, during the second quarter of fiscal 2005, the definitive agreements, including an Asset Purchase Agreement and a 15 year Supply Agreement, were finalized and signed. The Asset Purchase Agreement included the assignment of our leases in Central Islip, New York and Baltimore, Maryland, a sublease for our leased facility in New Orleans, Louisiana, and warranty deeds for our owned facilities in Dunmore, Pennsylvania and New Orleans, Louisiana. In the Supply Agreement, C&S Wholesale Grocers, Inc. will supply our Company with all of our requirements for groceries, perishables, frozen food and other merchandise in the product categories carried by C&S Wholesale Grocers, Inc. The transition of our owned warehouses and operations began in the second quarter of fiscal 2005 and is expected to be completed during the fourth quarter of fiscal 2005.

Due to the scope of C&S Wholesale Grocers, Inc.'s distribution network, our owned warehouses in Edison, New Jersey and the Bronx, New York will not be sold as part of the transaction and have been closed. As a result of this decision, we recorded a charge of $3.7 million ($1.1 million in "Cost of merchandise sold" and $2.6 million in "Store, operating, general and administrative expense" in our Consolidated Statement of Operations) and $70.6 million ($3.3 million in "Cost of merchandise sold" and $67.3 million in "Store, operating, general and administrative expense" in our Consolidated Statement of Operations) relating to the closing of these facilities during the 12 and 40 weeks ended December 3, 2005, respectively.

These costs are detailed as follows:

	12 weeks ended December 3, 2005
BALANCE SHEET ACCRUALS	
Occupancy related	$ 1,000
Severance and benefits	(482)
Total accrued to Balance Sheet	518
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS	
Property writeoffs	106
Inventory markdowns	1,073
Non-accruable closing costs	2,044
Total non-accruable items	3,223
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS	$ 3,741
Less non-accruable closing costs	
TOTAL AMOUNT RECORDED ON STATEMENTS OF CASH FLOWS - RESTRUCTURING CHARGE	

The following table summarizes the activity to date related to the charges recorded for the closing of these facilities. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include inventory markdowns and non-accruable closing costs since they are expensed as incurred in accordance with generally accepted accounting principles.

	Occupancy	Severance and Benefits	Total
Original charge (1)	$ -	$ 40,417	$ 40,417
Additions (2)	4,400	6,410	10,810
Utilization (3)	(220)	(42,975)	(43,195)
Adjustments (4)	-	(482)	(482)
Balance at Dec. 3, 2005	$ 4,180	$ 3,370	$ 7,550

(1) The original charge to severance and benefits during the first quarter of fiscal 2005 of $40.4 million related to (i.) individual severings as well as retention and productivity incentives that were accrued as earned of $7.6 million and (ii.) costs for future obligations for

early withdrawal from multi-employer union pension plans of $32.8 million.

(2) The additions to occupancy during the second and third quarters of fiscal 2005 related to future obligations for the warehouses sold to C&S Wholesale Grocers, Inc. The additions to severance and benefits during the second and third quarters of fiscal 2005 represented charges related to additional individual severings as well as retention and productivity incentives that were accrued as earned.

(3) Occupancy utilization of $0.2 million for the 40 weeks ended December 3, 2005 represents payments made to C&S Wholesale Grocers, Inc. for the warehouses. Severance and benefits utilization of $43.0 million for 40 weeks ended December 3, 2005, represents payments made to terminated employees during the period as well as payments made to pension funds for early withdrawal from multi-employer union pension plans.

(4) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During the third quarter of fiscal 2005, we recorded adjustments of $0.5 million primarily related to reversals of previously accrued severance and benefits due to changes in individual severings and associated benefit costs.

As of December 3, 2005, approximately $1.1 million of the liability was included in "Accrued salaries, wages and benefits" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of $7.6 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the warehouses and adjustments to the reserve balance may be recorded in the future, if necessary.

Our Company currently acquires a significant amount of our saleable inventory from one supplier, C&S Wholesale Grocers. 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 operating results adversely.

7. HURRICANE KATRINA AND IMPACT ON U.S. BUSINESS

In August 2005, Hurricane Katrina had a major effect on certain portions of the Gulf Coast region and resulted in the closure of our 28 stores and warehouse facilities. As of December 3, 2005, 21 of these stores were open and operating. During the third quarter of fiscal 2005, we determined that we would not re-open 5 of our stores and recorded a charge for future occupancy costs of $7.1 million, which has been included in "Store operating, general and administrative expense" in our Statement of Consolidated Operations. We are currently working to re-open the remaining two stores in the fourth quarter of fiscal 2005.

We maintain insurance coverage for this type of loss which provides for reimbursement from losses resulting from property damage, loss of product as well as business interruption coverage. As of the balance sheet date, December 3, 2005, we were able to determine that we incurred impairment losses of $6.1 million for property, plant & equipment that was not covered by insurance. This amount has been included in "Impairment loss relating to Hurricane Katrina" in our Consolidated Statement of Cash Flows for the 40 weeks ended December 3, 2005.

Our Company is currently assessing the remaining extent of our losses in the Gulf Coast region and we expect to recover the losses caused by Hurricane Katrina in excess of our estimated insurance deductible of approximately $5.0 million, which was recorded in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 40 weeks ended December 3, 2005.

8. CASH, RESTRICTED CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

At December 3, 2005, we had $146.7 million in restricted cash, which was held in a money market fund and can only be used as collateral for our new Letter of Credit Agreement that we entered into during the third quarter of fiscal 2005. Refer to Note 17 - Indebtedness for further discussion of our new Letter of Credit Agreement and Revolving Credit Agreement.

Our Company considers all highly liquid investments with maturities of ninety days or less when purchased to be cash equivalents. Investments with maturities greater than ninety days when purchased are considered marketable securities. Our cash equivalents and marketable securities are principally comprised of money market funds, commercial paper, corporate bonds, securities of the U.S. government and its agencies, and auction rate securities. Our Company's investments are considered to be available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholder's equity. The Company records other than temporary declines in fair value to earnings as realized losses.

The following is a summary of cash, restricted cash, cash equivalents, and marketable securities as of December 3, 2005 and February 26, 2005:

	At December 3, 2		
	Amortized Costs	Gross Unrealized Gains	Unr L
CLASSIFIED AS:			
Cash	$ 104,624	$ -	$
Restricted cash	146,651	-	
Cash equivalents:			
Money market funds	22,887	-	
Total cash equivalents	22,887	-	
Marketable securities:			
Corporate bonds	51,902	-	
Securities of the U.S. government and its agencies	45,483	-	
Auction rate securities	147,089	2	
Total marketable securities	244,474	2	

Total cash, restricted cash, cash equivalents and marketable securities	$ 518,636	$ 2	$

SECURITIES AVAILABLE-FOR-SALE:	
Maturing within one year	$ 182,004
Maturing greater than one year	$ 85,357

	At February 26, 2		
	Amortized Costs	Gross Unrealized Gains	Unr L
CLASSIFIED AS:			
Cash	$ 153,791	$ -	$
Cash equivalents:			
Money market funds	78,983	-	
Commercial paper	24,974	-	
Total cash equivalents	103,957	-	
Total cash and cash equivalents	$ 257,748	$ -	$

SECURITIES AVAILABLE-FOR-SALE:	
Maturing within one year	$ 103,957
Maturing greater than one year	$ -

The following table provides the breakdown of the investments with unrealized losses at December 3, 2005. There were no investments with unrealized losses at February 26, 2005.

	Less than 12 Months		12 Months or Longer		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Corporate bonds	$11,975	$ (53)	$39,513	$ (361)	$
Securities of the U.S. government and its agencies	-	-	45,091	(392)	
Total	$11,975	$ (53)	$84,604	$ (753)	$

Corporate bonds: Our unrealized losses on investments in corporate bonds were caused by interest rate increases by the Federal Reserve. The contractual terms of those investments do not permit the issuer to settle the security at a price less than the amortized cost of the investment. We do not believe it is probable that we will be unable to collect all amounts due according to the contractual terms of these investments. Therefore, it is expected that the debentures would not be settled at a price less than the amortized cost of the investment. Because we have the ability and intent to hold those investments until a recovery of fair value, which may be maturity, we do not consider those investments to be other-than-temporarily impaired at December 3, 2005.

Securities of the U.S. government and its agencies: The unrealized losses on our investments in securities of the U.S. government and its agencies were caused by interest rate increases by the Federal Reserve. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because we have the ability and intent to hold those investments until a recovery of fair value, which may be maturity, we do not consider those investments to be other-than-temporarily impaired at December 3, 2005.

There were no gross realized gains or losses on sales of investments for the 12 and 40 weeks ended December 3, 2005.

9. VALUATION OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we review the carrying values of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is primarily based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets is recoverable from their respective cash flows. If such review indicates an impairment exists, we measure such impairment on a discounted basis using a probability-weighted approach and a risk-free rate.

During the 12 and 40 weeks ended December 3, 2005 and December 4, 2004, we recorded impairment losses on long-lived assets as follows:

	12 weeks ended Dec. 3, 2005		
	U.S.	Canada	Total
Impairments due to closure or conversion in the normal course of business	$ 3,760	$ -	$ 3,760
Impairments due to unrecoverable assets	8,116	-	8,116
Impairments due to closure of stores impacted by Hurricane Katrina (1)	6,090	-	6,090
Impairments related to the divestiture of the Midwestern U.S. business (2)	12	-	12
Impairments related to property held as part of the 2001 Asset Disposition (2)	-	-	-
Impairments related to the closure of the Kohl's business (4)	-	-	-
Total impairments	$17,978	$ -	$17,978

	40 weeks ended Dec. 3, 2005		
	U.S.	Canada	Total
Impairments due to closure or conversion in the normal course of business	$ 4,784	$ 506	$ 5,290
Impairments due to unrecoverable assets	17,728	-	17,728
Impairments due to closure of stores impacted by Hurricane Katrina (1)	6,090	-	6,090
Impairments related to the divestiture of the Midwestern U.S. business (2)	6,873	-	6,873
Impairments related to the sale of U.S. distribution operations and warehouses (3)	8,590	-	8,590
Impairments related to property held as part of the 2001 Asset Disposition (2)	-	-	-
Impairments related to the closure of the Kohl's business (4)	-	-	-
Total impairments	$44,065	$ 506	$44,571

(1) Refer to Note 7 - Hurricane Katrina and Impact on U.S. Business
(2) Refer to Note 11 - Asset Disposition Initiatives
(3) Refer to Note 6 - Sale of our U.S. Distribution Operations and Warehouses
(4) Refer to Note 10 - Discontinued Operations

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 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on property, plant and equipment of $3.8 million and $5.3 million, respectively, related to stores that were or will be closed in the normal course of business as compared to $0.4 million and $1.2 million, respectively, in impairment losses on property, plant and equipment related to stores that were or will be closed in the normal course of business during the 12 and 40 weeks ended December 4, 2004.

Our impairment reviews may also be triggered by appraisals of or offers for our long-lived assets we receive in the normal course of business. During the 40 weeks ended December 4, 2004, we recorded an impairment loss of $0.9 million in the U.S. related to certain idle property that, based upon new information received about such assets, including an appraisal and an offer, was impaired and written down to its net realizable value. There were no such amounts recorded during the 12 and 40 weeks ended December 3, 2005.

These amounts were included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments due to unrecoverable assets

Through the 12 and 40 weeks ended December 3, 2005, we experienced operating losses for two of the past three years for two of our United States' asset groups, located in the Northeast, which we believe was a triggering event under SFAS 144 for potential impairment of the asset groups' long-lived assets. Thus, we reviewed the carrying value of these asset groups for potential impairment, and based upon internal analysis, we estimated the asset groups' future cash flows from their long-lived assets, which primarily consisted of equipment and leasehold improvements. As these asset groups' carrying value were not recoverable from their future cash flows, we determined the fair value of the related assets based on the same analysis, primarily using the discounted cash flow approach. As a result of this review, we recorded an impairment charge for these asset groups' long-lived assets of $8.1 million and $17.8 million, respectively, as a component of operating loss in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005.

During both the 12 and 40 weeks ended December 4, 2004, we recorded an impairment charge of $34.7 million relating to certain of our United States asset groups, located in the Midwest, as a component of operating loss in "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments related to closure of stores impacted by Hurricane Katrina

During both the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on property, plant and equipment that was not covered by insurance of $6.1 million as discussed in Note 7 - Hurricane Katrina and Impact on U.S. Business. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005. There were no such amounts recorded during the 12 and 40 weeks ended December 4, 2004.

Impairments related to the divestiture of the Midwestern U.S. business

During the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on property, plant and equipment of $0.01 million and $6.9 million, respectively, related to property write-downs as a result of the divestiture of a portion of our Midwestern U.S. business as discussed in Note 11 - Asset Disposition Initiatives. These amounts were included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005. There were no such amounts recorded during the 12 and 40 weeks ended December 4, 2004.

Impairments related to the sale of U.S. distribution operations and warehouses

During the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on property, plant and equipment of nil and $8.6 million, respectively, related to property write-downs as a result of our decision to sell our U.S. distribution operations and warehouses to C&S Wholesale Grocers as discussed in Note 6 - Sale of Our U.S. Distribution Operations and Warehouses. These amounts were included in "Store operating, general and administrative expense" in our

Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005. There were no such amounts recorded during the 12 and 40 weeks ended December 4, 2004.

Impairments related to property held as part of the 2001 Asset Disposition

During the 12 and 40 weeks ended December 4, 2004, we recorded impairment losses on property, plant and equipment of $1.7 million related to property held as part of the 2001 Asset Disposition as discussed in Note 11 - Asset Disposition Initiatives. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. There were no such amounts recorded during the 12 and 40 weeks ended December 3, 2005.

Impairments related to the closure of the Kohl's business

During the 12 and 40 weeks ended December 4, 2004, we recorded impairment losses on property, plant and equipment of $0.6 million related to stores closed as a result of our exit of the Kohl's business as discussed in Note 10 - Discontinued Operations. This amount was included in "Gain (loss) on disposal of discontinued operations, net of tax" in our Consolidated Statements of Operations. There were no such amounts recorded during the 12 and 40 weeks ended December 3, 2005.

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

10. DISCONTINUED OPERATIONS

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

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

Upon the decision to sell these stores, we applied the provisions of SFAS 144 to these properties held for sale. SFAS 144 requires properties held for sale to be classified as a current asset and valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, we considered, where available, the binding sale agreements related to these properties as an estimate of the assets' fair value.

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

Amounts in the financial statements and related notes for all periods shown have been reclassified to reflect the discontinued operations. Summarized below are the operating results for these discontinued businesses, which are included in our Consolidated Statements of Operations, under the captions "Income (loss) from operations of discontinued businesses, net of tax" and "Gain (loss) on disposal of discontinued operations, net of tax" for the 12 and 40 weeks ending December 3, 2005 and December 4, 2004.

	12 Weeks	
	Northern New England	Kohl
(LOSS) INCOME FROM OPERATIONS OF DISCONTINUED BUSINESSES		
Sales	$ -	$
Operating expenses	(10)	3,5
(Loss) income from operations of discontinued businesses, before tax	(10)	3,5
Tax benefit (provision)	4	(1,4
(Loss) income from operations of discontinued businesses, net of tax	$ (6)	$ 2,0
Disposal related costs included in operating expenses above:		
Non-accruable closing costs	$ (10)	$ (
Reversal of previously accrued occupancy related costs	-	3,7
Interest accretion on present value of future occupancy and severance costs	-	(1
Total disposal related costs	$ (10)	$ 3,5
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES		
Gain on sale of property	$ -	$ 9
Gain on disposal of discontinued businesses, before tax	-	9
Tax provision	-	(4
Gain on disposal of discontinued businesses, net of tax	$ -	$ 5

	12 Weeks e	
	Northern New England	Kohl
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES		
Sales	$ -	$
Operating expenses	5	1
Income (loss) from operations of discontinued businesses, before tax	5	1
Tax provision	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 5	$ 1
Disposal related costs included in operating expenses above:		
Non-accruable closing costs	$ 7	$ (
Reversal of previously accrued occupancy related costs	-	3
Interest accretion on present value of future occupancy and severance costs	(2)	(2
Total disposal related costs	$ 5	$ 1
LOSS ON DISPOSAL OF DISCONTINUED BUSINESSES		
Property impairments	$ -	$ (6
Loss on sale of business	-	
Loss on disposal of discontinued businesses, before tax	-	(6
Tax provision	-	
Loss on disposal of discontinued businesses, net of tax	$ -	$ (6

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40 Weeks e

	Northern New England	Kohl
(LOSS) INCOME FROM OPERATIONS OF DISCONTINUED BUSINESSES		
Sales	$ -	$
Operating expenses	(47)	3,1
(Loss) income from operations of discontinued businesses, before tax	(47)	3,1
Tax benefit (provision)	20	(1,3
(Loss) income from operations of discontinued businesses, net of tax	$ (27)	$ 1,8
Disposal related costs included in operating expenses above:		
Non-accruable closing costs	$ (47)	$ (
Reversal of previously accrued occupancy related costs	-	3,7
Interest accretion on present value of future occupancy and severance costs	-	(5
Total disposal related costs	$ (47)	$ 3,1
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES		
Gain on sale of property	$ -	$ 9
Gain on disposal of discontinued businesses, before tax	-	9
Tax provision	-	(4
Gain on disposal of discontinued businesses, net of tax	$ -	$ 5

	40 Weeks	
	Northern New England	Kohl
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES		

Sales	$ -	$
Operating expenses	333	(6
Income (loss) from operations of discontinued businesses, before tax	333	(6
Tax provision	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 333	$ (6
Disposal related costs included in operating expenses above:		
Severance and benefits	$ (326)	$
Reversal of previously accrued occupancy related costs	-	3
Non-accruable closing costs	667	(4
Interest accretion on present value of future occupancy and severance costs	(8)	(5
Total disposal related costs	$ 333	$ (6
LOSS ON DISPOSAL OF DISCONTINUED BUSINESSES		
Property impairments	$ -	$ (6
Loss on sale of business	-	
Loss on disposal of discontinued businesses, before tax	-	(6
Tax provision	-	
Loss on disposal of discontinued businesses, net of tax	$ -	$ (6

NORTHERN NEW ENGLAND

As previously stated, as part of our strategic plan, we decided, in February 2003, to exit the northern New England market by closing and/or selling 21 stores in that region in order to focus on our core geographic markets. At December 3, 2005, we have closed all locations in the northern New England market.

During the 12 and 40 weeks ended December 3, 2005, we incurred additional pretax costs to wind down our operations in this region subsequent to the sale of these stores of $0.01 million and $0.05 million, respectively, primarily related to non-accruable closing costs. During the 12 and 40 weeks ended December 4, 2004, we recorded gains of nil and $0.3 million, respectively, primarily due to favorable results of winding down this business. These amounts were included in "Income (loss) from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004.

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

	Occupancy	Severance and Benefits	Total
Fiscal 2003 charge (1)	$ 3,993	$ 2,670	$ 6,663
Additions (2)	6	-	6
Utilization (3)	(3,547)	(2,612)	(6,159)
Balance at February 28, 2004	$ 452	$ 58	$ 510
Additions (2)	8	326	334
Utilization (3)	(460)	(384)	(844)
Balance at February 26, 2005	$ -	$ -	$ -
Additions (2)	-	-	-
Utilization (3)	-	-	-
Balance at December 3, 2005	$ -	$ -	$ -

(1) The fiscal 2003 charge to occupancy consists of $4.0 million related to future occupancy costs such as rent, common area maintenance and real estate taxes. The fiscal 2003 charge to severance and benefits of $2.7 million related to severance to be paid to employees terminated as a result of our exit from the northern New England market.

(2) The additions to occupancy presented represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The fiscal 2004 charge to severance and benefits of $0.3 million related to additional severance required to be paid to employees terminated in accordance with a union contract as a result of our exit from the northern New England market.

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

As of December 3, 2005, we paid approximately $3.0 million in severance and benefit costs, which resulted from the termination of approximately 300 employees.

KOHL'S MARKET

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

During the 12 and 40 weeks ended December 3, 2005, we recorded a pretax gain of $3.5 million and $3.2 million, respectively, primarily due to the reversal of previously accrued occupancy related costs offset by the costs of winding down this business. During the 12 and 40 weeks ended December 4, 2004, we recorded a gain of $0.1 million and a charge of $0.6 million, respectively, primarily due to the residual benefits and costs of winding down this business. These amounts were included in "Income (loss) from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004.

Further, during the 12 and 40 weeks ended December 3, 2005, we recorded a pretax gain on the sale of property of $1.0 million. During the 12 and 40 weeks ended December 4, 2004, we recorded additional impairment losses of $0.6 million as a result of originally estimated proceeds on the disposal of these assets not being achieved. These amounts were included in "Gain (loss) on disposal of discontinued operations, net of tax" on our Statements of Consolidated Operations for those periods.

The following table summarizes the reserve activity related to the exit of the Kohl's market since the charge was recorded through the 40 weeks ended December 3, 2005:

	Occupancy	Severance and Benefits	Fixed Assets	
Fiscal 2003 charge (1)	$ 25,487	$ 13,062	$ 18,968	$
Additions (2)	352	-	-	
Utilization (3)	(5,342)	(8,228)	(18,968)	
Adjustments (4)	(1,458)	-	-	
Balance at February 28, 2004	19,039	4,834	-	
Additions (2)	688	52	602	
Utilization (3)	(1,918)	(2,201)	(602)	
Adjustments (4)	(354)	-	-	
Balance at February 26, 2005	$ 17,455	$ 2,685	$ -	$
Additions (2)	466	37	-	
Utilization (3)	(2,447)	(2,088)	-	
Adjustments (4)	(4,299)	582	-	
Balance at December 3, 2005	$ 11,175	$ 1,216	$ -	$

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

(2) The fiscal 2003, fiscal 2004 and the year to date third quarter of fiscal 2005 additions to occupancy and severance and benefits 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. The addition to fixed assets represents additional impairment losses recorded as a result of originally estimated proceeds on the disposal of these assets not being achieved.

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

(4) At each balance sheet date, we assess the adequacy of the balance to

determine if any adjustments are required as a result of changes in circumstances and/or estimates. During fiscal 2003, we recorded net adjustments of $1.5 million primarily related to reversals of previously accrued vacancy related costs due to favorable results of terminating and subleasing certain locations of $4.5 million offset by additional vacancy accruals of $3.0 million. During fiscal 2004, we recorded a reversal of previously accrued occupancy related costs due to favorable results of terminating leases. During the third quarter of fiscal 2005, we recorded adjustments relating to (i.) a reversal of previously accrued occupancy related costs of $3.7 million due to favorable results of terminating the Kohl's warehouse lease and (ii.) the reclassification of $0.6 million between the liabilities for occupancy and severance and benefits to properly state their respective ending balances at December 3, 2005.

We paid $9.7 million of the total occupancy charges from the time of the original charge through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $12.5 million of the total original severance and benefits charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 2,000 employees. The remaining occupancy liability of $11.2 million relates to expected future payments under long term leases and is expected to be paid out in full by 2020. The remaining severance liability of $1.2 million relates to future obligations for early withdrawal from multi-employer union pension plans which will be paid by mid-2006.

At December 3, 2005 and February 26, 2005, $3.7 million and $5.9 million, respectively, of the Kohl's exit reserves was included in "Other accruals" and $8.7 million and $14.2 million, respectively, was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of $12.4 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

EIGHT O'CLOCK COFFEE

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

During the 12 and 40 weeks ended December 3, 2005, we incurred pretax costs of $0.1 million and $0.2 million to wind down our operations in this business subsequent to the sale. Similarly, we incurred pretax costs of $0.03 million and $0.6 million during the 12 and 40 weeks ended December 4, 2004, respectively, related to winding down this business subsequent to the sale. These amounts were included in "Income (loss) from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004. During the 12 and 40 weeks ended December 4, 2004, we incurred costs of $2.1 million which consisted of a post-sale working capital settlement between the buyer and our Company for which the amount was not determinable at the time of the sale. This amount is included in "Gain (loss) on disposal of discontinued operations, net of tax" in our Statements of Consolidated Operations.

OTHER

Although the Canadian operations have been sold as of December 3, 2005, the criteria necessary to classify the Canadian operations as discontinued have not been satisfied as our Company retained significant continuing involvement in the operations of this business upon its sale.

11. ASSET DISPOSITION INITIATIVES

OVERVIEW

In fiscal 1998 and fiscal 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets (Project Great Renewal). In addition, during the third quarter of fiscal 2001, we announced that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) would be closed and/or sold, and certain administrative streamlining would take place (2001 Asset Disposition). During the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets (Farmer Jack Restructuring). In addition, during the first, second and third quarters of fiscal 2005, we initiated efforts to divest our businesses in the Midwestern United States and closed 35 of those stores (Divestiture of the Midwestern U.S. Business).

Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004. Present value ("PV") interest represents interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. Non-accruable items represent charges related to the restructuring that are required to be expensed as incurred in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities".

	12 Weeks Ended December		
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring
BALANCE SHEET ACCRUALS			
Vacancy	$ -	$ (1,689)	$ 302
PV interest	328	471	184
Severance	-	-	-
Total accrued to balance sheets	328	(1,218)	486
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS			

Capital lease termination	-	-	-
Property writeoffs	-	-	-
Inventory markdowns	-	-	-
Closing costs	-	-	-
Total non-accruable items	-	-	-
Less PV interest	(328)	(471)	(184)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	-	(1,689)	302

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	12 Weeks Ended	
	Project Great Renewal	2001 Asset Disposition
BALANCE SHEET ACCRUALS		
PV interest	$ 418	$ 553
Total accrued to balance sheets	418	553
Occupancy reversals	-	(4,488)
Adjustments to balance sheets	-	(4,488)
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS		
Property writeoffs	-	1,709
Total non-accruable items	-	1,709
Less PV interest	(418)	(553)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	$ -	$(2,779)

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	40 Weeks Ended December		
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring
BALANCE SHEET ACCRUALS			
Vacancy	$ (2,570)	$ (1,689)	$ 3,662
PV interest	1,228	1,703	521
Severance	-	-	-
Total accrued to balance sheets	(1,342)	14	4,183
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS			
Capital lease termination	-	-	-
Property writeoffs	-	-	-
Inventory markdowns	-	-	-
Loss on sale of property	-	-	-
Gain on sale of pharmacy scripts	-	-	-
Closing costs	-	-	-
Total non-accruable items	-	-	-
Less PV interest	(1,228)	(1,703)	(521)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	(2,570)	(1,689)	3,662
Less Gain on sale of pharmacy scripts	-	-	-
Less closing costs	-	-	-
TOTAL AMOUNT RECORDED ON STATEMENTS OF CASH FLOWS	(2,570)	(1,689)	3,662

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	40 Weeks Ended December 4, 2004		
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring
BALANCE SHEET ACCRUALS			
PV interest	$ 1,494	$ 1,902	$ 534
Total accrued to balance sheets	1,494	1,902	534
Occupancy reversals	-	(4,488)	-
Adjustments to balance sheets	-	(4,488)	-
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS			
Property writeoffs	-	1,709	90
Inventory markdowns	-	-	291
Closing costs	-	-	689
Total non-accruable items	-	1,709	1,070
Less PV interest	(1,494)	(1,902)	(534)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	$ -	$(2,779)	$ 1,070

PROJECT GREAT RENEWAL

In May 1998, we initiated an assessment of our business operations in order to identify the factors that were impacting our performance. As a result of this assessment, in fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores (156 in the United States and 10 in Canada) including the exit of the Richmond, Virginia and Atlanta, Georgia markets. As of December 3, 2005, we had closed all stores and facilities related to this phase of the initiative.

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

Occupancy			Severance and Benefits			
U.S.	Canada	Total	U.S.	Canada	Total	U.S.

Balance at February 23, 2002	$ 62,802	$ 575	$ 63,377	2,177	$ -	$ 2,177	64,9
Addition (1)	2,861	298	3,159	-	-	-	2,8
Utilization (2)	(13,230)	(386)	(13,616)	(370)	-	(370)	(13,6
Adjustments (3)	(3,645)	-	(3,645)	639	-	639	(3,0
Balance at February 22, 2003	$ 48,788	$ 487	$ 49,275	$ 2,446	$ -	$ 2,446	$ 51,2
Addition (1)	2,276	372	2,648	-	-	-	2,2
Utilization (2)	(19,592)	(407)	(19,999)	(289)	-	(289)	(19,8
Balance at February 28, 2004	$ 31,472	$ 452	$ 31,924	$ 2,157	$ -	$ 2,157	$ 33,6
Addition (1)	1,902	20	1,922	-	-	-	1,9
Utilization (2)	(5,410)	(222)	(5,632)	(497)	-	(497)	(5,9
Balance at February 26, 2005	$ 27,964	$ 250	$ 28,214	$ 1,660	$ -	$ 1,660	$ 29,6
Addition (1)	1,228	7	1,235	-	-	-	1,2
Utilization (2)	(4,352)	(167)	(4,519)	(171)	-	(171)	(4,5
Adjustments (3)	(2,570)	(90)	(2,660)	-	-	-	(2,5
Balance at December 3, 2005	$ 22,270	$ -	$ 22,270	$ 1,489	$ -	$ 1,489	$ 23,7

(1) The additions to store occupancy of $3.2 million, $2.6 million, and $1.9 million during fiscal 2002, 2003 and 2004, respectively, and $1.2 million during the 40 weeks ended December 3, 2005 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.

(2) Occupancy utilization of $13.6 million, $20.0 million, and $5.6 million for fiscal 2002, 2003 and 2004, respectively, and $4.5 million during the 40 weeks ended December 3, 2005 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $0.4 million, $0.3 million, and $0.5 million for fiscal 2002, 2003 and 2004, respectively, and $0.2 million during the 40 weeks ended December 3, 2005 represents payments to individuals for severance and benefits, as well as payments to pension funds for early withdrawal from multi-employer union pension plans.

(3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. We have continued to make favorable progress in marketing and subleasing the closed stores. As a result, during fiscal 2002, we recorded a reduction of $3.6 million in occupancy accruals related to this phase of the initiative. Further, we increased our reserve for future minimum pension liabilities by $0.6 million to better reflect expected future payouts under certain collective bargaining agreements. During the 40 weeks ended December 3, 2005, we recorded an additional reduction of $2.6 million in occupancy accruals due to subleasing additional closed stores. As discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian business and as a result, the Canadian occupancy accruals of $0.1 million are no longer consolidated in our Consolidated Balance Sheet at December 3, 2005.

We paid $102.9 million of the total occupancy charges from the time of the original charges through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $30.1 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of $22.3 million relates to expected future payments under long term leases and is expected to be paid in full by 2020. The remaining severance liability of $1.5 million primarily relates to expected future payments for early withdrawals from multi-employer union pension plans and will be fully paid out in 2020.

None of these stores were open during either of the first, second or third quarters of fiscal 2004 or 2005. As such, there was no impact on the Statements of Consolidated Operations from the 166 stores included in this phase of the initiative.

At December 3, 2005 and February 26, 2005, approximately $5.6 million and $5.4 million, respectively, of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of December 3, 2005 of $23.8 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

2001 ASSET DISPOSITION

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from our review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, our Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) should be closed and/or sold, and certain administrative streamlining should take place. As of December 3, 2005, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative recorded on the Consolidated Balance Sheets over the last three fiscal years:

	Occupancy			Severance and Benefits			
	U.S.	Canada	Total	U.S.	Canada	Total	U
Balance at February 23, 2002	$ 78,386	$ 1,937	$ 80,323	13,743	$ 6,217	$ 19,960	$ 9

Addition (1)	4,041	49	4,090	2,578	966	3,544	
Utilization (2)	(18,745)	(1,642)	(20,387)	(12,508)	(6,952)	(19,460)	(3
Adjustments (3)	(10,180)	-	(10,180)	-	250	250	(1
Balance at February 22, 2003	$ 53,502	$ 344	$ 53,846	$ 3,813	$ 481	$ 4,294	$ 5
Addition (1)	2,847	3	2,850	-	-	-	
Utilization (2)	(9,987)	(974)	(10,961)	(2,457)	(1,026)	(3,483)	(1
Adjustments (3)	(6,778)	1,002	(5,776)	955	603	1,558	(
Balance at February 28, 2004	$ 39,584	$ 375	$ 39,959	$ 2,311	$ 58	$ 2,369	$ 4
Addition (1)	2,449	-	2,449	-	-	-	
Utilization (2)	(5,646)	(375)	(6,021)	(2,197)	(58)	(2,255)	(
Adjustments (3)	(4,488)	-	(4,488)	-	-	-	(
Balance at February 26, 2005	$ 31,899	$ -	$ 31,899	$ 114	$ -	$ 114	$ 3
Addition (1)	1,703	-	1,703	-	-	-	
Utilization (2)	(3,640)	-	(3,640)	(75)	-	(75)	(
Adjustments (3)	(1,689)	-	(1,689)	-	-	-	(
Balance at December 3, 2005	$ 28,273	$ -	$ 28,273	$ 39	$ -	$ 39	$ 2

(1) The additions to store occupancy of $4.1 million, $2.9 million, and $2.4 million during fiscal 2002, 2003 and 2004, respectively, and $1.7 million during the 40 weeks ended December 3, 2005 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The addition to severance of $3.5 million during fiscal 2002 related to retention and productivity incentives that were accrued as earned.

(2) Occupancy utilization of $20.4 million, $11.0 million, and $6.0 during fiscal 2002, 2003 and 2004, respectively, and $3.6 million during the 40 weeks ended December 3, 2005 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $19.5 million, $3.5 million, and $2.3 million during fiscal 2002, 2003 and 2004, respectively, and $0.1 million during the 40 weeks ended December 3, 2005 represent payments made to terminated employees during the period.

(3) At each balance sheet date, we assess the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During fiscal 2002, we recorded adjustments of $10.2 million related to reversals of previously accrued occupancy related costs due to the following:

- Favorable results of assigning leases at certain locations of $3.6 million;

- The decision to continue to operate one of the stores previously identified for closure due to changes in the competitive environment in the market in which that store is located of $3.3 million; and

- The decision to proceed with development at a site that we had chosen to abandon at the time of the original charge due to changes in the competitive environment in the market in which that site is located of $3.3 million.

During fiscal 2003, we recorded net adjustments of $5.8 million related to reversals of previously accrued occupancy costs due to favorable results of subleasing, assigning and terminating leases. We also accrued $1.6 million for additional severance and benefit costs that were unforeseen at the time of the original charge. Finally, during fiscal 2004, we recorded adjustments of $4.5 million related to the reversals of previously accrued occupancy costs due to the disposals and subleases of locations at more favorable terms than originally anticipated at the time of the original charge.

During fiscal 2005, we recorded adjustments of $1.7 million related to the reversals of previously accrued occupancy costs due to a favorable result of subleasing one of the closed properties.

We paid $42.8 million ($39.8 million in the U.S. and $3.0 million in Canada) of the total occupancy charges from the time of the original charges through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $28.1 million ($19.1 million in the U.S. and $9.0 million in Canada) of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 1,100 employees. The remaining occupancy liability of $28.3 million primarily relates to expected future payments under long term leases through 2017. The remaining severance liability of $0.04 million relates to expected future payments for severance and benefits payments to individual employees and will be fully paid out by 2006.

At December 3, 2005 and February 26, 2005, approximately $6.6 million and $7.1 million of the reserve, respectively, was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

None of these stores were open during either of the first, second or third quarters of fiscal 2004 or 2005. As such, there was no impact on the Statements of Consolidated Operations from the 39 stores that were identified for closure as part of this asset disposition.

Based upon current available information, we evaluated the reserve balances as of December 3, 2005 of $28.3 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. Our Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

FARMER JACK RESTRUCTURING

In the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets. As of December 3, 2005, we had closed all 6 stores and successfully completed the conversions related to this phase of the initiative.

The following table summarizes the activity to date related to the charges recorded for this initiative all of which were in the U.S. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles.

	Occupancy	Severance and Benefits	Total
Original charge (1)	$ 20,999	$ 8,930	$ 29,929
Addition (1)	56	-	56
Utilization (2)	(1,093)	(4,111)	(5,204)
Balance at February 28, 2004	$ 19,962	$ 4,819	$ 24,781
Addition (1)	687	-	687
Utilization (2)	(4,747)	(4,813)	(9,560)
Balance at February 26, 2005	$ 15,902	$ 6	$ 15,908
Addition (1)	521	-	521
Utilization (2)	(2,220)	(6)	(2,226)
Adjustment (3)	3,662	-	3,662
Balance at December 3, 2005	$ 17,865	$ -	$ 17,865

(1) The original charge to occupancy during fiscal 2003 represents charges related to closures and conversions in the Detroit, Michigan market of $21.0 million. The additions to occupancy during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005 represent interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The original charge to severance during fiscal 2003 of $8.9 million related to individual severings as a result of the store closures, as well as a voluntary termination plan initiated in the Detroit, Michigan market.

(2) Occupancy utilization of $1.1 million, $4.7 million and $2.2 million during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005, respectively, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $4.1 million, $4.8 million and $0.01 million during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005, respectively, represent payments made to terminated employees during the period.

(3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During the 40 weeks ended December 3, 2005, we recorded an increase of $3.7 million in occupancy accruals due to changes in our original estimate of when we would terminate certain leases and obtain sublease rental income related to such leases.

We paid $8.1 million of the total occupancy charges from the time of the original charge through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $8.9 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 300 employees. The remaining occupancy liability of $17.9 million relates to expected future payments under long term leases and is expected to be paid out in full by 2022. The severance liability has been fully utilized as of December 3, 2005 and no additional future payments for severance and benefits to individual employees will be paid out.

Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004 are the sales and operating results of the 6 stores that were identified for closure as part of this phase of the initiative. The results of these operations are as follows:

	12 Weeks Ended		40 Weeks Ended	
	December 3, 2005	December 4, 2004	December 3, 2005	De
Sales	$ -	$ -	$ -	$
Loss from operations	$ -	$ -	$ -	$

At December 4, 2005 and February 26, 2005, approximately $1.6 million and $2.1 million, respectively, of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of $17.9 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

DIVESTITURE OF MIDWEST OPERATIONS

During the first quarter of fiscal 2005, we announced plans for a major strategic restructuring that would focus future effort and investment on our core operations in the Northeastern United States. Thus, we initiated efforts to divest our business in the Midwestern United States. This planned divestiture included the closing of a total of 35 stores, all of which have been closed as of December 3, 2005. The remaining business located in the Midwestern United States will continue to operate as part of our core business going forward.

During the 12 and 40 weeks ended December 3, 2005, we recorded charges of $18.1 million and $104.1 million, respectively, related to these closures ($0.2 million and $1.3 million in "Cost of merchandise sold," respectively, and $17.9 million and $102.8 million, respectively, in "Store operating, general and administrative expense" in our Consolidated Statement of Operations), excluding PV interest.

	12 Weeks Ended December 3, 2005	40 Weeks Ended December 3, 2005
Occupancy related	$ 16,925	$ 88,443
Severance and benefits	591	2,710
Capital lease termination	(588)	(588)

Property writeoffs	12	6,873
Loss on the sale of fixed assets	-	2,263
Sale of pharmacy scripts	-	(870)
Inventory markdowns	138	1,268
Nonaccruable closing costs	1,059	4,016
Total charges	$ 18,137	$ 104,115

The following table summarizes the activity to date related to the charges recorded for this divestiture. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles.

	Occupancy	Severance and Benefits	Total
Original charge (1)	$ 14,766	$ 1,337	$ 16,103
Additions (2)	74,459	1,373	75,832
Utilization (3)	(5,663)	(1,837)	(7,500)
Balance at December 3, 2005	$ 83,562	$ 873	$ 84,435

(1) The original charge to occupancy during the first quarter of fiscal 2005 represents charges related to closures of the first 8 stores in conjunction with our decision to divest our Midwestern business of $14.7 million. The original charge to severance during the first quarter of fiscal 2005 of $1.3 million related to individual severings as a result of these store closures.

(2) The additions to occupancy during the 40 weeks ended December 3, 2005 represents charges related to the closures of an additional 27 stores in the amount of $73.7 million and interest accretion on future occupancy costs which were recorded at present value at the time of the original charge in the amount of $0.8 million. The additional charge to severance during the 40 weeks ended December 3, 2005 of $1.4 million related to individual severings as a result of these store closures.

(3) Occupancy utilization of $5.7 million for 40 weeks ended December 3, 2005, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $1.8 million for the 40 weeks ended December 3, 2005 represents payments made to terminated employees during the period.

We paid $5.7 million of the total occupancy charges from the time of the original charge through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $1.8 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 125 employees. The remaining occupancy liability of $83.6 million relates to expected future payments under long term leases and is expected to be paid out in full by 2021. The remaining severance liability of $0.9 million relates to expected future payments for severance and benefits to individual employees and will be fully paid out by February 25, 2006.

Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004 are the sales and operating results of the 35 stores that were closed as part of this divestiture. The results of these operations are as follows:

	12 Weeks Ended		40 Weeks Ended	
	December 3, 2005	December 4, 2004	December 3, 2005	Dec
Sales	$ 2,994	$ 78,412	$ 110,882	$
Loss from operations	$ (3,602)	$ (8,773)	$ (24,768)	$

At December 3, 2005, approximately $17.8 million of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of $84.4 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

12. 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. The components of net pension cost were as follows:

	For the 12 Weeks End		
	December 3, 2005		D
	U.S.	Canada	U.
Service cost	$ 1,384	$ -	$ 1
Interest cost	2,743	-	2
Expected return on plan assets	(3,097)	-	(3
Amortization of unrecognized net transition asset	-	-	
Amortization of unrecognized net prior service (gain) cost	(68)	-	

Amortization of unrecognized net loss (gain)	13	-	
Administrative expenses and other	-	-	
Net pension cost	$ 975	$ -	$

	For the 40 Weeks End		
	December 3, 2005		D
	U.S.	Canada	U.
Service cost	$ 4,614	$ 4,576	$ 4
Interest cost	9,144	6,519	9
Expected return on plan assets	(10,325)	(8,369)	(10
Amortization of unrecognized net transition asset	-	-	
Amortization of unrecognized net prior service (gain) cost	(226)	286	
Amortization of unrecognized net loss (gain)	44	900	
Administrative expenses and other	-	138	2
Net pension cost	$ 3,251	$ 4,050	$ 6

CONTRIBUTIONS

We previously disclosed in our consolidated financial statements for the year ended February 26, 2005, that we expected to contribute $5.8 million in cash to our defined benefit plans in fiscal 2005. As of December 3, 2005, we contributed approximately $3.3 million to our defined benefit plans. We plan to contribute approximately $2.5 million to our plans in the remainder of fiscal 2005.

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POSTRETIREMENT BENEFITS

We provide postretirement health care and life benefits to certain union and non-union employees. We recognize the cost of providing postretirement benefits during employees' active service periods. We use a December 31 measurement date for both the U.S. and Canadian postretirement benefits. The components of net postretirement benefits (income) cost are as follows:

	For the 12 Weeks End		
	December 3, 2005		D
	U.S.	Canada	U.
Service cost	$ 78	$ -	$
Interest cost	276	-	
Amortization of (gain) loss	(64)	-	
Prior service gain	(311)	-	

Net postretirement benefits (income) cost	$ (21)	$ -	$

	For the 40 Weeks End		
	December 3, 2005		D
	U.S.	Canada	U.
Service cost	$ 260	$ 75	$
Interest cost	922	270	
Amortization of (gain) loss	(214)	118	
Prior service gain	(1,036)	(148)	(1
Net postretirement benefits (income) cost	$ (68)	$ 315	$

13. STOCK BASED COMPENSATION

In December 2004, the FASB issued FAS 123R. FAS 123R is a revision of FAS No. 123, as amended, "Accounting for Stock-Based Compensation" ("FAS 123") and supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." FAS 123R eliminates the alternative to use the intrinsic value method of accounting that was provided in FAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. FAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. FAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting for generally all share-based payment transactions with employees.

On February 27, 2005 (the first day of our fiscal 2005 fiscal year), our Company adopted FAS 123R. While the provisions of FAS 123R are not required to be effective until the first annual reporting period that begins after June 15, 2005, we elected to adopt FAS 123R before the required effective date. Our Company adopted FAS 123R using a modified prospective application, as permitted under FAS 123R. Accordingly, prior period amounts have not been restated. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Prior to the adoption of FAS 123R, we applied APB 25 to account for our stock-based awards. Under APB 25, we generally only recorded stock-based compensation expense for our performance stock options issued under our 1998 Long Term Incentive and Share Award Plan and common stock issued under our 2004 Non-Employee Director Compensation Plan. Under the provisions of APB 25, we were not required to recognize compensation expense for the cost of stock options. Beginning with our fiscal 2005 year, with the adoption of FAS 123R, we recorded stock-based compensation expense for the cost of stock options.

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The following table details the effect on net income and earnings per share had stock-based compensation expense been recorded for each quarter of fiscal 2004 based on the fair value method under FAS 123R. Net loss for the year ended February 26, 2005 would have been $2.6 million higher, at $190.7 million, had share-based compensation expense been accounted for under SFAS 123R, and net loss per basic & diluted share for the year ended February 26, 2005 would have been $4.94 under FAS 123R, rather than $4.88.

	Quarter Ended		
	June 19, 2004	Sept. 11, 2004	Dec. 4, 2004
Net loss, as reported	$ (42,846)	$ (64,202)	$ (75,343)
Add: Share-based compensation expense included in net loss under APB 25, net of tax	-	-	-
Deduct: Net impact of SFAS 123R, net of tax	(1,287)	(858)	(836)
Pro-forma net loss	$ (44,133)	$ (65,060)	$ (76,179)
Net loss per common share:			
Basic & diluted, as reported	$ (1.11)	$ (1.67)	$(1.96)
Basic & diluted, pro-forma	$ (1.15)	$ (1.69)	$(1.98)

During the 12 and 40 weeks ended December 3, 2005, compensation expense related to share-based incentive plans was $2.1 million and $7.0 million, after tax, respectively, compared to nil during the 12 and 40 weeks ended December 4, 2004. Included in share-based compensation expense recorded during the 12 and 40 weeks ended December 3, 2005 was $0.6 and $2.0 million, respectively, related to expensing of stock options, $1.3 million and $3.5 million, respectively, relating to expensing of restricted stock, nil and $1.1 million, respectively, relating to the immediate vesting of certain stock options, and $0.2 million and $0.4 million, respectively, relating to expensing of common stock to be granted to our Board of Directors at the Annual Meeting of Stockholders. There was no effect on the Consolidated Statement of Cash Flows from the adoption of FAS 123R as we adopted FAS 123R using the modified prospective application and did not grant any new stock options during the 40 weeks ended December 3, 2005.

At December 3, 2005, we had two stock-based compensation plans. The general terms of each plan, the method of estimating fair value for each plan and fiscal 2005 activity is reported below.

I. The 1998 Long Term Incentive and Share Award Plan: This plan provides for the granting of 5,000,000 shares in the form of options, SAR's, performance units or stock awards to our Company's officers and key employees. Options and SAR's issued under this plan vest 25% on each anniversary date of issuance over a four year period. Performance restricted stock units issued under this plan are earned based on our Company achieving in Fiscal 2007 a profit after taxes, after adjusting for specific matters which our Company considers to be of a non-operating nature, with an outlook for continued, sustainable profitability on the same basis. The shares will vest 50% based on achievement of a net profit in fiscal 2007 and 50% based on achievement of a net profit in fiscal 2008. However, if our Company achieves profitability in fiscal 2006, the shares will be earned and vesting will commence in fiscal 2006 in one-third increments, based on achievement of profitability in each year and the outlook for continued, sustainable profitability.

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The stock option awards under The 1998 Long Term Incentive and Share Award Plan are granted at the fair market value of the Company's common stock at the date of grant. Fair value calculated under SFAS 123 is used to recognize expense upon adoption of SFAS 123R. Fair values for each 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 for a period equal to the stock option's expected life, and risk-free rate based on the U.S. Treasury constant maturities in effect at the time of grant. During the 12 and 40 weeks ended December 3, 2005, our Company did not grant any stock options under this plan. The following assumptions were in place during the 12 and 40 weeks ended December 4, 2004:

	12 weeks ended Dec. 4, 2004	40 weeks ended Dec. 4, 2004
Expected life	7 years	7 years
Volatility	53%	53%
Risk-free interest rate range	3.89%	3.20% - 4.41%

The SAR awards under The 1998 Long Term Incentive and Share Award Plan were granted at the fair market value of the Company's common stock at the date of grant.

Performance restricted stock units issued under The 1998 Long Term Incentive and Share Award Plan are granted at the fair market value of the Company's common stock at the date of grant, adjusted by an estimated forfeiture rate.

Stock options

The following is a summary of the stock option activity during the 40 weeks ended December 3, 2005:

	Shares	Weighted Average Exercise Price	We A Re Con Term
Outstanding at February 26, 2005	4,464,134	$ 14.53	
Granted	-	-	
Canceled or expired	(461,585)	17.67	
Exercised	(2,209,963)	10.55	
Outstanding at Dec. 3, 2005	1,792,586	$ 18.64	

Exercisable at:			
Dec. 3, 2005	1,319,357	$	22.49
Nonvested at:			
Dec. 3, 2005	473,229	$	7.89

The total intrinsic value of options exercised during the 40 weeks ended December 3, 2005 was $45.4 million.

As of December 3, 2005, approximately $1.6 million, after tax, of total unrecognized compensation expense related to unvested stock option awards will be recognized over a weighted average period of 1.0 year.

The amount of cash received from the exercise of stock options was approximately $23.4 million. There was no related tax benefit recorded in the first, second and third quarters of fiscal 2005 as we adopted FAS 123R using the modified prospective application and did not grant any new stock options during the 12 and 40 weeks ended December 3, 2005.

SAR's

The following is a summary of the SAR's activity during the 40 weeks ended December 3, 2005:

	Shares	Weighted Average Exercise Price
Outstanding at February 26, 2005	12,500	$ 31.63
Granted	-	-
Canceled or expired	(12,500)	31.63
Exercised	-	-
Outstanding at Dec. 3, 2005	-	$ -

Performance Restricted Stock Units

During the 12 and 40 weeks ended December 3, 2005, our Company granted 115,000 and 1,865,000 shares of performance restricted stock units to selected employees, respectively, for a total grant date fair value of $24.9 million. Approximately $15.4 million of unrecognized fair value compensation expense relating to these performance restricted stock units is expected to be recognized through fiscal 2008 based on estimates of attaining vesting criteria.

The following is a summary of the performance restricted stock units activity during the 40 weeks ended December 10, 2005:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at February 26, 2005	-	$ -
Granted	1,865,000	13.36
Canceled or expired	(527,500)	11.12
Exercised	-	-
Nonvested at Dec. 3, 2005	1,337,500	$ 14.24

II. 2004 Non-Employee Director Compensation Plan: This plan provides for the annual grant of Company common stock equivalent to $45 to members of our Board of Directors. The $45 grant of common stock shall be made on the first business day following the Annual Meeting of Stockholders held in July of each year. The number of shares of our Company's $1.00 common stock granted annually to each non-employee Director will be based on the closing price of the common stock on the New York Stock Exchange, as reported in the Wall Street Journal on the date of grant. Only whole shares will be granted; any remaining amounts will be paid in cash as promptly as practicable following the date of grant. This plan replaced The 1994 Stock Option Plan for the Board of Directors which provided for the granting of 100,000 stock options at the fair value of our common stock at the date of grant to members of our Board of Directors. One-third of the options granted under The 1994 Stock Option Plan for the Board of Directors on a given date vested on each anniversary date of issuance over a 3 year period.

14. INCOME TAXES

The income tax provision recorded for the 40 weeks ended December 3, 2005 and December 4, 2004 reflects our estimated expected annual tax rates applied to our respective domestic and foreign financial results.

SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109") provides that a deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. In addition, SFAS 109 requires that a valuation allowance be recognized if, based on existing facts and circumstances, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Based upon our continued assessment of the realization of our U.S. net deferred tax asset and our historic cumulative losses, we concluded that it was appropriate to record a valuation allowance in an amount that would reduce our net U.S. deferred tax asset to zero. For the 12 and 40 weeks ended December 3, 2005, the valuation allowance was decreased by $14.9 million and $242.1 million, respectively, as compared to increased by $34.2 million and $74.5 million during the 12 and 40 weeks ended December 4, 2004, respectively. To the extent that our U.S. operations generate sufficient taxable income in future periods, we will reverse the income tax valuation allowance. In future periods, we will continue to record a valuation allowance against net deferred tax assets that are created by U.S. losses until such time as the certainty of future tax benefits can be reasonably assured.

In October 2004, the U.S. government passed the "Homeland Investment Act" which allows companies to repatriate cash balances from their controlled foreign subsidiaries at a reduced tax rate. This is achieved by permitting a one time 85% dividends received deduction. As discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, our Company completed the sale of our Canadian subsidiary to Metro, Inc. during the second quarter of fiscal 2005. As a result of this transaction, our Company repatriated $949.0 million from our foreign subsidiaries, of which $500.0 million is intended to qualify for the 85% dividends received deduction. Until such time as the taxing authorities have affirmed the adequacy of our Company's Domestic Reinvestment Plan, we have recorded a tax provision of $119.6 million for the potential disallowance of the 85% dividend received deduction. This amount was recorded in "Benefit from (provision for) income taxes" on our Consolidated Statements of Operations for the 40 weeks ended December 3, 2005 and in "Other non-current liabilities" in our Consolidated Balance Sheet at December 3, 2005.

For the third quarter of fiscal 2005, our effective income tax rate of 22.2% changed from the effective income tax rate of 7.2% in the second quarter of fiscal 2004 as follows:

	12 Weeks Ended			
	December 3, 2005		December 4, 2004	
	Tax Benefit	Effective Tax Rate	Tax Provision	Effec Tax R
United States	$ 21,083	(22.2%)	$ (1,035)	1
Canada	-	-	(3,889)	5
	$ 21,083	(22.2%)	$ (4,924)	7

The change in our effective tax rate was primarily due to (i.) the recognition of tax benefits during the 12 weeks ended December 3, 2005 as we continue to experience operating losses and these operating losses decrease the overall tax provision previously recorded during the second quarter of fiscal 2005 in connection with our Company's Domestic Reinvestment Plan as discussed above and the sale of our Canadian operations, and (ii.) the absence of a tax provision that was recorded for our Canadian operations during the 12 weeks ended December 4, 2004 that was not recorded during the 12 weeks ended December 3, 2005 due to the sale of our Canadian operations during the second quarter of fiscal 2005.

For the 40 weeks ended December 3, 2005, our effective income tax rate of 26.3% changed from the effective income tax rate of 5.1% for the 40 weeks ended December 4, 2004 as follows:

	40 Weeks Ended	
	December 3, 2005	December 4, 2004

	Tax Provision	Effective Tax Rate	Tax Provision	Effec Tax R
United States	$ (134,346)	23.1%	$ (3,450)	2
Canada	(18,539)	3.2%	(5,318)	3
	$ (152,885)	26.3%	$ (8,768)	5

The change in our effective tax rate was primarily due to the tax provisions we recorded in the U.S. in connection with (i.) our Company's Domestic Reinvestment Plan as discussed above and (ii.) the sale of our Canadian operations that occurred during the 40 weeks ended December 3, 2005.

At December 3, 2005 and February 26, 2005, we had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheet totaling $46.8 million and $10.7 million, respectively, and a net non-current deferred tax liability which is included in "Other non-current liabilities" on our Consolidated Balance Sheets totaling $46.8 million and $22.9 million, respectively.

15. OPERATING SEGMENTS

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

During the 12 and 40 weeks ended December 3, 2005 and December 4, 2004, we operated in three reportable segments: United States, Canada, and our investment in Metro, Inc. Our United States and Canadian segments are comprised of retail supermarkets. Our equity investment represents our economic interest in Metro, Inc. and is required to be reported as an operating segment in accordance with SFAS 131, "Disclosure about Segments of an Enterprise and Related Information" as our investment is greater than 10% of our Company's combined assets of all operating segments and we can exert significant influence over substantive operating decisions through our membership on Metro, Inc.'s Board of Directors and its committees and joint purchasing and supplier arrangements. The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2004 Annual Report. We measure segment performance based upon income (loss) from operations.

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Interim information on segments is as follows:

	12 Weeks Ended		
	December 3,	December 4,	December

	2005	2004	2005
Sales			
United States	$ 1,580,942	$ 1,672,206	$ 5,408
Canada *	-	851,553	1,723
Total Company	$ 1,580,942	$ 2,523,759	$ 7,132
Sales by category			
Grocery (1)	$ 1,087,448	$ 1,677,798	$ 4,698
Meat (2)	309,866	527,035	1,455
Produce (3)	179,722	318,926	973
Other (4)	3,906	-	5
Total Company	$ 1,580,942	$ 2,523,759	$ 7,132

(1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, liquor, pharmacy and fuel.
(2) The meat category includes meat, deli, bakery and seafood.
(3) The produce category includes produce and floral.
(4) Other includes sales from an information technology services agreement with Metro, Inc.

	2005	2004	2005
Depreciation and amortization			
United States	$ 46,274	$ 46,545	$ 153
Canada *	-	16,102	10
Total Company	$ 46,274	$ 62,647	$ 164
(Loss) income from operations			
United States	$ (81,557)	$ (56,991)	$ (321
Canada *	-	10,738	57
Total Company	$ (81,557)	$ (46,253)	$ (264
Income (loss) from continuing operations before income taxes			
United States	$ (98,235)	$ (77,399)	$ 530
Canada *	-	9,572	48
Equity investment in Metro, Inc.	3,397	-	3
Total Company	$ (94,838)	$ (67,827)	$ 582
Capital expenditures			
United States	$ 25,185	$ 27,669	$ 87
Canada *	-	29,285	47
Total Company	$ 25,185	$ 56,954	$ 134

		December 2005
Total assets		
United States	$	2,176
Canada		
Equity investment in Metro, Inc.		331
Total Company	$	2,508

* As discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian operations during the second quarter of fiscal 2005; thus, we have included the operating results of our Canadian subsidiary through the date of the sale.

16. HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

From time to time, we may enter hedging agreements in order to manage risks incurred in the normal course of business including forward exchange contracts to manage our exposure to fluctuations in foreign exchange rates.

During the first quarter of fiscal 2005, we entered into a six month currency exchange forward contract totaling $900 million Canadian dollar notional value to hedge our net investment in our Canadian foreign operation against adverse movements in exchange rates. Our Company measures ineffectiveness based upon the change in forward exchange rates. In the second quarter of fiscal 2005 and upon completion of the sale of our Canadian operations, this forward contract was terminated prior to its expiration.

Upon settlement, the effective portion of this net investment hedge contract resulted in a loss, after tax, of approximately $21.1 million during the 40 weeks ended December 3, 2005 and was recognized as an offset to the gain recorded in connection with the sale of our Canadian subsidiary as discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States. The gain was recorded in "Gain on sale of Canadian operations" in our Consolidated Statements of Operations for the 40 weeks ended December 3, 2005.

In addition, the amount excluded from the measure of effectiveness on this net investment hedge amounted to $15.4 million, before income taxes, and was recorded as "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 40 weeks ended December 3, 2005.

17. INDEBTEDNESS

During the second quarter of fiscal 2005 and due to the sale of our Canadian operations as discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, our $400 million secured Revolving Credit Agreement ("Revolving Credit Agreement") was amended, eliminating the Canadian portion of the agreement by $65 million. As of the end of the second quarter of fiscal 2005, we had a $335 million Revolving Credit Agreement with a syndicate of lenders enabling us to borrow funds on a revolving basis for short-term borrowings and provide working capital as needed.

During the third quarter of fiscal 2005, the Revolving Credit Agreement was terminated. Concurrently, we entered into a new, cash collateralized, Letter of Credit Agreement that enables us to issue letters of credit up to $200 million. We also negotiated an additional $150 million Revolving Credit Agreement ("Revolver") with four lenders enabling us to borrow funds on a revolving basis for working capital loans and letters of credit. The Revolver also includes a $100 million accordion feature which gives us the ability to increase borrowings from $150 million to $250 million. Under the terms of this agreement, should availability fall below $25.0 million and should cash on hand fall below $50.0 million, a borrowing block will be implemented which provides that no additional loans be made unless we are able to maintain a minimum consolidated EBITDA covenant on a trailing twelve month basis. In the event that availability falls below $25.0 million, cash on hand falls below $50.0 million, and we do not maintain the required minimum EBITDA covenant, unless otherwise waived or amended, the lenders may, at their discretion, declare, in whole or in part, all outstanding obligations immediately due and payable.

The Revolver is collateralized by inventory, certain accounts receivable and pharmacy scripts. Borrowings under the Revolver bear interest based on LIBOR or Prime interest rate pricing. This agreement expires in November 2010. As of December 3, 2005, there were no loans outstanding under this agreement. As of December 3, 2005, after reducing availability for outstanding letters of credit and borrowing base requirements, we had $150.0 million available under the Revolver. Combined with cash we held in short-term investments and marketable securities of $266.6 million, we had total cash availability of $416.6 million at December 3, 2005.

Under the Revolver, we are permitted to pay cumulative cash dividends on common shares up to $150 million as well as make bond repurchases which we may do from time to time in the future.

18. COMMITMENTS AND CONTINGENCIES

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 initial review of our historical records as well as estimates provided by the Claims Administrator, we recorded an estimated pretax recovery of $1.5 million as a credit to "Selling, general and administrative expense" in our Consolidated Statements of Operations during the 12 and 40 weeks ended December 3, 2005. During the fourth quarter of fiscal 2005 and into fiscal 2006, we will continue to work with the Claims Administrator to ensure that all monies owed to our Company in connection with this litigation are received. This process may result in additional recoveries being recorded in future periods.

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.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This Management's Discussion and Analysis describes matters considered by Management to be significant to understanding the financial position, results of operations and liquidity of our Company, including a discussion of the results of continuing operations as well as liquidity and capital resources. These items are presented as follows:

- Basis of Presentation - a discussion of our Company's results during the 12 and 40 weeks ended December 3, 2005 and December 4, 2004.
- Restatement of Previously Issued Financial Statements - a discussion of our Company's restatement of previously issued financial statements resulting from a correction in our accounting for leases.
- Overview - a general description of our business; the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.
- Outlook - a discussion of certain trends or business initiatives for the remainder of fiscal 2005 that Management wishes to share with the reader to assist in understanding the business.
- Review of Continuing Operations and Liquidity and Capital Resources -- a discussion of the following:
  - Results for the 12 weeks ended December 3, 2005 compared to the 12 weeks ended December 4, 2004 and results for the 40 weeks ended December 3, 2005 compared to the 40 weeks ended December 4, 2004;
  - Our Company's Asset Disposition Initiatives; and
  - Current and expected future liquidity.
- Market Risk - a discussion of the impact of market changes on our consolidated financial statements.
- Critical Accounting Estimates -- a discussion of significant estimates made by Management.

BASIS OF PRESENTATION

The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial position and results of operations for such periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Fiscal 2004 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, all majority-owned subsidiaries, and franchise operations. Our Company uses the equity method of accounting for our investment in and earnings or losses of Metro, Inc. as we can exert significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and joint purchasing and supplier arrangements.

Restatement of Previously Issued Financial Statements

As discussed in Note 2 - Restatement of Previously Issued Financial Statements, our Company has restated our Consolidated Statements of Operations and Cash Flows for the 12 and 40 weeks ended December 4, 2004 for corrections in our accounting for leases. Readers of the financial statements should read this restated information as opposed to the previously filed information. All referenced amounts for prior periods reflect the balances and amounts on a restated basis.

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 10 U.S. states and the District of Columbia. Our Company's business consists strictly of its retail grocery operations, comprised of 407 stores as of December 3, 2005.

Commencing in the second half of fiscal 2005, our UNITED STATES retail operations are now organized in three regions: North Region, operating A&P supermarkets in New York, The Food Emporium in Westchester County, N.Y, A&P/Super Foodmart stores in Connecticut, and all Food Basics discount stores; Central Region, operating all Waldbaum's supermarkets, The Food Emporium in Manhattan, and the Farmer Jack supermarkets in Michigan; and South Region, operating Super Fresh supermarkets in Baltimore and Philadelphia, A&P supermarkets in New Jersey and Sav-A-Center supermarkets in the greater New Orleans market.

Our company achieved progress in the third quarter, reflecting the first results of our new strategies to reduce costs, drive revenue and improve the condition and customer appeal of our stores.

Though just underway, more effective operating, merchandising and promotional practices took hold as the quarter progressed, resulting in strong comparable store sales growth through the latter stages, highlighted by a robust year-end holiday sales performance. This developing sales momentum, and the significant overhead reduction resulting from our nearly-completed corporate and field reorganization - produced anticipated improvement in our operating results.

We are pleased with the top and bottom line traction achieved so soon after the initiation of the new strategies, and gratified by the response of our management and associates in executing the initial stage of the plan - despite the challenge of working through the many transitional aspects underway throughout the quarter.

A major example was the ongoing transfer of our supply and logistics operations to C&S Wholesale Grocers, Inc. The changeover has progressed according to plan, and as we continue working with C&S to fine-tune distribution operations, we expect to achieve optimal service levels to support our store network. In addition to the improved efficiencies that we are realizing this fiscal year, we expect the new framework will yield significant annualized savings in Fiscal 2006.

Another important achievement was the new labor agreement reached with the union representing our Michigan store employees, which will foster our ability to complete the turnaround of the Farmer Jack operations in and around Detroit. The cooperation of our union associates combined with our ongoing operating improvements now make continued ownership of Farmer Jack a viable alternative.

In the third quarter, we accomplished the majority of our administrative and operating reorganization, producing significant overhead cost reductions, a fully centralized leadership structure, and a leaner and more responsive organization overall. We anticipate the completion of that activity by the end of the present quarter and fiscal year.

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We also completed the new Executive Management Team reporting directly to Eric Claus, President & Chief Executive Officer. On October 28, 2005, Brenda Galgano became Senior Vice President & Chief Financial Officer, succeeding Mitchell P. Goldstein. And on November 28, 2005, Jennifer MacLeod joined A&P in the new position of Senior Vice President, Marketing and Communications.

OUTLOOK

With our commitment to, and focus on sales, reduced overheads and the additional efficiencies we anticipate, we believe that we can sustain and accelerate our year over year improvement, and proceed on track toward the goal of reaching overall profitability in Fiscal 2007.

We remain on course with our strategies to:

- Continue reducing our operating loss by lowering costs system-wide. Key elements will be the completion of our distribution transfer to C&S Wholesale Grocers, Inc. and the continued execution of our organizational restructuring, to bring administration and other overheads fully in line with the needs of our smaller retail business;

- Drive sales growth chain-wide, through the further improvement of operations, merchandising and marketing strategies.

- Accelerate the renewal of our store facilities, through capital investment to convert locations to our recently improved Fresh and Discount prototypes. Examples of both formats will be launched during the fourth quarter in the Northeast, and ongoing development will continue in Fiscal 2006 as per our capital plan.

Beyond those strategies, general attention to cost reduction throughout the business remains a top priority. We continue to seek additional means of improving labor productivity through ongoing communication and cooperation with the trade unions in all of our operating territories, and by lowering administrative, advertising and occupancy and operating expenses.

We are confident that our improving operations and merchandising, lower cost structure and strong balance sheet and financial position will enable us to continue elevating our competitive profile and operating results in the fourth quarter and beyond.

Various factors could cause us to fail to achieve these goals. These include, among others, the following:

- Actions of competitors could adversely affect our sales and future profits. The grocery retailing industry continues to experience fierce competition from other food retailers, super-centers, mass merchandiser clubs, warehouse stores, drug stores and restaurants. 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 share of sales, thus reducing margins.

- Changes in the general business and economic conditions in our operating regions, including the rate of inflation, population growth, 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. We have assumed economic and competitive situations will not worsen in fiscal 2005 and 2006. However, we cannot fully foresee the effects of changes in economic conditions, inflation, population growth, customer shopping habits and the consolidation of the food industry on A&P's business.

- Our capital expenditures could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, or if development and remodel costs vary from those budgeted.

- Our ability to achieve our profit goals will be affected by (i.) 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, (ii.) our ability to achieve productivity improvements and shrink reduction in our stores, (iii.) our success in generating efficiencies in our supporting activities, and (iv.) our ability to eliminate or maintain a minimum level of supply and/or quality control problems with our vendors.

- The vast majority of our employees are members of labor unions. While we believe that our relationships with union leaderships and our employees are satisfactory, we operate under collective bargaining agreements which periodically must be renegotiated. In the coming year, we have several contracts expiring and under negotiation. In each of these negotiations rising health care and pension costs will be an important issue, as will the nature and structure of work rules. We are hopeful, but cannot be certain, that we can reach satisfactory agreements without work stoppages in these markets. However, the actual terms of the renegotiated collective bargaining agreements, our future relationships with our employees and/or a prolonged work stoppage affecting a substantial number of stores could have a material effect on our results.

- The amount of contributions made to our pension and multi-employer plans will be affected by the performance of investments made by the plans, the extent to which trustees of the plans reduce the costs of future service benefits as well as our internal execution of our overall company strategic initiatives which could lead to further pension withdrawal liabilities.

- 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 earnings.

Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly from those included in or contemplated or implied by forward-looking statements made by us or our representatives.

RESULTS OF CONTINUING 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 focus on continuing operations.

As further discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian operations to Metro, Inc. at the close of business on August 13, 2005. Therefore, comparative information relating to our Canadian business that follows was comprised of 12 weeks during the third quarter ended December 4, 2004, and 24 weeks and 40 weeks during the year to date periods ended December 3, 2005 and December 4, 2004, respectively.

12 WEEKS ENDED DECEMBER 3, 2005 COMPARED TO THE 12 WEEKS ENDED DECEMBER 4, 2004

OVERALL

Sales for the third quarter of fiscal 2005 were $1.6 billion compared to $2.5 billion with the third quarter of fiscal 2004; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, decreased -0.3%. This decrease in comparable store sales excludes the impact of sales from the 28 stores that were effected by Hurricane Katrina as those sales are not considered comparable year over year. Loss from continuing operations increased from $72.8 million for the third quarter of fiscal 2004 to loss from continuing operations of $73.8 million for the third quarter of fiscal 2005. Net loss per share - basic and diluted for the third quarter of fiscal 2005 was $1.74 compared to a net loss per share - basic and diluted of $1.96 for the third quarter of fiscal 2004.

	12 Weeks Ended Dec. 3, 2005	12 Weeks Ended Dec. 4, 2004	(Unfavorable) / Favorable
Sales	$ 1,580.9	$ 2,523.8	$ (942.9)
Decrease in comparable store sales	(0.3%)	(1.0%)	NA
Loss from continuing operations	(73.7)	(72.7)	(1.0)
Income (loss) from discontinued operations	2.5	(2.6)	5.1
Net (loss) income	(71.2)	(75.3)	4.1
Net (loss) income per share - basic & diluted	(1.74)	(1.96)	0.22

SALES

Sales for the third quarter of fiscal 2005 of $1,580.9 million decreased $942.9 million or 37.4% from sales of $2,523.8 million for third quarter of fiscal 2004. The lower sales were due to a decrease in U.S. sales of $91.3 million and a decrease in Canadian sales of $851.6 million. The following table presents sales for each of our reportable operating segments for the third quarter of fiscal 2005 and the third quarter of fiscal 2004:

	12 Weeks Ended Dec. 3, 2005	12 Weeks Ended Dec. 4, 2004	Decrease
United States	$ 1,580.9	$ 1,672.2	$ (91
Canada	-	851.6	(851
Total	$ 1,580.9	$ 2,523.8	$ (942

The following details the dollar impact of several items affecting the decrease in sales by reportable operating segment from the third quarter of fiscal 2004 to the third quarter of fiscal 2005:

	Impact of New Stores	Impact of Closed Stores	Comparable Store Sales	Impact of Hurricane Katrina	Other
United States	$ 11.3	$ (99.9)	$ (4.1)	$ (2.5)	$ 3.9
Canada	-	-	-	-	(851.6
Total	$ 11.3	$ (99.9)	$ (4.1)	$ (2.5)	$ (847.7

The decrease in U.S. sales was primarily attributable to the closing of 56 stores since the beginning of the third quarter of fiscal 2004, of which 47 were closed in fiscal 2005 primarily in the Midwest, decreasing sales by $99.9 million, the decrease in comparable store sales for the third quarter of fiscal 2005 of $4.1 million or -0.3% as compared with the third quarter of fiscal 2004, and the decrease in sales caused by the overall impact of Hurricane Katrina of $2.5 million. These decreases were partially offset by the opening or re-opening of 3 new stores since the beginning of the third quarter of fiscal 2004, of which 2 were opened or re-opened in fiscal 2005, increasing sales by $11.3 million, and the increase in sales relating to an information technology services agreement with Metro, Inc. of $3.9 million.

The decrease in Canadian sales of $851.6 million was due to the sale of our Canadian operations during the second quarter of fiscal 2005 which resulted in the inclusion of zero weeks of sales during the third quarter of fiscal 2005 as compared to 12 weeks during the third quarter of fiscal 2004.

Average weekly sales per supermarket for the U.S. were approximately $333,400 for the third quarter of fiscal 2005 versus $319,100 for the corresponding period of the prior year, an increase of 4.5% primarily due to the impact of closing smaller stores partially offset by the negative comparable store sales.

GROSS MARGIN

The following table presents gross margin dollar results and gross margin as a percentage of sales by reportable operating segment for the third quarter of fiscal 2005 as compared to the third quarter of fiscal 2004. Gross margin as a percentage of sales increased 178 basis points to 29.38% for the third quarter of fiscal 2005 from 27.60% for the third quarter of fiscal 2004. This 178 basis point increase was caused primarily by the sale of our Canadian operations which had a lower gross margin rate. Although we lowered our prices in the U.S. during the third quarter of fiscal 2005, which was generally funded by a reduction in cost of sales, there was not a significant impact on gross margin rate.

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	12 Weeks Ended December 3, 2005		12 We Decemb
	Gross Margin	Rate to Sales%	Gross Margin
United States	$ 464.5	29.38%	$ 491.2
Canada	-	-	205.3
Total	$ 464.5	29.38%	$ 696.5

The following table details the dollar impact of several items affecting the gross margin dollar increase (decrease) from the third quarter of fiscal 2004 to the third quarter of fiscal 2005:

	Sales Volume	Gross Margin Rate	Other	Total
United States	$ (26.8)	$ 0.1	$ -	$ (
Canada	-	-	(205.3)	(2
Total	$ (26.8)	$ 0.1	$ (205.3)	$(2

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

The following table presents store operating, general and administrative expense ("SG&A"), by reportable operating segment, in dollars and as a percentage of sales for the third quarter of fiscal 2005 compared with the third quarter of fiscal 2004. SG&A expense was $546.1 million or 34.54% for the third quarter of fiscal 2005 as compared to $742.8 million or 29.43% for the third quarter of fiscal 2004.

	12 Weeks Ended Dec. 3, 2005		12 We Dec.
	SG&A	Rate to Sales%	SG&A
United States	$ 546.1	34.54%	$ 548.2
Canada	-	-	194.6
Total	$ 546.1	34.54%	$ 742.8

Included in SG&A in the U.S. for the third quarter of fiscal 2005 were certain charges as follows:

o costs relating to the closing of our owned warehouses in Edison, New Jersey and the Bronx, New York of $2.7 million (17 basis points) that will not be sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers as discussed in Note 6 - Sale of Our U.S. Distribution Operations and Warehouses;
o costs relating to the divestiture of our Midwestern U.S. business as discussed in Note 11 - Asset Disposition Initiatives of $18.6 million (118 basis points);
o costs relating to future occupancy costs for four stores closed in connection with Hurricane Katrina in addition to the write-off of an asset for a favorable lease that was recorded for one of these stores that is now closed of $13.2 million (84 basis points) as discussed in Note 7 - Hurricane Katrina and Impact on U.S. Business;

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o costs relating to the impairment of unrecoverable assets of $8.1 million (51 basis points) as discussed in Note 9 - Valuation of Long-Lived Assets;
o costs relating to an administrative reorganization during the third quarter of fiscal 2005 of $6.7 million (42 basis points); and
o costs relating to the consolidation of our operating offices in line with our smaller operations in the U.S. of $5.6 million (35 basis points).

SG&A in the U.S. for the third quarter of fiscal 2004 also included certain charges as follows:

o costs relating to the impairment of unrecoverable assets of $34.7 million (208 basis points); and
o costs relating to severance and other charges of $3.8 million (23 basis points) relating to an administrative reorganization.

Partially offset by:

o a reduction in the vacation accrual of $8.6 million (51 basis points) due to a change in the vacation entitlement policy.

SG&A within our core U.S. operations increased by 7 basis points during the third quarter of fiscal 2005 as compared to the third quarter of fiscal 2004 primarily due to an increase in utility costs of $4.6 million (38 basis points) partially offset by a reduction in advertising costs of $7.0 million (36 basis points).

The decrease in SG&A in Canada of $194.6 million (2,285 basis points) was due to the sale of our Canadian operations during the second quarter of fiscal 2005 which resulted in the inclusion of zero weeks of costs in the third quarter of fiscal 2005 as compared to 12 weeks in the third quarter of fiscal 2004.

During the 12 weeks ended December 3, 2005 and December 4, 2004, we recorded impairment losses on long-lived assets as follows:

	12 weeks ended Dec. 3, 2005			12
	U.S.	Canada	Total	
Impairments due to closure or conversion in the normal course of business	$ 3,760	$ -	$ 3,760	$
Impairments due to unrecoverable assets	8,116	-	8,116	
Impairments due to closure of stores impacted by Hurricane Katrina (1)	6,090	-	6,090	
Impairments related to the divestiture of the Midwestern U.S. business (2)	12	-	12	
Impairments related to property held as part of the 2001 Asset Disposition (2)	-	-	-	
Impairments related to the closure of the Kohl's business (3)	-	-	-	
Total impairments	$ 17,978	$ -	$ 17,978	$

(1) Refer to Note 7 - Hurricane Katrina and Impact on U.S. Business
(2) Refer to Note 11 - Asset Disposition Initiatives
(3) Refer to Note 10 - Discontinued Operations

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

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

GAIN ON SALE OF CANADIAN OPERATIONS

As further discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian operations to Metro, Inc. at the close of business on August 13, 2005. As a result of this sale, we recorded additional costs of $6.1 million during the 12 weeks ended December 3, 2005.

INTEREST EXPENSE

Interest expense of $15.4 million for the third quarter of fiscal 2005 decreased from the prior year amount of $24.9 million primarily due to (i.) the repurchase of the majority of our 7.75% Notes due April 15, 2007 and our 9.125% Senior Notes due December 15, 2011 resulting in a reduction in interest expense of $7.6 million, and (ii.) lower interest expense of $3.9 million relating to our Canadian operations due to the inclusion of its operating results for zero weeks in the third quarter of fiscal 2005 as compared to 12 weeks in the third quarter of 2004 as a result of its sale.

INCOME TAXES

The benefit from income taxes from continuing operations for the third quarter of fiscal 2005 was $21.1 million (a $21.1 million benefit from our U.S. operations) compared to a provision for income taxes for the third quarter of fiscal 2004 of $4.9 million (a $1.0 million provision for our U.S. operations and a $3.9 million provision for our Canadian operations). Consistent with prior year, we continue to record a valuation allowance against our U.S. net deferred tax assets.

For the third quarter of fiscal 2005, our effective income tax rate of 22.2% changed from the effective income tax rate of 7.2% in the second quarter of fiscal 2004 as follows:

	12 Weeks Ended			
	December 3, 2005		December 4, 2004	
	Tax Benefit	Effective Tax Rate	Tax Provision	Effec Tax R
United States	$ 21,083	(22.2%)	$ (1,035)	1
Canada	-	-	(3,889)	5
	$ 21,083	(22.2%)	$ (4,924)	7

The change in our effective tax rate was primarily due to (i.) the recognition of tax benefits during the 12 weeks ended December 3, 2005 as we continue to experience operating losses and these operating losses decrease the overall tax provision previously recorded during the second quarter of fiscal 2005 in connection with our Company's Domestic Reinvestment Plan as discussed above and the sale of our Canadian operations, and (ii.) the absence of a tax provision that was recorded for our Canadian operations during the 12 weeks ended December 4, 2004 that was not recorded during the 12 weeks ended December 3, 2005 due to the sale of our Canadian operations during the second quarter of fiscal 2005.

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DISCONTINUED OPERATIONS

Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete.

Although the Canadian operations have been sold as of December 3, 2005, the criteria necessary to classify the Canadian operations as discontinued have not been satisfied as our Company has retained significant continuing involvement in the operations of this business upon its sale through our equity investment in Metro, Inc.

The income from operations of discontinued businesses, net of tax, for the third quarter of fiscal 2005 was $2.0 million as compared to $0.1 million for the third quarter of fiscal 2004 and is detailed by business as follows:

	12 Weeks Ended December 3, 2005			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
(LOSS) INCOME FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	$ -	$ -	$ -	$
Operating expenses	(10)	3,546	(136)	3
(Loss) income from operations of discontinued businesses, before tax	(10)	3,546	(136)	3
Tax benefit (provision)	4	(1,489)	57	(1
(Loss) income from operations of discontinued businesses, net of tax	$ (6)	$ 2,057	$ (79)	$ 1

Disposal related costs included in operating expenses above:

Non-accruable closing costs	$ (10)	$ (26)	$ (136)	$
Reversal of previously accrued occupancy related costs	-	3,717	-	3
Interest accretion on present value of future occupancy and severance costs	-	(145)	-	
Total disposal related costs	$ (10)	$ 3,546	$ (136)	$ 3

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	12 Weeks ended December 4, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot

INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	$ -	$ -	$ -	$
Operating expenses	5	137	(32)	
Income (loss) from operations of discontinued businesses, before tax	5	137	(32)	
Tax provision	-	-	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 5	$ 137	$ (32)	$

Disposal related costs included in operating expenses above:

Non-accruable closing costs	$ 7	$ (11)	$ (32)	$
Reversal of previously accrued occupancy related costs	-	354	-	
Interest accretion on present value of future occupancy and severance costs	(2)	(206)	-	
Total disposal related costs	$ 5	$ 137	$ (32)	$

The gain on disposal of discontinued operations, net of tax, was $0.6 million for the third quarter of fiscal 2005 as compared to a loss on disposal of discontinued operations, net of tax, of $2.7 million for the third quarter of fiscal 2004 and is detailed by business as follows:

	12 Weeks Ended December 3, 2005			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES				
Gain on sale of property	$ -	$ 994	$ -	$
Gain on disposal of discontinued businesses, before tax	-	994	-	
Tax provision	-	(417)	-	
Gain on disposal of discontinued businesses, net of tax	$ -	$ 577	$ -	$

	12 Weeks ended December 4, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
LOSS ON DISPOSAL OF DISCONTINUED BUSINESSES				
Property impairments	$ -	$ (602)	$ -	$
Loss on sale of business		-	(2,100)	(2
Loss on disposal of discontinued businesses, before tax	-	(602)	(2,100)	(2
Tax provision	-	-	-	
Loss on disposal of discontinued businesses, net of tax	$ -	$ (602)	$ (2,100)	$ (2

40 WEEKS ENDED DECEMBER 3, 2005 COMPARED TO THE 40 WEEKS ENDED DECEMBER 4, 2004

OVERALL

Sales for the 40 weeks ended December 3, 2005 were $7.1 billion, compared with $8.3 billion for the 40 weeks ended December 4, 2004; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, decreased -0.6%. This decrease in comparable store sales excludes the impact of sales from the 28 stores that were effected by Hurricane Katrina as those sales are not considered comparable year over year. Loss from continuing operations reversed from $178.8 million for the 40 weeks ended December 4, 2004 to income from continuing operations of $429.4 million for the 40 weeks ended December 3, 2005. Net income per share - basic and diluted for the 40 weeks ended December 3, 2005 was $10.77 and $10.62, respectively, compared to a net loss per share - basic and diluted of $4.74 for the 40 weeks ended December 4, 2004.

	40 Weeks Ended Dec. 3, 2005	40 Weeks Ended Dec. 4, 2004	(Unfavorable) / Favorable
Sales	$ 7,132.8	$ 8,294.6	$ (1,161.8)
Decrease in comparable store sales	(0.6%)	(0.1%)	NA
Income (loss) from continuing operations	429.4	(178.8)	608.2
Income (loss) from discontinued operations	2.3	(3.6)	5.9
Net income (loss)	431.7	(182.4)	614.1
Net income (loss) per share - basic	10.77	(4.74)	15.51
Net income (loss) per share - diluted	10.62	(4.74)	15.36

SALES

Sales for the 40 weeks ended December 3, 2005 of $7,132.8 million decreased $1,161.8 million or 14.0% from sales of $8,294.6 million for 40 weeks ended December 4, 2004. The lower sales were due to a decrease in U.S. sales of $201.4 million and a decrease in Canadian sales of $960.4 million. The following table presents sales for each of our reportable operating segments for the 40 weeks ended December 3, 2005 and the 40 weeks ended December 4, 2004:

	40 Weeks Ended Dec. 3, 2005	40 Weeks Ended Dec. 4, 2004	Decrease
United States	$ 5,408.9	$ 5,610.3	$ (201
Canada	1,723.9	2,684.3	(960
Total	$ 7,132.8	$ 8,294.6	$ (1,161

The following details the dollar impact of several items affecting the decrease in sales by reportable operating segment from the 40 weeks ended December 4, 2004 to the 40 weeks ended December 3, 2005:

	Impact of New Stores	Impact of Closed Stores	Foreign Exchange Rate	Comparable Store Sales	Impact o Hurrican Katrina
United States	$ 53.7	$ (232.0)	$ -	$ (28.9)	$ 0.6
Canada	47.6	(65.1)	162.0	1.6	-
Total	$ 101.3	$ (297.1)	$ 162.0	$ _(27.3)	$ _0.6

The decrease in U.S. sales was primarily attributable to the closing of 65 stores since the beginning of fiscal 2004, of which 47 were closed in fiscal 2005 primarily in the Midwest, decreasing sales by $232.0 million, and the decrease in comparable store sales for the 40 weeks ended December 3, 2005 of $28.9 million or -0.6% as compared with the 40 weeks ended December 4, 2004. These decreases were partially offset by the opening or re-opening of 18 new stores since the beginning of fiscal 2004, of which 2 were opened or re-opened in fiscal 2005, increasing sales by $53.7 million, the increase in sales caused by the overall impact of Hurricane Katrina of $0.6 million, and the increase in sales relating to an information technology services agreement with Metro, Inc. of $5.2 million.

The decrease in Canadian sales was primarily attributable to the closure of 14 stores since the beginning of fiscal 2004, of which 1 was closed in fiscal 2005, decreasing sales by $65.1 million, and the sale of our Canadian operations that resulted in the inclusion of 24 weeks of sales during the 40 weeks ended

December 3, 2005 as compared to 40 weeks during the 40 weeks ended December 4, 2004, decreasing sales by $1,106.5 million. These decreases were partially offset by the opening or re-opening of 9 stores since the beginning of fiscal 2004, of which 1 was opened or re-opened in fiscal 2005, increasing sales by $47.6 million, the favorable effect of the Canadian exchange rate, which increased sales by $162.0 million, and the increase in comparable store sales for the 40 weeks ended December 3, 2005 of $1.6 million or 0.1% for Company-operated stores and franchised stores combined, as compared to the 40 weeks ended December 4, 2004.

Average weekly sales per supermarket for the U.S. were approximately $326,400 for the 40 weeks ended December 3, 2005 versus $322,100 for the corresponding period of the prior year, an increase of 1.3% primarily due to the impact of closing smaller stores partially offset by the negative comparable store sales. Average weekly sales per supermarket for Canada were approximately $298,600 for the 40 weeks ended December 3, 2005 versus $282,200 for the corresponding period of the prior year, an increase of 5.8%. This increase was primarily due to the increase in the Canadian exchange rate and higher comparable store sales.

GROSS MARGIN

The following table presents gross margin dollar results and gross margin as a percentage of sales by reportable operating segment for the 40 weeks ended December 3, 2005 as compared to the 40 weeks ended December 4, 2004. Gross margin as a percentage of sales increased 44 basis points to 28.31% for the 40 weeks ended December 3, 2005 from 27.87% for the 40 weeks ended December 4, 2004 primarily caused by the sale of our Canadian operations which had a lower gross margin rate. We believe the impact on margin for changes in costs and special reductions was not significant.

	40 Weeks Ended December 3, 2005		40 We Decemb
	Gross Margin	Rate to Sales%	Gross Margin
United States	$ 1,598.4	29.55%	$ 1,664.6
Canada	420.7	24.40	647.4
Total	$ 2,019.1	28.31%	$ 2,312.0

The following table details the dollar impact of several items affecting the gross margin dollar decrease from the 40 weeks ended December 4, 2004 to the 40 weeks ended December 3, 2005:

	Sales Volume	Gross Margin Rate	Exchange Rate	Other
United States	$ (59.8)	$ (6.4)	$ -	$

Canada	(58.8)	4.5	32.9	(205
Total	$ (118.6)	$ (1.9)	$ 32.9	$ (205

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

The following table presents store operating, general and administrative expense by reportable operating segment, in dollars and as a percentage of sales for the 40 weeks ended December 3, 2005 compared with the 40 weeks ended December 4, 2004. SG&A expense was $2,283.9 million or 32.02% for the 40 weeks ended December 3, 2005 as compared to $2,398.2 million or 28.91% for the 40 weeks ended December 4, 2004.

	40 Weeks Ended Dec. 3, 2005		40 We Dec.
	SG&A	Rate to Sales%	SG&A
United States	$ 1,920.4	35.50%	$ 1,764.9
Canada	363.5	21.09	633.3
Total	$ 2,283.9	32.02%	$ 2,398.2

Included in SG&A in the U.S. for the 40 weeks ended December 3, 2005 were certain charges as follows:

- costs relating to the closing of our owned warehouses in Edison, New Jersey and the Bronx, New York of $67.3 million (124 basis points) that will not be sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers as discussed in Note 6 - Sale of Our U.S. Distribution Operations and Warehouses;

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- costs relating to the divestiture of our Midwestern U.S. business as discussed in Note 11 - Asset Disposition Initiatives of $103.6 million (192 basis points);
- costs relating to future occupancy costs for four stores closed in connection with Hurricane Katrina, the write-off of an asset for a favorable lease that was recorded for one of these stores that is now closed, and our insurance deductible of $18.2 million (34 basis points);
- costs relating to the impairment of unrecoverable assets of $17.7 million (33 basis points) as discussed in Note 9 - Valuation of Long-Lived Assets;
- costs relating to an administrative reorganization during the 40 weeks ended December 3, 2005, of $13.8 million (26 basis points);
- costs relating to the consolidation of our operating offices in line with our smaller operations in the U.S. of $5.6 million (10 basis points);
- costs relating to the cash tender offer completed during the 40 weeks ended December 3, 2005, as discussed in Note 5 - Tender Offer and Repurchase of 7.75% Notes Due 2007 and 9.125% Senior Notes Due 2011 of $29.5 million (55 basis points); and

- costs relating to the settlement of our net investment hedge as discussed in Note 16 - Hedge of Net Investment in Foreign Operations of $15.4 million (29 basis points).

Partially offset by:

- higher gains on the sale of certain of our assets of $28.2 million (52 basis points) during the 40 weeks ended December 3, 2005.

SG&A in the U.S. for the 40 weeks ended December 4, 2004 also included certain charges as follows:

- costs relating to the impairment of unrecoverable assets of $34.7 million (62 basis points); and
- costs relating to severance and other charges of $3.8 million (7 basis points) relating to an administrative reorganization.

Partially offset by:

- a reduction in the vacation accrual of $8.6 million (15 basis points) due to a change in the vacation entitlement policy.

SG&A within our core U.S. operations increased by 8 basis points during the 40 weeks ended December 3, 2005 as compared to the 40 weeks ended December 4, 2004 primarily due to an increase in utility costs of $11.0 million (26 basis points) partially offset by a reduction in advertising costs of $9.4 million (13 basis points).

The decrease in SG&A in Canada of $269.8 million (250 basis points) is primarily due to the inclusion of 24 weeks of costs during the 40 weeks ended December 3, 2005 as compared to 40 weeks during the 40 weeks ended December 4, 2004, in addition to (i.) lower depreciation expense of $21.6 million as the Canadian assets were sold during the 40 weeks ended December 3, 2005 as discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, and (ii.) the absence of costs relating to the settlement of the Canadian lawsuit of $24.9 million which were included in the 40 weeks ended December 4, 2004.

During the 40 weeks ended December 3, 2005 and December 4, 2004, we recorded impairment losses on long-lived assets as follows:

	40 weeks ended Dec. 3, 2005			40
	U.S.	Canada	Total	
Impairments due to closure or conversion in the normal course of business	$ 4,784	$ 506	$ 5,290	$
Impairments due to unrecoverable assets	17,728	-	17,728	
Impairments due to closure of stores impacted by Hurricane Katrina (1)	6,090	-	6,090	

Impairments related to the divestiture of the Midwestern U.S. business (2)	6,873	-	6,873	
Impairments related to the sale of U.S. distribution operations and warehouses (3)	8,590	-	8,590	
Impairments related to property held as part of the 2001 Asset Disposition (2)	-	-	-	
Impairments related to the closure of the Kohl's business (4)	-	-	-	
Total impairments	$ 44,065	$ 506	$ 44,571	$

(1) Refer to Note 7 - Hurricane Katrina and Impact on U.S. Business
(2) Refer to Note 11 - Asset Disposition Initiatives
(3) Refer to Note 6 - Sale of our U.S. Distribution Operations and Warehouses
(4) Refer to Note 10 - Discontinued Operations

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

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

GAIN ON SALE OF CANADIAN OPERATIONS

As further discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian operations to Metro, Inc. at the close of business on August 13, 2005. As a result of this sale, we recorded a pretax gain of $912.5 million (gain of $780.4 million after tax) during the 40 weeks ended December 3, 2005.

INTEREST EXPENSE

Interest expense of $76.8 million for the 40 weeks ended December 3, 2005 decreased from the prior year amount of $87.0 million due primarily to (i.) the repurchase of the majority of our 7.75% Notes due April 15, 2007 and our 9.125% Senior Notes due December 15, 2011 resulting in a reduction in interest expense of $8.3 million, (ii.) a decrease in capitalized interest of $0.9 million due to mainly a reduction in new store builds, and (iii.) lower interest expense of $4.2 million relating to our Canadian operations due to the inclusion of its operating results for 24 weeks for the 40 weeks ended December 3, 2005 as compared to 40 weeks for the 40 weeks ended December 4, 2004 as a result of its sale, partially offset by higher interest expense resulting from our on-balance sheet long-term real estate liabilities, which includes sale leaseback of Company-owned properties entered into in the fourth quarter of fiscal 2003, of approximately $1.0 million and sale leaseback of locations for which we received landlord allowances of $0.6 million.

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INCOME TAXES

The provision for income taxes from continuing operations for the 40 weeks ended December 3, 2005 was $152.9 million (a $134.3 million provision for our U.S. operations and a $18.6 million provision for our Canadian operations) compared to a provision for income taxes from continuing operations for the 40 weeks ended December 4, 2004 of $8.8 million (a $3.5 million provision for our U.S.

operations and a $5.3 million provision for our Canadian operations). Consistent with prior year, we continue to record a valuation allowance against our U.S. net deferred tax assets.

For the 40 weeks ended December 3, 2005, our effective income tax rate of 26.3% changed from the effective income tax rate of 5.1% for the 40 weeks ended December 4, 2004 as follows:

	40 Weeks Ended			
	December 3, 2005		December 4, 2004	
	Tax Provision	Effective Tax Rate	Tax Provision	Effec Tax R
United States	$ (134,346)	23.1%	$ (3,450)	2
Canada	(18,539)	3.2%	(5,318)	3
	$ (152,885)	26.3%	$ (8,768)	5

The change in our effective tax rate was primarily due to the tax provisions we recorded in the U.S. in connection with (i.) our Company's Domestic Reinvestment Plan as discussed above and (ii.) the sale of our Canadian operations that occurred during the 40 weeks ended December 3, 2005.

DISCONTINUED OPERATIONS

Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete.

Although the Canadian operations have been sold as of December 3, 2005, the criteria necessary to classify the Canadian operations as discontinued have not been satisfied as our Company has retained significant continuing involvement in the operations of this business upon its sale.

The income from operations of discontinued businesses, net of tax, for the 40 weeks ended December 3, 2005 was $1.7 million as compared to a loss from operations of discontinued businesses, net of tax, of $0.9 million for the 40 weeks ended December 4, 2004 and is detailed by business as follows:

	40 Weeks Ended December 3, 2005			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
(LOSS) INCOME FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	$ -	$ -	$ -	$
Operating expenses	(47)	3,170	(187)	2
(Loss) income from operations of discontinued businesses, before tax	(47)	3,170	(187)	2
Tax benefit (provision)	20	(1,331)	79	(1
(Loss) income from operations of discontinued businesses, net of tax	$ (27)	$ 1,839	$ (108)	$ 1

Disposal related costs included in operating expenses above:

Non-accruable closing costs	$ (47)	$ (44)	$ (187)	$
Reversal of previously accrued occupancy related costs	-	3,717	-	3
Interest accretion on present value of future occupancy and severance costs	-	(503)	-	
Total disposal related costs	$ (47)	$ 3,170	$ (187)	$ 2

	40 Weeks ended December 4, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	$ -	$ -	$ -	$
Operating expenses	333	(637)	(625)	
Income (loss) from operations of discontinued businesses, before tax	333	(637)	(625)	
Tax provision	-	-	-	
Income (loss) from operations of discontinued businesses, net of tax	$ 333	$ (637)	$ (625)	$

Disposal related costs included in operating expenses above:

Severance and benefits	$ (326)	$ -	$ -	$
Reversal of previously accrued occupancy related costs	-	354	-	
Non-accruable closing costs	667	(401)	(625)	
Interest accretion on present value of future occupancy and severance costs	(8)	(590)	-	
Total disposal related costs	$ 333	$ (637)	$ (625)	$

The gain on disposal of discontinued operations, net of tax, was $0.6 million for the third quarter of fiscal 2005 as compared to a loss on disposal of discontinued operations, net of tax, of $2.7 million for the third quarter of fiscal 2004 and is detailed by business as follows:

	40 Weeks Ended December 3, 2005			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES				
Gain on sale of property	$ -	$ 994	$ -	$

Gain on disposal of discontinued businesses, before tax	-	994	-	
Tax provision	-	(417)	-	
Gain on disposal of discontinued businesses, net of tax	$ -	$ 577	$ -	$

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	40 Weeks ended December 4, 2004			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
LOSS ON DISPOSAL OF DISCONTINUED BUSINESSES				
Property impairments	$ -	$ (602)	$ -	$
Loss on sale of business		-	(2,100)	(2
Loss on disposal of discontinued businesses, before tax	-	(602)	(2,100)	(2
Tax provision	-	-	-	
Loss on disposal of discontinued businesses, net of tax	$ -	$ (602)	$ (2,100)	$ (2

ASSET DISPOSITION INITIATIVES

OVERVIEW

In fiscal 1998 and fiscal 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets (Project Great Renewal). In addition, during the third quarter of fiscal 2001, we announced that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) would be closed and/or sold, and certain administrative streamlining would take place (2001 Asset Disposition). During the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets (Farmer Jack Restructuring). In addition, during the first, second and third quarters of fiscal 2005, we initiated efforts to divest our businesses in the Midwestern United States and closed 35 of those stores (Divestiture of the Midwestern U.S. Business). Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004. Present value ("PV") interest represents interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. Non-accruable items represent charges related to the restructuring that are required to be expensed as incurred in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities".

	12 Weeks Ended December 3, 2005			
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Divestiture of Midwest Operations
BALANCE SHEET ACCRUALS				
Vacancy	$ -	$ (1,689)	$ 302	$ 16,925
PV interest	328	471	184	646
Severance	-	-	-	591
Total accrued to balance sheets	328	(1,218)	486	18,162
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS				
Capital lease termination	-	-	-	(588)
Property writeoffs	-	-	-	12
Inventory markdowns	-	-	-	138
Closing costs	-	-	-	1,059
Total non-accruable items	-	-	-	621
Less PV interest	(328)	(471)	(184)	(646)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	-	(1,689)	302	18,137

	12 Weeks Ended December 4, 2004			
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Total
BALANCE SHEET ACCRUALS				
PV interest	$ 418	$ 553	$ 154	$ 1,125
Total accrued to balance sheets	418	553	154	1,125
Occupancy reversals	-	(4,488)	-	(4,488)
Adjustments to balance sheets	-	(4,488)	-	(4,488)
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS				
Property writeoffs	-	1,709	-	1,709
Total non-accruable items	-	1,709	-	1,709
Less PV interest	(418)	(553)	(154)	(1,125)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	$ -	$ (2,779)	$ -	$ (2,779)

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	40 Weeks Ended December 3, 2005			
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Divestiture of Midwest Operations
BALANCE SHEET ACCRUALS				
Vacancy	$ (2,570)	$ (1,689)	$ 3,662	$ 88,443
PV interest	1,228	1,703	521	782
Severance	-	-	-	2,710
Total accrued to balance sheets	(1,342)	14	4,183	91,935

NON-ACCRUABLE ITEMS
RECORDED ON STATEMENTS

OF OPERATIONS				
Capital lease termination	-	-	-	(588)
Property writeoffs	-	-	-	6,873
Inventory markdowns	-	-	-	1,268
Loss on sale of property	-	-	-	2,263
Gain on sale of pharmacy scripts	-	-	-	(870)
Closing costs	-	-	-	4,016
Total non-accruable items	-	-	-	12,962
Less PV interest	(1,228)	(1,703)	(521)	(782)
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	(2,570)	(1,689)	3,662	104,115
Less Gain on sale of pharmacy scripts	-	-	-	870
Less closing costs	-	-	-	(4,016)
TOTAL AMOUNT RECORDED ON STATEMENTS OF CASH FLOWS	(2,570)	(1,689)	3,662	100,969

	40 Weeks Ended December 4, 2004			
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Total
BALANCE SHEET ACCRUALS				
PV interest	$ 1,494	$ 1,902	$ 534	$ 3,930
Total accrued to balance sheets	1,494	1,902	534	3,930

Occupancy reversals	-	(4,488)	-	(4,488
Adjustments to balance sheets	-	(4,488)	-	(4,488
NON-ACCRUABLE ITEMS RECORDED ON STATEMENTS OF OPERATIONS				
Property writeoffs	-	1,709	90	1,799
Inventory markdowns	-	-	291	291
Closing costs	-	-	689	689
Total non-accruable items	-	1,709	1,070	2,779
Less PV interest	(1,494)	(1,902)	(534)	(3,930
TOTAL AMOUNT RECORDED ON STATEMENTS OF OPERATIONS EXCLUDING PV INTEREST	$ -	$(2,779)	$ 1,070	$(1,709

PROJECT GREAT RENEWAL

In May 1998, we initiated an assessment of our business operations in order to identify the factors that were impacting our performance. As a result of this assessment, in fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores (156 in the United States and 10 in Canada) including the exit of the Richmond, Virginia and Atlanta, Georgia markets. As of December 3, 2005, we had closed all stores and facilities related to this phase of the initiative.

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

	Occupancy			Severance and Benefits			
	U.S.	Canada	Total	U.S.	Canada	Total	U.S.

Balance at February 23, 2002	$ 62,802	$ 575	$ 63,377	2,177	$ -	$ 2,177	64,9
Addition (1)	2,861	298	3,159	-	-	-	2,8
Utilization (2)	(13,230)	(386)	(13,616)	(370)	-	(370)	(13,6
Adjustments (3)	(3,645)	-	(3,645)	639	-	639	(3,0
Balance at February 22, 2003	$ 48,788	$ 487	$ 49,275	$ 2,446	$ -	$ 2,446	$ 51,2
Addition (1)	2,276	372	2,648	-	-	-	2,2
Utilization (2)	(19,592)	(407)	(19,999)	(289)	-	(289)	(19,8
Balance at February 28, 2004	$ 31,472	$ 452	$ 31,924	$ 2,157	$ -	$ 2,157	$ 33,6
Addition (1)	1,902	20	1,922	-	-	-	1,9
Utilization (2)	(5,410)	(222)	(5,632)	(497)	-	(497)	(5,9
Balance at February 26, 2005	$ 27,964	$ 250	$ 28,214	$ 1,660	$ -	$ 1,660	$ 29,6
Addition (1)	1,228	7	1,235	-	-	-	1,2
Utilization (2)	(4,352)	(167)	(4,519)	(171)	-	(171)	(4,5
Adjustments (3)	(2,570)	(90)	(2,660)	-	-	-	(2,5
Balance at Dec. 3, 2005	$ 22,270	$ -	$ 22,270	$ 1,489	$ -	$ 1,489	$ 23,7

(1) The additions to store occupancy of $3.2 million, $2.6 million, and $1.9 million during fiscal 2002, 2003 and 2004, respectively, and $1.2 million during the 40 weeks ended December 3, 2005 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.

(2) Occupancy utilization of $13.6 million, $20.0 million, and $5.6 million for fiscal 2002, 2003 and 2004, respectively, and $4.5 million during the 40 weeks ended December 3, 2005 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $0.4 million, $0.3 million, and $0.5 million for fiscal 2002, 2003 and 2004, respectively, and $0.2 million during the 40 weeks ended December 3, 2005 represents payments to individuals for severance and benefits, as well as payments to pension funds for early withdrawal from multi-employer union pension plans.

(3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. We have continued to make favorable progress in marketing and subleasing the closed stores. As a result, during fiscal 2002, we recorded a reduction of $3.6 million in occupancy accruals related to this phase of the initiative. Further, we increased our reserve for future minimum pension liabilities by $0.6 million to better reflect expected future payouts under certain collective bargaining agreements. During the 40 weeks ended December 3, 2005, we recorded an additional reduction of $2.6 million in occupancy accruals due to subleasing additional closed stores. As discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, we sold our Canadian business and as a result, the Canadian occupancy accruals of $0.1 million are no longer consolidated in our Consolidated Balance Sheet at December 3, 2005.

We paid $102.9 million of the total occupancy charges from the time of the original charges through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $30.1 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of $22.3 million relates to expected future payments under long term leases and is expected to be paid in full by 2020. The remaining severance liability of $1.5 million primarily relates to expected future payments for early withdrawals from multi-employer union pension plans and will be fully paid out in 2020.

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None of these stores were open during either of the first, second or third quarters of fiscal 2004 or 2005. As such, there was no impact on the Statements of Consolidated Operations from the 166 stores included in this phase of the initiative.

At December 3, 2005 and February 26, 2005, approximately $5.6 million and $5.4 million, respectively, of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of December 3, 2005 of $23.8 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

2001 ASSET DISPOSITION

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from our review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, our Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) should be closed and/or sold, and certain administrative streamlining should take place. As of December 3, 2005, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative recorded on the Consolidated Balance Sheets over the last three fiscal years:

	Occupancy			Severance and Benefits			
	U.S.	Canada	Total	U.S.	Canada	Total	U.S.
Balance at February 23, 2002	$ 78,386	$ 1,937	$ 80,323	13,743	$ 6,217	$ 19,960	$ 92,1
Addition (1)	4,041	49	4,090	2,578	966	3,544	6,6
Utilization (2)	(18,745)	(1,642)	(20,387)	(12,508)	(6,952)	(19,460)	(31,2
Adjustments (3)	(10,180)	-	(10,180)	-	250	250	(10,1
Balance at February 22, 2003	$ 53,502	$ 344	$ 53,846	$ 3,813	$ 481	$ 4,294	$ 57,3
Addition (1)	2,847	3	2,850	-	-	-	2,8
Utilization (2)	(9,987)	(974)	(10,961)	(2,457)	(1,026)	(3,483)	(12,4
Adjustments (3)	(6,778)	1,002	(5,776)	955	603	1,558	(5,8
Balance at February 28, 2004	$ 39,584	$ 375	$ 39,959	$ 2,311	$ 58	$ 2,369	$ 41,8
Addition (1)	2,449	-	2,449	-	-	-	2,4
Utilization (2)	(5,646)	(375)	(6,021)	(2,197)	(58)	(2,255)	(7,8
Adjustments (3)	(4,488)	-	(4,488)	-	-	-	(4,4
Balance at February 26, 2005	$ 31,899	$ -	$ 31,899	$ 114	$ -	$ 114	$ 32,0
Addition (1)	1,703	-	1,703	-	-	-	1,7
Utilization (2)	(3,640)	-	(3,640)	(75)	-	(75)	(3,7
Adjustments (3)	(1,689)	-	(1,689)	-	-	-	(1,6
Balance at Dec. 3, 2005	$ 28,273	$ -	$ 28,273	$ 39	$ -	$ 39	$ 28,3

(1) The additions to store occupancy of $4.1 million, $2.9 million, and $2.4 million during fiscal 2002, 2003 and 2004, respectively, and $1.7 million during the 40 weeks ended December 3, 2005 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The addition to severance of $3.5 million during fiscal 2002 related to retention and productivity incentives that were accrued as earned.

(2) Occupancy utilization of $20.4 million, $11.0 million, and $6.0 during fiscal 2002, 2003 and 2004, respectively, and $3.6 million during the 40 weeks ended December 3, 2005 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $19.5 million, $3.5 million, and $2.3 million during fiscal 2002, 2003 and 2004, respectively, and $0.1 million during the 40 weeks ended December 3, 2005 represent payments made to terminated employees during the period.

(3) At each balance sheet date, we assess the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During fiscal 2002, we recorded adjustments of $10.2 million related to reversals of previously accrued occupancy related costs due to the following:

- Favorable results of assigning leases at certain locations of $3.6 million;
- The decision to continue to operate one of the stores previously identified for closure due to changes in the competitive environment in the market in which that store is located of $3.3 million; and
- The decision to proceed with development at a site that we had chosen to abandon at the time of the original charge due to changes in the competitive environment in the market in which that site is located of $3.3 million.

During fiscal 2003, we recorded net adjustments of $5.8 million related to reversals of previously accrued occupancy costs due to favorable results of subleasing, assigning and terminating leases. We also accrued $1.6 million for additional severance and benefit costs that were unforeseen at the time of the original charge. Finally, during fiscal 2004, we recorded adjustments of $4.5 million related to the reversals of previously accrued occupancy costs due to the disposals and subleases of locations at more favorable terms than originally anticipated at the time of the original charge.

During fiscal 2005, we recorded adjustments of $1.7 million related to the reversals of previously accrued occupancy costs due to a favorable result of subleasing one of the closed properties.

We paid $42.8 million ($39.8 million in the U.S. and $3.0 million in Canada) of the total occupancy charges from the time of the original charges through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $28.1 million ($19.1 million in the U.S. and $9.0 million in Canada) of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 1,100 employees. The remaining occupancy liability of $28.3 million primarily relates to expected future payments under long term leases through 2017. The remaining severance liability of $0.04 million relates to expected future payments for severance and benefits payments to individual employees and will be fully paid out by 2006.

At December 3, 2005 and February 26, 2005, approximately $6.6 million and $7.1 million of the reserve, respectively, was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

None of these stores were open during either of the first, second or third quarters of fiscal 2004 or 2005. As such, there was no impact on the Statements of Consolidated Operations from the 39 stores that were identified for closure as part of this asset disposition.

Based upon current available information, we evaluated the reserve balances as of December 3, 2005 of $28.3 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. Our Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

FARMER JACK RESTRUCTURING

In the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets. As of December 3, 2005, we had closed all 6 stores and successfully completed the conversions related to this phase of the initiative.

The following table summarizes the activity to date related to the charges recorded for this initiative all of which were in the U.S. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles.

	Occupancy	Severance and Benefits	Total
Original charge (1)	$ 20,999	$ 8,930	$ 29,929
Addition (1)	56	-	56
Utilization (2)	(1,093)	(4,111)	(5,204)
Balance at February 28, 2004	$ 19,962	$ 4,819	$ 24,781
Addition (1)	687	-	687
Utilization (2)	(4,747)	(4,813)	(9,560)
Balance at February 26, 2005	$ 15,902	$ 6	$ 15,908
Addition (1)	521	-	521
Utilization (2)	(2,220)	(6)	(2,226)
Adjustment (3)	3,662	-	3,662
Balance at Dec. 3, 2005	$ 17,865	$ -	$ 17,865

(1) The original charge to occupancy during fiscal 2003 represents charges related to closures and conversions in the Detroit, Michigan market of $21.0 million. The additions to occupancy during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005 represent interest

accretion on future occupancy costs which were recorded at present value at the time of the original charge. The original charge to severance during fiscal 2003 of $8.9 million related to individual severings as a result of the store closures, as well as a voluntary termination plan initiated in the Detroit, Michigan market.

(2) Occupancy utilization of $1.1 million, $4.7 million and $2.2 million during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005, respectively, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $4.1 million, $4.8 million and $0.01 million during fiscal 2003, fiscal 2004 and the 40 weeks ended December 3, 2005, respectively, represent payments made to terminated employees during the period.

(3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During the 40 weeks ended December 3, 2005, we recorded an increase of $3.7 million in occupancy accruals due to changes in our original estimate of when we would terminate certain leases and obtain sublease rental income related to such leases.

We paid $8.1 million of the total occupancy charges from the time of the original charge through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $8.9 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 300 employees. The remaining occupancy liability of $17.9 million relates to expected future payments under long term leases and is expected to be paid out in full by 2022. The severance liability has been fully utilized as of December 3, 2005 and no additional future payments for severance and benefits to individual employees will be paid out.

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Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004 are the sales and operating results of the 6 stores that were identified for closure as part of this phase of the initiative. The results of these operations are as follows:

	12 Weeks Ended		40 Weeks
	December 3, 2005	December 4, 2004	December 3, 2005
Sales	$ -	$ -	$ -
Loss from operations	$ -	$ -	$ -

At December 4, 2005 and February 26, 2005, approximately $1.6 million and $2.1 million, respectively, of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of $17.9 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

DIVESTITURE OF MIDWEST OPERATIONS

During the first quarter of fiscal 2005, we announced plans for a major strategic restructuring that would focus future effort and investment on our core operations in the Northeastern United States. Thus, we initiated efforts to divest our business in the Midwestern United States. This planned divestiture included the closing of a total of 35 stores, all of which have been closed as of December 3, 2005. The remaining business located in the Midwestern United States will continue to operate as part of our core business going forward.

During the 12 and 40 weeks ended December 3, 2005, we recorded charges of $18.1 million and $104.1 million, respectively, related to these closures ($0.2 million and $1.3 million in "Cost of merchandise sold," respectively, and $17.9 million and $102.8 million, respectively, in "Store operating, general and administrative expense" in our Consolidated Statement of Operations), excluding PV interest.

	12 Weeks Ended December 3, 2005	4 De
Occupancy related	$ 16,925	$
Severance and benefits	591	
Capital lease termination	(588)	
Property writeoffs	12	
Loss on the sale of fixed assets	-	
Sale of pharmacy scripts	-	
Inventory markdowns	138	
Nonaccruable closing costs	1,059	
Total charges	$ 18,137	$

The following table summarizes the activity to date related to the charges recorded for this divestiture. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles.

Severance
and

	Occupancy	Benefits	Total
Original charge (1)	$ 14,766	$ 1,337	$ 16,103
Additions (2)	74,459	1,373	75,832
Utilization (3)	(5,663)	(1,837)	(7,500)
Balance at Dec. 3, 2005	$ 83,562	$ 873	$ 84,435

(1) The original charge to occupancy during the first quarter of fiscal 2005 represents charges related to closures of the first 8 stores in conjunction with our decision to divest our Midwestern business of $14.7 million. The original charge to severance during the first quarter of fiscal 2005 of $1.3 million related to individual severings as a result of these store closures.

(2) The additions to occupancy during the 40 weeks ended December 3, 2005 represents charges related to the closures of an additional 27 stores in the amount of $73.7 million and interest accretion on future occupancy costs which were recorded at present value at the time of the original charge in the amount of $0.8 million. The additional charge to severance during the 40 weeks ended December 3, 2005 of $1.4 million related to individual severings as a result of these store closures.

(3) Occupancy utilization of $5.7 million for 40 weeks ended December 3, 2005, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $1.8 million for the 40 weeks ended December 3, 2005 represents payments made to terminated employees during the period.

We paid $5.7 million of the total occupancy charges from the time of the original charge through December 3, 2005 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $1.8 million of the total net severance charges from the time of the original charges through December 3, 2005, which resulted from the termination of approximately 125 employees. The remaining occupancy liability of $83.6 million relates to expected future payments under long term leases and is expected to be paid out in full by 2021. The remaining severance liability of $0.9 million relates to expected future payments for severance and benefits to individual employees and will be fully paid out by February 25, 2006.

Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 3, 2005 and December 4, 2004 are the sales and operating results of the 35 stores that were closed as part of this divestiture. The results of these operations are as follows:

	12 Weeks Ended		40 Weeks
	December 3, 2005	December 4, 2004	December 3, 2005
Sales	$ 2,994	$ 78,412	$ 110,882
Loss from operations	$ (3,602)	$ (8,773)	$ (24,768)

At December 3, 2005, approximately $17.8 million of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

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We have evaluated the liability balance of $84.4 million as of December 3, 2005 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

The following table presents excerpts from our Consolidated Statement of Cash Flows:

	Dec. 3, 2005
Net cash used in operating activities	$ (160,523)
Net cash provided by (used in) investing activities	$ 432,838
Net cash (used in) provided by financing activities	$ (402,634)

Net cash flow used in operating activities of $160.5 million for the 40 weeks ended December 3, 2005 primarily reflected our net income of $431.7 million, adjusted for non-cash charges for (i.) depreciation and amortization of $164.0 million, (ii.) asset disposition initiatives of $100.4 million, (iii.) restructuring charges of $62.7 million, (iv.) non-current income taxes of $119.6 million, and (v.) other property impairments of $23.0 million, partially offset by the non-cash gain on sale of Canadian operations of $912.5 million, and a decrease in inventories of $33.4 million partially offset by an increase in receivables of $25.8 million, a decrease in accounts payable of $89.7 million and a decrease in other non-current liabilities of $59.7 million primarily due to the sale of our Canadian operations. Refer to Working Capital below for discussion of changes in working capital items. Net cash flow used in operating activities of $11.1 million for the 40 weeks ended December 4, 2004 primarily reflected our net loss of $182.4 million, adjusted for a non-cash charges of $205.7 million for depreciation and amortization and $34.7 million for the Midwest long lived assets / goodwill impairment, a decrease in accounts receivable of $39.5 million, an increase in accounts payable of $79.4 million partially offset by an increase in inventories of $98.3 million, an increase in prepaid assets and other current assets of $26.4 million, an increase in other assets of $20.7 million and a decrease in other accruals of $25.8 million.

Net cash flow provided by investing activities of $432.8 million for the 40 weeks ended December 3, 2005 primarily reflected proceeds from the sale of our Canadian operations of $960.7 million, proceeds received from the sale of certain of our assets of $62.5 million partially offset by property expenditures totaling $134.8 million, which included 1 new supermarket and 30 major remodels, disposal related expenditures for sale of the Canadian operations of $53.5 million, payments for derivatives of $15.4 million, the increase in restricted cash of $146.7 million, and the net purchases of marketable securities of $243.0 million. For the remainder of fiscal 2005, we have planned capital expenditures of approximately $30 to $60 million, which relate primarily to enlarging or remodeling approximately 25 to 35 supermarkets. We currently expect to close approximately 1 or 2 stores during the remainder of fiscal 2005. Net cash flow used in investing activities of $148.6 million for the 40 weeks ended December 4, 2004 primarily reflected property expenditures totaling $164.3 million, which included 11 new supermarkets and 16 major remodels partially offset by cash received from the sale of certain of our assets of $15.7 million.

Net cash flow used in financing activities of $402.6 million for the 40 weeks ended December 3, 2005 primarily reflected principal payments on long term borrowings and other fees of $413.9 million and principal payments on capital leases of $9.6 million partially offset by proceeds from the exercise of stock options of $23.4 million. Net cash flow provided by financing activities of $32.9 million for the 40 weeks ended December 4, 2004 primarily reflected an increase in book overdrafts of $19.7 million and net proceeds from long term real estate liabilities of $29.9 million partially offset by principal payments on capital leases of $10.0 million and principal payments on long-term borrowings and other fees of $5.9 million.

We reviewed our Company's strategy during the fourth quarter of fiscal 2004 and into early 2005 to establish and sustain a profitable business with long-range growth potential. That review concluded with the plan that future effort and investment should be focused on our core operations in the Northeastern United States, which accounted for about half of total sales, our strongest market positions, and we believe, the best potential for profitable growth going forward. Therefore, we initiated efforts to divest our businesses in both Canada and the Midwestern U.S. At the close of business on August 13, 2005, our Company completed the sale of our Canadian business to Metro, Inc., a supermarket and pharmacy operator in the Provinces of Quebec and Ontario, Canada, for $1.5 billion in cash, stock and certain debt to be assumed by Metro, Inc. We have closed 35 of the 101 stores in the Midwest at this time and as we have not identified a buyer for our remaining operations in the Midwestern United States, our current plan is to operate this business as part of our core business going forward.

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. We are in the process of planning for fiscal 2006 and beyond at this time and we believe that our present cash resources, including invested cash on hand as well as our marketable securities, available borrowings from our revolving credit agreement and other sources, are sufficient to meet our needs.

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 the taxing authorities do not affirm the adequacy of our

Company's Domestic Reinvestment Plan, we anticipate that we will be able to modify the operating plan in order to ensure that we have appropriate resources.

WORKING CAPITAL

We had working capital of $622.3 million at December 3, 2005 compared to working capital of $86.5 million at February 26, 2005. We had cash and cash equivalents aggregating $127.5 million at December 3, 2005 compared to $257.7 million at February 26, 2005. The increase in working capital was attributable primarily to the following:

- An increase in restricted cash that can only be used as collateral for our new Letter of Credit Agreement that we entered into during the third quarter of fiscal 2005;
- An increase in marketable securities as we invested our cash received from the sale of our Canadian operations;
- An increase in prepaid expenses and other current assets mainly due to the timing of payments, an increase in our deferred tax assets partially offset by the sale of our Canadian operations;

- A decrease in accounts payable (inclusive of book overdrafts) due to the sale of our Canadian operations and timing;
- A decrease in accrued salaries, wages and benefits due primarily to the sale of our Canadian operations and timing of payments; and
- A decrease in other accruals mainly due to the sale of our Canadian operations.

Partially offset by the following:

- A decrease in cash and cash equivalents as detailed in the Consolidated Statements of Cash Flows; and
- A decrease in inventories mainly due to the sale of our Canadian operations.

REVOLVING CREDIT AGREEMENT

During the second quarter of fiscal 2005 and due to the sale of our Canadian operations as discussed in Note 4 - Divestiture of Our Businesses in Canada and the Midwestern United States, our $400 million secured Revolving Credit Agreement ("Revolving Credit Agreement") was amended, eliminating the Canadian portion of the agreement by $65 million. As of the end of the second quarter of fiscal 2005, we had a $335 million Revolving Credit Agreement with a syndicate of lenders enabling us to borrow funds on a revolving basis for short-term borrowings and provide working capital as needed.

During the third quarter of fiscal 2005, the Revolving Credit Agreement was terminated. Concurrently, we entered into a new, cash collateralized, Letter of Credit Agreement that enables us to issue letters of credit up to $200 million. We also negotiated an additional $150 million Revolving Credit Agreement ("Revolver") with four lenders enabling us to borrow funds on a revolving basis for working capital loans and letters of credit. The Revolver also includes a $100 million accordion feature which gives us the ability to increase borrowings from $150 million to $250 million. Under the terms of this agreement, should availability fall below $25.0 million and should cash on hand fall below $50.0 million, a borrowing block will be implemented which provides that no additional loans be made unless we are able to maintain a minimum consolidated EBITDA covenant on a trailing twelve month basis. In the event that availability falls below $25.0 million, cash on hand falls below $50.0 million, and we do not maintain the required minimum EBITDA covenant, unless otherwise waived or amended, the lenders may, at their discretion, declare, in whole or in part, all outstanding obligations immediately due and payable.

The Revolver is collateralized by inventory, certain accounts receivable and pharmacy scripts. Borrowings under the Revolver bear interest based on LIBOR or Prime interest rate pricing. This agreement expires in November 2010. As of December 3, 2005, there were no loans outstanding under this agreement. As of December 3, 2005, after reducing availability for outstanding letters of credit and borrowing base requirements, we had $150.0 million available under the Revolver. Combined with cash we held in short-term investments and marketable securities of $266.6 million, we had total cash availability of $416.6 million at December 3, 2005.

Under the Revolver, we are permitted to pay cumulative cash dividends on common shares up to $150 million as well as make bond repurchases which we may do from time to time in the future.

PUBLIC DEBT OBLIGATIONS

Outstanding notes totaling $244.7 million at December 3, 2005 consisted of $31.9 million of 7.75% Notes due April 15, 2007, $12.8 million of 9.125% Senior Notes due December 15, 2011 and $200 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% and 7.75% Notes. The 7.75% Notes are not redeemable prior to their maturity. The 9.375% notes are now callable at par ($25 per bond) and the 9.125% Notes may be called at a premium to par after December 15, 2006. The 9.375% Notes are unsecured obligations and were issued under the terms of our senior debt securities indenture, which contains among other provisions, covenants restricting the incurrence of secured debt. The 9.375% Notes are effectively subordinate to the Credit Agreement and do not contain cross default provisions. All covenants and restrictions for the 7.75% Notes and the 9.125% Senior Notes have been eliminated in connection with the tender offer as discussed in Note 5 - Tender Offer and Repurchase of 7.75% Notes due 2007 and 9.125% Senior Notes due 2011. Our notes are not guaranteed by any of our subsidiaries.

During the first quarter of fiscal 2005, we repurchased in the open market $14.5 million of our 7.75% Notes due April 15, 2007. The cost of this open market repurchase resulted in a pretax loss due to the early extinguishment of debt of $0.5 million. In accordance with SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB 13, and Technical Corrections" ("SFAS 145"), this loss has been classified within loss from operations.

During the second quarter of fiscal 2005, we repurchased in the open market $166.7 million of our 7.75% Notes due April 15, 2007 and $203.7 million of our 9.125 Senior Notes due December 15, 2011 through a cash tender offer. The cost of this open market repurchase resulted in a pretax loss due to the early extinguishment of debt of $29.4 million. In accordance with SFAS No. 145, this loss has been classified within loss from operations.

During the third quarter of fiscal 2005, we repurchased in the open market $0.4 million of our 7.75% Notes due April 15, 2007. The cost of this open market repurchase resulted in a pretax loss due to the early extinguishment of debt of

$0.1 million. In accordance with SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB 13, and Technical Corrections" ("SFAS 145"), this loss has been classified within loss from operations.

OTHER

We currently have Registration Statements dated January 23, 1998 and June 23, 1999, allowing us to offer up to $75 million of debt and/or equity securities at terms contingent upon market conditions at the time of sale.

Our Company's policy is to not pay dividends. As such, we have not made dividend payments in the previous three years and do not intend to pay dividends in the normal course of business in fiscal 2005. However, our Company is permitted, under the terms of our Revolver, to pay cash dividends on common shares.

We are the guarantor of a loan of $1.8 million related to a shopping center, which will expire in 2011.

In the normal course of business, we have assigned to third parties various leases related to former operating stores (the "Assigned Leases"). 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 the Assigned Leases, we could be required to assume the lease obligation. As of December 3, 2005, 146 Assigned Leases remain in place. Assuming that each respective assignee became unable to continue 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 $357.8 million, which could be partially or totally offset by reassigning or subletting such leases.

Our existing senior debt rating was Caa1 with developing outlook with Moody's Investors Service ("Moody's") and B- with developing outlook with Standard & Poor's Ratings Group ("S&P") as of December 3, 2005. Our liquidity rating was SGL3 with Moody's as of December 3, 2005. Our recovery rating was 1 with S&P as of December 3, 2005 indicating a high expectation of 100% recovery of our senior debt to our lenders. Future rating changes could affect the availability and cost of financing to our Company.

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.

Self-Insurance Reserves

Our Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. We estimate the required liability of such claims on a discounted basis, utilizing an actuarial method, which is based upon various assumptions, which include, but are not limited to, our historical loss experience, projected loss development factors, actual payroll and other data. The required liability is also subject to adjustment in the future based upon the changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity).

Long-Lived Assets

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

We also review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on long-lived assets as follows:

	12 weeks ended Dec. 3, 2005			40
	U.S.	Canada	Total	
Impairments due to closure or conversion in the normal course of business	$ 3,760	$ -	$ 3,760	$
Impairments due to unrecoverable assets	8,116	-	8,116	
Impairments due to closure of stores impacted by Hurricane Katrina (1)	6,090	-	6,090	
Impairments related to the divestiture of the Midwestern U.S. business (2)	12	-	12	
Impairments related to the sale of U.S. distribution operations and warehouses (3)	-	-	-	
Total impairments	$ 17,978	$ -	$ 17,978	$

(1) Refer to Note 7 - Hurricane Katrina and Impact on U.S. Business
(2) Refer to Note 11 - Asset Disposition Initiatives
(3) Refer to Note 6 - Sale of Our U.S. Distribution Operations and Warehouses

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels and trends continue, there may be future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

Closed Store Reserves

For closed stores that are under long-term leases, we record a discounted liability using a risk free rate for the future minimum lease payments and related costs, such as utilities and taxes, from the date of closure to the end of the remaining lease term, net of estimated probable recoveries from projected sublease rentals. If estimated cost recoveries exceed our liability for future minimum lease payments, the excess is recognized as income over the term of the sublease. We estimate future net cash flows based on our experience in and our knowledge of the market in which the closed store is located. However, these estimates project net cash flow several years into the future and are affected by variable factors such as inflation, real estate markets and economic conditions. While these factors have been relatively stable in recent years, variation in these factors could cause changes to our estimates. As of December 3, 2005, we had recorded liabilities for estimated probable obligations of $186 million. Of this amount, $23 million relates to stores closed in the normal course of business, $152 million relates to stores closed as part of the asset disposition initiatives (see Note 11 of our Consolidated Financial Statements) and $11 million relates to stores closed as part of our exit of the northern New England and Kohl's businesses (see Note 10 of our Consolidated Financial Statements).

Employee Benefit Plans

The determination of our obligation and expense for pension and other postretirement benefits is dependent, in part, on our selection of certain assumptions used by our actuaries in calculating these amounts. These assumptions include, among other things, the discount rate, the expected long-term rate of return on plan assets and the rates of increase in compensation and health care costs. In accordance with U.S. GAAP, actual results that differ from our Company's assumptions are accumulated and amortized over future periods and, therefore, affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and our future expense.

Inventories

We evaluate inventory shrinkage throughout the year based on actual physical counts and record reserves based on the results of these counts to provide for estimated shrinkage between the store's last inventory and the balance sheet date.

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 such risk in the areas of interest rates and foreign currency exchange rates.

From time to time, we may enter hedging agreements in order to manage risks incurred in the normal course of business including forward exchange contracts to manage our exposure to fluctuations in foreign exchange rates.

INTEREST RATES

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. We do not have cash flow exposure due to rate changes on our $247.0 million in total indebtedness as of December 3, 2005 because they are at fixed interest rates. However, we do have cash flow exposure on our committed bank lines of credit due to our variable floating rate pricing. Accordingly, during the 12 and 40 weeks ended December 3, 2005 and December 4, 2004, a presumed 1% change in the variable floating rate would not have impacted interest expense as there were no borrowings on our committed bank lines of credit.

FOREIGN EXCHANGE RISK

We are exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. A change in the Canadian currency of 10% would have resulted in a fluctuation in our investment in Metro, Inc. of $33.2 million at December 3, 2005. We do not believe that a change in the Canadian currency of 10% will have a material effect on our statements of operations or cash flows.

During the first quarter of fiscal 2005, we entered into a six month currency exchange forward contract totaling $900 million Canadian dollar notional value to hedge our net investment in our Canadian foreign operation against adverse movements in exchange rates. In the second quarter of fiscal 2005 and upon completion of the sale of our Canadian operations as discussed in Note 16 - Hedge of Net Investment in Foreign Operations, this forward contract was terminated prior to its expiration.

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 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, as of December 3, 2005, 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 December 3, 2005.

In the fourth quarter of fiscal 2005, our Company will complete the sale of our U.S. distribution operations and the majority of our warehouse facilities and related assets to C&S Wholesale Grocers, Inc. In connection with the sale of these operations, our Company will no longer maintains internal controls over financial reporting relating to these warehouse physical inventories and the related reconciliations. We have evaluated and identified our key controls associated with the revised process and we are in the process of implementing and testing those key controls.

There have been no other changes during our Company's fiscal quarter ended December 3, 2005 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.

CAUTIONARY NOTE

This presentation 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: competitive practices and pricing in the food industry generally and particularly in our principal 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 financial markets which may affect our cost of capital or the ability to access capital; supply or quality control problems with our vendors; and changes in economic conditions, which may affect the buying patterns of our customers.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None

ITEM 2 - CHANGES IN SECURITIES

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On January 4, 2006, the Company entered into an Employment Agreement with Ms. Melissa E. Sungela, Vice President, Corporate Controller of the Company (the "Sungela Employment Agreement"). Under the Sungela Employment Agreement, Ms. Sungela will earn an annual salary of $200,000 and be eligible for a cash bonus as determined by the Board of Directors or an authorized committee thereof. In addition, Ms. Sungela is entitled to participate in the Company's benefit programs and services, facilities and perquisites appropriate to her position. In the event that the Company terminates Ms. Sungela other than for Cause (as defined therein), Ms. Sungela will be entitled to certain benefits, including severance for a period of twelve (12) months.

The foregoing description of the Sungela Employment Agreement is qualified in its entirety by reference to the full text of the Sungela Employment Agreement, filed as Exhibit 10.17 to this Form 10-Q, and incorporated herein by reference.

ITEM 6 - EXHIBITS

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

EXHIBIT NO.	DESCRIPTION
2.1	Stock Purchase Agreement, dated as of July 19, 2005, by and among the Company, A&P Luxembourg S.a.r.l., Metro Inc. and 4296711 Canada Inc. (incorporated herein by reference to Exhibit 2.1 to Form 8-K filed on July 22, 2005)
3.1	Articles of Incorporation of The Great Atlantic & Pacific Tea Company, Inc., as amended through July 1987 (incorporated herein by reference to Exhibit 3(a) to Form 10-K filed on May 27, 1988)
3.2	By-Laws of The Great Atlantic & Pacific Tea Company, Inc., as amended and restated through October 6, 2005 (incorporated herein by reference to Exhibit 3.1 to Form 8-K filed on October 11, 2005)
4.1	Indenture, dated as of January 1, 1991 between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank as successor by merger to Manufacturers Hanover Trust Company), as trustee (the "Indenture") (incorporated herein by reference to Exhibit 4.1 to Form 8-K)
4.2	First Supplemental Indenture, dated as of December 4, 2001, to the Indenture, dated as of January 1, 1991 between our Company and JPMorgan

	Chase Bank, relating to the 7.70% Senior Notes due 2004 (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on December 4, 2001)
4.3	Second Supplemental Indenture, dated as of December 20, 2001, to the Indenture between our Company and JPMorgan Chase Bank, relating to the 9 1/8% Senior Notes due 2011 (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2001)
4.4	Successor Bond Trustee (incorporated herein by reference to Exhibit 4.4 to Form 10-K filed on May 9, 2003)
4.5	Third Supplemental Indenture, dated as of August 23, 2005, to the Indenture between the Company and Wilmington Trust Company (as successor to JPMorgan Chase Bank) (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on August 23, 2005)
4.6	Fourth Supplemental Indenture, dated as of August 23, 2005, to the Indenture between the Company and Wilmington Trust Company (as successor to JPMorgan Chase Bank). (incorporated herein by reference to Exhibit 4.2 to Form 8-K filed on August 23, 2005)

4.7	Credit Agreement dated as of November 15, 2005 between the Company and Bank of America, N.A. as Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A. as Syndication Agent, Wachovia Bank, National Association as Documentation Agent and Banc of America Securities LLC as Lead Arranger (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on November 18, 2005)
10.1	Executive Employment Agreement, made and entered into as of the 15th day of August, 2005, by and between the Company and Mr. Eric Claus (incorporated herein by reference to Exhibit 10.1 to Form 8-K filed on September 9, 2005)
10.2	Employment Agreement, made and entered into as of the 1st day of November, 2000, by and between the Company and William P. Costantini (incorporated herein by reference to Exhibit 10 to Form 10-Q filed on January 16, 2001) ("Costantini Agreement")
10.3	Amendment to Costantini Agreement dated April 30, 2002 (incorporated herein by reference to Exhibit 10.7 to Form 10-K filed on July 5, 2002)
10.4	Confidential Separation and Release Agreement by and between William P. Costantini and The Great Atlantic & Pacific Tea Company, Inc. dated November 4, 2004

	(incorporated herein by reference to Exhibit 10.4 to Form 10-Q filed on January 7, 2005)
10.5	Employment Agreement, made and entered into as of the 16th day of June, 2003, by and between our Company and Brenda Galgano (incorporated herein by reference to Exhibit 10.9 to Form 10-Q filed on October 17, 2003)
10.6	Employment Agreement, made and entered into as of the 24th day of February, 2002, by and between our Company and Mitchell P. Goldstein (incorporated herein by reference to Exhibit 10.8 to Form 10-K filed on July 5, 2002)
10.7	Letter Agreement dated September 6, 2005, between Mitchell P. Goldstein and our Company (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on September 9, 2005)
10.8	Employment Agreement, made and entered into as of the 2nd day of October, 2002, by and between our Company and Peter Jueptner (incorporated herein by reference to Exhibit 10.26 to Form 10-Q filed on October 22, 2002) ("Jueptner Agreement")
10.9	Amendment to Jueptner Agreement dated November 10, 2004 (incorporated herein by reference to Exhibit 10.8 to Form 10-K filed on May 10, 2005)
10.10	Offer Letter dated the 18th day of September 2002, by and between our Company and Peter Jueptner (incorporated herein by reference to Exhibit 10.10 to Form 10-Q filed on January 10, 2003)

10.11	Employment Agreement, made and entered into as of the 14th day of May, 2001, by and between our Company and John E. Metzger, as amended February 14, 2002 (incorporated herein by reference to Exhibit 10.13 to Form 10-K filed on July 5, 2002) ("Metzger Agreement")
10.12	Amendment to John E. Metzger Agreement dated September 13, 2004 (incorporated herein by reference to Exhibit 10.11 to Form 10-K filed on May 10, 2005)
10.13	Amendment to John E. Metzger Agreement dated October 25, 2004 (incorporated herein by reference to Exhibit 10.12 to Form 10-K filed on May 10, 2005)
10.14	Employment Agreement, made and entered into as of the 1st day of March 2005, by and between our Company and William J. Moss (incorporated herein by reference to Exhibit 10.13 to Form 10-K filed on May 10, 2005)
10.15	Employment Agreement, made and entered into as of the 28th day of October, 2002, by and between our

	Company and Brian Piwek, and Offer Letter dated the 23rd day of October, 2002 (incorporated herein by reference to Exhibit 10.14 to Form 10-Q filed on January 10, 2003) ("Piwek Agreement")
10.16	Amendment to Brian Piwek Agreement dated February 4, 2005 (incorporated herein by reference to Exhibit 10.15 to Form 10-K filed on May 10, 2005)
10.17*	Employment Agreement, made and entered into as of the 4th of January 2006, by and between our Company and Melissa E. Sungela, as filed herein
10.18	Employment Agreement, made and entered into as of the 12th of September 2005, by and between our Company and Paul Wiseman (incorporated herein by reference to Exhibit 10.17 to Form 10-Q filed on October 18, 2005)
10.19	Employment Agreement, made and entered into as of the 2nd of December 2004, by and between our Company and Allan Richards (incorporated herein by reference to Exhibit 10.18 to Form 10-Q filed on October 18, 2005)
10.20	Employment Agreement, made and entered into as of the 2nd of December 2004, by and between our Company and Stephen Slade (incorporated herein by reference to Exhibit 10.19 to Form 10-Q filed on October 18, 2005)
10.21	Supplemental Executive Retirement Plan effective as of September 1, 1997 (incorporated herein by reference to Exhibit 10.B to Form 10-K filed on May 27, 1998)
10.22	Supplemental Retirement and Benefit Restoration Plan effective as of January 1, 2001 (incorporated herein by reference to Exhibit 10(j) to Form 10-K filed on May 23, 2001)

10.23	1994 Stock Option Plan (incorporated herein by reference to Exhibit 10(e) to Form 10-K filed on May 24, 1995)
10.24	1998 Long Term Incentive and Share Award Plan (incorporated herein by reference to Exhibit 10(k) to Form 10-K filed on May 19, 1999)
10.25	Form of Stock Option Grant (incorporated herein by reference to Exhibit 10.20 to Form 10-K filed on May 10, 2005)
10.26	Description of 2005 Turnaround Incentive Compensation Program (incorporated herein by reference to Exhibit 10.21 to Form 10-K filed on May 10, 2005)
10.27	Form of Restricted Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.22 to Form 10-K filed on May 10, 2005)

10.28	1994 Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10(f) to Form 10-K filed on May 24, 1995)
10.29	2004 Non-Employee Director Compensation effective as of July 14, 2004 (incorporated herein by reference to Exhibit 10.15 to Form 10-Q filed on July 29, 2004)
10.30	Description of Management Incentive Plan (incorporated herein by reference to Exhibit 10.26 to Form 10-K filed on May 10, 2005)
10.31	Asset Purchase Agreement, dated as of June 27, 2005, by and between the Company, Ocean Logistics LLC and C&S Wholesale Grocers, Inc. (incorporated herein by reference to Exhibit 10.38 to Form 10-Q filed on October 18, 2005)
10.32	Supply Agreement, dated as of June 27, 2005, by and between the Company and C&S Wholesale Grocers, Inc. (incorporated herein by reference to Exhibit 10.39 to Form 10-Q filed on October 18, 2005)
10.33	Information Technology Transition Services Agreement by and between The Great Atlantic and Pacific Tea Company, Limited ("A&P Canada") and Metro, Inc. entered into on August 15, 2005 (incorporated herein by reference to Exhibit 10.40 to Form 10-Q filed on October 18, 2005)
10.34	Investor Agreement by and between A&P Luxembourg S.a.r.l., a wholly owned subsidiary of the Company, and Metro, Inc. entered into on August 15, 2005 (incorporated herein by reference to Exhibit 10.41 to Form 10-Q filed on October 18, 2005)
10.35	Letter of Credit Agreement, dated as of October 14, 2005 between the Company and Bank of America, N.A., as Issuing Bank, (incorporated herein by reference to Exhibit 10.42 to Form 10-Q filed on October 18, 2005)

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14	Code of Business Conduct and Ethics (incorporated herein by reference to Exhibit 14 to Form 10-K filed on May 21, 2004)
18	Preferability Letter Issued by PricewaterhouseCoopers LLP (incorporated herein by reference to Exhibit 18 to Form 10-Q filed on July 29, 2004)
23	Consent of Independent Registered Public Accounting Firm (incorporated herein by reference to Exhibit 23 to Form 10-K filed on May 10, 2005)
31.1*	Certification of the Chief Executive Officer Pursuant Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer Pursuant

	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.

Dated: January 6, 2006 By: /s/ Melissa E. Sungela

Melissa E. Sungela, Vice President,
Corporate Controller (Chief Accounting Officer)