

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

GREAT ATLANTIC & PACIFIC TEA CO INC  
Form 10-Q  
January 09, 2007

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

FORM 10-Q

MARK ONE

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

FOR QUARTER ENDED DECEMBER 2, 2006

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-4141

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

MARYLAND

13-1890974

-----  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

AS OF JANUARY 5, 2007 THE REGISTRANT HAD A TOTAL OF 41,509,506 SHARES OF COMMON  
STOCK - \$1 PAR VALUE OUTSTANDING.

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

## 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. 2,
	Dec. 2, 2006	Dec. 3, 2005	
Sales	\$ 1,543,004	\$ 1,580,942	\$ 5,2
Cost of merchandise sold	(1,078,439)	(1,116,399)	(3,6
Gross margin	464,565	464,543	1,5
Store operating, general and administrative expense	(463,413)	(546,100)	(1,5
Income (loss) from operations	1,152	(81,557)	
(Loss) gain on sale of Canadian operations	(599)	(6,083)	
Interest expense	(17,171)	(15,398)	(
Interest income	1,845	4,803	
Minority interest in earnings of consolidated franchisees	-	-	
Equity in earnings of Metro, Inc.	11,023	3,397	
(Loss) income from continuing operations before income taxes	(3,750)	(94,838)	(
Benefit from (provision for) income taxes	43,702	21,279	
Income (loss) from continuing operations	39,952	(73,559)	
Discontinued operations:			
Income from operations of discontinued businesses, net of tax provision of \$547 and \$1,428 for the 12 weeks ended 12/2/06 and 12/3/05, respectively, and \$259 and \$1,232 for the 40 weeks ended 12/2/06 and 12/3/05, respectively	755	1,972	
Gain on disposal of discontinued operations, net of tax provision of \$0 and \$417 for the 12 weeks ended 12/2/06 and 12/3/05, respectively, and \$0 and \$417 for the 40 weeks ended 12/2/06 and 12/3/05, respectively	-	577	
Income from discontinued operations	755	2,549	
Net income (loss)	\$ 40,707	\$ (71,010)	\$
Net income (loss) per share - basic:			
Continuing operations	\$ 0.96	\$ (1.80)	\$
Discontinued operations	0.02	0.06	
Net income (loss) per share - basic	\$ 0.98	\$ (1.74)	

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

Net income (loss) per share - diluted:			
Continuing operations	\$	0.95	\$ (1.80)
Discontinued operations		0.02	0.06
		-----	-----
Net income (loss) per share - diluted	\$	0.97	\$ (1.74)
		=====	=====
Weighted average number of common shares outstanding		41,499,554	40,997,714
Common stock equivalents		520,892	622,161
		-----	-----
Weighted average number of common and common equivalent shares outstanding		42,020,446	41,619,875
		=====	=====

See Notes to Quarterly Report

2

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	Retained
	Shares	Amount	Paid-in	Earnings
	-----	-----	Capital	(Accumulated
	-----	-----	-----	Deficit)
	-----	-----	-----	-----
40 WEEK PERIOD ENDED DECEMBER 2, 2006				
Balance at beginning of period	41,148,987	\$ 41,149	\$ 497,193	\$ 126,432
Net income				34,087
Other comprehensive income				
Cash dividends on common stock - \$7.25 per share			(299,089)	
Stock options exercised	333,161	333	4,700	
Other share based awards	26,104	26	6,626	
	-----	-----	-----	-----
Balance at end of period	41,508,252	\$ 41,508	\$ 209,430	\$ 160,519
	=====	=====	=====	=====
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
	=====	=====	=====	=====

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

COMPREHENSIVE INCOME (LOSS)

	12 Weeks Ended		
	Dec. 2, 2006	Dec. 3, 2005	Dec. 2,
Net income (loss)	\$ 40,707	\$ (71,010)	\$
Foreign currency translation adjustment	(9,398)	2,591	
Net unrealized loss on derivatives, net of tax	-	-	
Net unrealized gain (loss) on marketable securities, net of tax	277	(891)	
Other comprehensive (loss) income	(9,121)	1,700	
Total comprehensive income (loss)	\$ 31,586	\$ (69,310)	\$

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BALANCES

	Foreign Currency Translation	Net Unrealized (Loss) Gain on Marketable Securities	Net Unrealized Gain (Loss) on Derivatives
Balance at February 25, 2006	\$ 12,874	\$ (1,015)	\$ -
Current period change	2,904	662	-
Balance at December 2, 2006	\$ 15,778	\$ (353)	\$ -
Balance at February 26, 2005	\$ 3,035	\$ -	\$ 57
Current period change	5,511	(806)	(57)
Balance at December 3, 2005	\$ 8,546	\$ (806)	\$ -

See Notes to Quarterly Report

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

ASSETS	(Unaudited)
Current assets:	
Cash and cash equivalents	\$ 92,748
Restricted cash	3,585
Restricted marketable securities	84,302
Marketable securities	-
Accounts receivable, net of allowance for doubtful accounts of \$3,710 and \$7,042 at December 2, 2006 and February 25, 2006, respectively	130,073
Inventories	442,507
Prepaid expenses and other current assets	92,486
Total current assets	845,701
Non-current assets:	
Property:	
Property owned	927,950
Property leased under capital leases	21,101
Property - net	949,051
Equity investment in Metro, Inc.	367,495
Other assets	54,857
Total assets	\$ 2,217,104
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	\$ 32,180
Current portion of obligations under capital leases	1,560
Accounts payable	199,553
Book overdrafts	55,120
Accrued salaries, wages and benefits	99,981
Accrued taxes	30,879
Other accruals	149,196
Total current liabilities	568,469
Non-current liabilities:	
Long-term debt	342,729
Long-term obligations under capital leases	30,263
Long-term real estate liabilities	300,818
Other non-current liabilities	552,849
Total liabilities	1,795,128
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 - 41,508,252 and 41,148,987 shares at December 2, 2006 and February 25, 2006, respectively	41,508
Additional paid-in capital	209,430
Accumulated other comprehensive income	10,519
Retained earnings	160,519
Total stockholders' equity	421,976
Total liabilities and stockholders' equity	\$ 2,217,104

=====

See Notes to Quarterly Report

4

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

	Dec. 2, 200
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 34,087
Adjustments to reconcile net income to net cash used in operating activities:	
Asset disposition initiatives	3,719
Depreciation and amortization	135,775
Income tax (benefit) provision	(61,545)
Gain on disposal of owned property and write-down of property, net	(23,238)
Other property impairments	3,410
Impairment loss relating to Hurricane Katrina	-
Gain on sale of discontinued operations	-
Loss (gain) on sale of Canadian operations	890
Loss on derivatives	-
Loss on early extinguishment of debt	-
Non-cash impact of early extinguishment of debt	-
Other share based awards	6,652
Equity in earnings of Metro, Inc.	(30,840)
Proceeds from dividends from Metro, Inc.	5,067
Other changes in assets and liabilities:	
Decrease (increase) in receivables	49,780
(Increase) decrease in inventories	(32,401)
Increase in prepaid expenses and other current assets	(16,486)
Increase in other assets	(2,897)
Decrease in accounts payable	(10,221)
Decrease in accrued salaries, wages, benefits and taxes	(30,508)
(Decrease) increase in other accruals	(57,063)
Increase in minority interest	-
Decrease in other non-current liabilities	(20,381)
Other operating activities, net	3,336
<b>Net cash used in operating activities</b>	<b>(42,864)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Expenditures for property	(184,017)
Proceeds from disposal of property	37,489
Purchase of business	(24,652)
Proceeds from sale of Canadian operations, net of cash disposed	-

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

Disposal related expenditures for sale of Canadian operations	(890)
Decrease (increase) in restricted cash	142,724
Payments for derivatives	-
Purchases of marketable securities	(148,700)
Proceeds from maturities of marketable securities	230,904
	-----
Net cash provided by investing activities	52,858
	-----
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from long-term borrowings	1,262,900
Principal payments on long-term borrowings	(1,134,466)
Long-term real estate liabilities	3,365
Principal payments on capital leases	(4,098)
Proceeds from capital leases	-
Increase (decrease) in book overdrafts	19,673
Deferred financing fees	(233)
Dividends paid	(299,089)
Proceeds from exercises of stock options	5,033
	-----
Net cash used in financing activities	(146,915)
Effect of exchange rate changes on cash and cash equivalents	80
	-----
Net decrease in cash and cash equivalents	(136,841)
Cash and cash equivalents at beginning of period	229,589
	-----
Cash and cash equivalents at end of period	\$ 92,748
	=====
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	\$ 20,504
Income taxes	\$ 4,952

See Notes to Quarterly Report

5

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 Statements of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005, Statements of Consolidated Stockholders' Equity and Comprehensive Income and Statements of Consolidated Cash Flows for the 40 weeks ended December 2, 2006 and December 3, 2005, and the Consolidated Balance Sheets at December 2, 2006 and February 25, 2006 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 2005 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company and all subsidiaries. Significant intercompany accounts and transactions have been

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

eliminated. Our Company uses the equity method of accounting for our investment in Metro, Inc. as we 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 through an information technology services agreement with Metro, Inc.

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

### 2. IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In October 2005, the Financial Accounting Standards Board ("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 was effective for our Company as of the first quarter of fiscal 2006. We evaluated the provisions of FSP FAS 13-1 and have adopted the guidance. This adoption did not have a material impact on our Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 (our year ended February 28, 2009). Our Company is currently evaluating the impact, if any, of the provisions of SFAS 157.

6

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158") and is effective for our fiscal year ended February 24, 2007. SFAS 158 was issued to improve the overall financial statement presentation of pension and other postretirement plans and does not impact the determination of net periodic benefit cost or the measurement of plan assets or obligations. This standard requires companies to recognize the funded status of their defined benefit pension and other postretirement benefit plans as a net liability or asset on their balance sheets and requires any unrecognized prior service costs and actuarial gains or losses to be recognized as a component of accumulated other comprehensive income or loss. Additionally, SFAS 158 no longer allows companies to measure their plans as of any date other than the end of their fiscal year; however, this provision is not effective for companies until fiscal years ending after December 15, 2008 (our year ended



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

February 28, 2009). We currently measure our plan assets and obligations using a December 31 measurement date. Had this new standard been in effect for our fiscal year ended February 25, 2006, we estimate that our stockholders' equity would have been increased by approximately \$17 million. The impact of adoption could differ materially from this estimate as it will reflect asset performance through the end of the calendar year as well as interest rates and other factors that will be applicable as of December 31, 2006.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). This bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessment. SAB 108 is effective for our fiscal year ending February 24, 2007. The cumulative effect, if any, of applying the provisions of SAB 108 will be reported as an adjustment to beginning-of-year retained earnings. We are currently evaluating the impact of SAB 108.

### 3. SPECIAL ONE-TIME DIVIDEND

On April 25, 2006, our Company paid a special one-time dividend to our shareholders of record on April 17, 2006 equal to \$7.25 per share. This dividend payout totaling \$299.1 million was considered a return of capital to our shareholders and accordingly was recorded as a reduction of "Additional paid in capital" in our Consolidated Balance Sheets at December 2, 2006. The transaction was funded primarily by cash available on the balance sheet resulting from the strategic restructuring of the Company during fiscal 2005.

Although we paid this one-time special dividend, our Company's practice 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 2006. However, our Company is permitted, under the terms of our Revolver, to pay cash dividends on common shares.

In connection with the payment of the special one-time dividend discussed above, our Company also adjusted the number and/or price of all unexercised stock options and nonvested performance restricted stock units as of April 12, 2006, to ensure that an individual's right to purchase stock at an aggregate value remained the same both before and after the special one-time dividend payment. These adjustments did not have an impact on stock compensation expense for the 40 weeks ended December 2, 2006. Refer to Note 10 - Stock Based Compensation for adjustments made to stock options outstanding and nonvested performance restricted stock units as a result of the dividend.

### 4. EQUITY INVESTMENT IN METRO, INC.

We use the equity method of accounting to account for our investment in Metro, Inc. on the basis that we have significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and through an information technology services agreement with Metro, Inc. The value of our equity investment in Metro, Inc. based upon Metro, Inc.'s quoted market price was \$572.4 million at December 2, 2006.

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

The following table summarizes the status and results of our Company's equity investment in Metro, Inc. from February 25, 2006 through December 2, 2006:

Equity investment at February 25, 2006	\$	338,756
Dividends and distributions received		(5,067)
Equity earnings in Metro, Inc.		30,840
Foreign currency translation		2,966
		-----
Equity investment at December 2, 2006	\$	367,495
		=====

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 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 ending December 2, 2006, we recorded \$11.0 million and \$30.8 million, respectively, in equity earnings relating to our equity investment in Metro, Inc. During the 12 and 40 weeks ended December 3, 2005, we recorded \$3.4 million in equity earnings related to our equity investment in Metro, Inc. These amounts were included in "Equity in earnings of Metro, Inc." on our Statements of Consolidated Operations.

The difference between the carrying value of our investment of \$367.5 million and the amount of our underlying equity in Metro, Inc.'s net assets of \$238.0 million was \$129.5 million.

Metro, Inc.'s summarized financial information, derived from its unaudited fourth quarter ended September 30, 2006 and audited years ended September 30, 2006 and September 24, 2005 financial statements, is as follows (in millions):

	Sept. 30, 2006	Sept. 24, 2005
	-----	-----
Balance sheet:		
Current assets	\$ 929.7	\$ 833.9
Noncurrent assets	2,717.9	2,574.2
	-----	-----
Total assets	\$ 3,647.6	\$ 3,408.1
	=====	=====
Current liabilities	\$ 958.3	\$ 914.7
Noncurrent liabilities *	1,179.3	1,180.2
	-----	-----
Total liabilities	\$ 2,137.6	\$ 2,094.9
	=====	=====

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

Income statement:

Net sales	\$ 2,370.1	\$ 9,705.1	\$
	=====	=====	=====
Cost of sales and operating expenses	\$ 2,216.4	\$ 9,138.9	\$
	=====	=====	=====
Net income	\$ 69.9	\$ 224.4	\$
	=====	=====	=====

\* Includes minority interests of \$8.6 million and \$5.5 million for the years ended September 23, 2006 and September 24, 2005, respectively.

### 5. CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND MARKETABLE SECURITIES

At December 2, 2006, we had \$3.6 million in restricted cash representing monies held in escrow for services which our Company is required to perform in connection with the sale of our real estate properties.

During the third quarter of fiscal 2006, our Company transferred 6,000,000 of our Class A subordinate shares of Metro, Inc. from our foreign subsidiary to the United States. These transferred shares are being used as collateral for our new Letter of Credit Agreement that we entered into during fiscal 2005 and have allowed us to reduce the amount of restricted cash and/or marketable securities we were required to maintain as collateral previously.

At February 25, 2006, we had \$146.3 million, in restricted cash, which was held in a money market fund, and could only be used as collateral for our new Letter of Credit Agreement that we entered into during fiscal 2005. In addition, our restricted marketable securities of \$84.3 million at December 2, 2006, held by Bank of America, could only be used as collateral for our new Letter of Credit Agreement that we entered into during fiscal 2005.

The following is a summary of cash, cash equivalents, restricted cash, and marketable securities at December 2, 2006 and February 25, 2006:

	At December 2, 2006		
	Amortized Costs	Gross Unrealized Gains	Unrealized Losses
CLASSIFIED AS:			
Cash	\$ 88,757	\$ -	\$ -
Cash equivalents:			
Money market funds	3,991	-	-
Total cash and cash equivalents	92,748	-	-
Restricted cash	3,585	-	-
Restricted marketable securities:			
Corporate bonds	39,193	-	-
Securities of the U.S. government and its agencies	45,461	-	-
Total restricted marketable securities	84,654	-	-
Total cash, cash equivalents, restricted cash and			

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

marketable securities	\$ 180,987	\$ -	\$
	=====	=====	=====
SECURITIES AVAILABLE-FOR-SALE:			
Maturing within one year	\$ 58,333		
	=====		
Maturing greater than one year	\$ 30,312		
	=====		

9

	At February 25, 2006		
	Amortized Costs	Gross Unrealized Gains	Unrealized Losses
	-----	-----	-----
CLASSIFIED AS:			
Cash	\$ 78,414	\$ -	\$
Cash equivalents:			
Money market funds	151,175	-	
Total cash and cash equivalents	229,589	-	
Restricted cash	146,309	-	
Marketable securities:			
Corporate bonds	51,456	-	
Securities of the U.S. government and its agencies	45,943	-	
Auction rate securities	71,021	-	
Total marketable securities	168,420	-	
Total cash, cash equivalents, restricted cash and marketable securities	\$ 544,318	\$ -	\$
	=====	=====	=====
SECURITIES AVAILABLE-FOR-SALE:			
Maturing within one year	\$ 233,921		
	=====		
Maturing greater than one year	\$ 85,674		
	=====		

The following table provides the breakdown of the investments with unrealized losses at December 2, 2006 and February 25, 2006:

	December 2, 2006			
	Less than 12 Months		12 Months or Longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	-----	-----	-----	-----
Corporate bonds	\$ 39,114	\$ (79)	\$ -	\$ -

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

Securities of the U.S. government and its agencies	15,065	(84)	30,123	(189)	
Total	\$ 54,179	\$ (163)	\$ 30,123	\$ (189)	\$

	February 25, 2006				
	Less than 12 Months		12 Months or Longer		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Corporate bonds	\$ 11,683	\$ (41)	\$ 39,316	\$ (416)	\$
Securities of the U.S. government and its agencies	-	-	45,385	(558)	
Total	\$ 11,683	\$ (41)	\$ 84,701	\$ (974)	\$

Corporate bonds: Our unrealized losses on our 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 believe it is probable that we will be able 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 2, 2006 and February 25, 2006, respectively.

10

Securities of the U.S. government and its agencies: Our 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 2, 2006 and February 25, 2006, respectively.

Gross realized losses on sales of investments were nil and \$0.05 million for the 12 and 40 weeks ended December 2, 2006, respectively. There were no gross realized gains or losses on sales of investments for the 12 and 40 weeks ended December 3, 2005.

6. VALUATION OF LONG-LIVED ASSETS

In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we review the carrying values of our long-lived

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

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 2, 2006, we recorded impairment losses on long-lived assets of \$1.0 million and \$4.6 million, respectively. During the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on long-lived assets of \$18.0 million and \$44.6 million, respectively.

### 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 2, 2006, we recorded impairment losses on property, plant and equipment of \$1.0 million and \$3.5 million, respectively, related to stores that were or will be closed or converted in the normal course of business as compared to \$3.8 million and \$5.3 million, respectively, in impairment losses on property, plant and equipment related to stores that were or will be closed or converted in the normal course of business 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.

11

### 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 group's 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 \$17.7 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.

### 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 14 - 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 2, 2006.

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

### Impairments related to our Asset Disposition Initiatives

During the 12 and 40 weeks ended December 2, 2006, we recorded impairment losses on property of nil and \$1.1 million, respectively, related to property write-downs as a result of our asset disposition initiatives as discussed in Note 8 - 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 2, 2006.

During the 12 and 40 weeks ended December 3, 2005, we recorded impairment losses on property of nil and \$15.5 million, respectively, related to property write-downs as a result of our asset disposition initiatives as discussed in Note 8 - Asset Disposition Initiatives. These amounts were included in "Store operating, general and administrative expense" in our Statements of Consolidated Operations for 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.

### 7. 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.

During fiscal 2003, we adopted a formal plan to exit the New England and Milwaukee, Wisconsin markets, as well as our Eight O'Clock Coffee business, through the sale and/or disposal of these assets. Summarized below are the operating results for these discontinued businesses, which are included in our Statements of Consolidated Operations, under the caption "Income from operations of discontinued businesses, net of tax" for the 12 and 40 weeks ending December 2, 2006 and December 3, 2005. These asset sales are now complete.

12

	12 Weeks ended December 2, 2006			
	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	\$ -	\$ -	\$ -	\$ -
Operating expenses	25	1,318	(41)	1,292
Income (loss) from operations of discontinued businesses, before tax	25	1,318	(41)	1,292
Tax (provision) benefit	(10)	(554)	17	(547)
Income (loss) from operations of discontinued businesses, net of tax	\$ 15	\$ 764	\$ (24)	\$ 755

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

Disposal related costs  
included in operating  
expenses above:

Non-accruable closing costs	\$	25	\$	42	\$	(41)	\$	
Vacancy		-		970		-		
Proceeds from lease termination		-		394		-		
Interest accretion on present value of future occupancy costs		-		(88)		-		
Total disposal related costs	\$	25	\$	1,318	\$	(41)	\$	1

13

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
(Loss) income from operations of discontinued businesses, before tax		(10)		3,546
Tax benefit (provision)		4		(1,489)
(Loss) income from operations of discontinued businesses, net of tax	\$	(6)	\$	2,057
Disposal related costs included in operating expenses above:				
Non-accruable closing costs	\$	(10)	\$	(26)
Vacancy		-		3,717
Interest accretion on present value of future occupancy costs		-		(145)
Total disposal related costs	\$	(10)	\$	3,546
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES				
Sales	\$	-	\$	994
Gain from operations of discontinued businesses, before tax		-		994
Tax provision		-		(417)



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

Gain from operations of  
discontinued businesses,  
net of tax

\$	-	\$	577	\$	-	\$
=====		=====		=====		=====

14

40 Weeks ended December 2, 2006

	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
INCOME (LOSS) FROM OPERATIONS OF DISCONTINUED BUSINESSES				
Sales	\$ -	\$ -	\$ -	\$
Operating expenses	-	657	(41)	
Income (loss) from operations of discontinued businesses, before tax	-	657	(41)	
Tax (provision) benefit	-	(276)	17	
Income (loss) from operations of discontinued businesses, net of tax	\$ -	\$ 381	\$ (24)	\$
Disposal related costs included in operating expenses above:				
Non-accruable closing costs	\$ -	\$ -	\$ (41)	\$
Severance and benefits	-	146	-	
Vacancy	-	429	-	
Proceeds from lease termination	-	394	-	
Interest accretion on present value of future occupancy costs	-	(312)	-	
Total disposal related costs	\$ -	\$ 657	\$ (41)	\$

15

40 Weeks Ended December 3, 2005

	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
--	-------------------------	--------	----------------------------	-----

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

(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)	\$	-
Vacancy		-		3,717		-		3
Interest accretion on present value of future occupancy costs		-		(503)		-		-
Total disposal related costs	\$	(47)	\$	3,170	\$	(187)	\$	2
GAIN ON DISPOSAL OF DISCONTINUED BUSINESSES								
Sales	\$	-	\$	994	\$	-	\$	-
Gain from operations of discontinued businesses, before tax								
		-		994		-		-
Tax provision		-		(417)		-		-
Gain from operations of discontinued businesses, net of tax								
	\$	-	\$	577	\$	-	\$	-

NORTHERN NEW ENGLAND

During the 12 and 40 weeks ended December 2, 2006, we recorded gains of \$0.02 million and nil, respectively, primarily related to adjustments as a result of changes in estimates. During the 12 and 40 weeks ended December 3, 2005, we incurred additional costs subsequent to the sale of these stores of \$0.01 million and \$0.05 million, respectively, primarily related to adjustments as a result of changes in estimates. These amounts were included in "Income from operations of discontinued businesses, net of tax" on our Statements of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005, respectively.

KOHL'S MARKET

During the 12 and 40 weeks ended December 2, 2006, we recorded gains of \$1.3 million and \$0.6 million, respectively, primarily due to favorable results of terminating leases at certain locations and adjustments as a result of changes in estimates partially offset by interest accretion on future occupancy payments that were recorded at present value at the time of the original charge. During

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

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 partially offset by the costs of winding down this business. These amounts were included in "Income from operations of discontinued businesses, net of tax" on our Statements of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.

16

During the 12 and 40 weeks ended December 3, 2005, we recorded a pretax gain on the sale of property of \$1.0 million. There were no similar gains in the 12 and 40 weeks ended December 2, 2006. This amount was included in "Gain on disposal of discontinued operations, net of tax" in 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 2, 2006:

	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)	562	44	-	
Utilization (3)	(3,235)	(2,128)	-	
Adjustments (4)	(4,299)	582	-	
	-----	-----	-----	-----
Balance at February 25, 2006	\$ 10,483	\$ 1,183	\$ -	\$
Additions (2)	308	4	-	
Utilization (3)	(1,779)	(1,041)	-	
Adjustments (4)	(429)	(146)	-	
	-----	-----	-----	-----
Balance at December 2, 2006	\$ 8,583	\$ -	\$ -	\$
	=====	=====	=====	=====

- (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.

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

- (2) The fiscal 2003, fiscal 2004, fiscal 2005 and the year to date third quarter of fiscal 2006 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 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 fiscal 2005, we recorded adjustments relating to (i.) a reversal of previously accrued occupancy 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 February 25, 2006. During the 40 weeks ended December 2, 2006, we recorded adjustments for (i.) a reduction in vacancy related costs for our properties due to favorable results of terminating leases at certain locations of \$0.7 million partially offset by changes in our estimation of such future costs of \$0.3 million and (ii.) a reversal of previously accrued pension withdrawal payments of \$0.1 million that were no longer required to be paid.

17

We paid \$12.3 million of the total occupancy charges from the time of the original charge through December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. The remaining occupancy liability of \$8.6 million relates to expected future payments under long term leases and is expected to be paid out in full by 2020.

We paid \$13.6 million of the total severance and benefits charges from the time of the original charges through December 2, 2006, which resulted from the termination of approximately 2,000 employees. At December 2, 2006, there are no future obligations for severance and benefits.

At December 2, 2006 and February 25, 2006, \$2.3 million and \$3.7 million, respectively, of the Kohl's exit reserves were included in "Other accruals" and \$6.3 million and \$8.0 million, respectively, were included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of \$8.6 million as of December 2, 2006 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,

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

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 2, 2006, we incurred costs of \$0.04 million related to legal fees for this business. 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. These amounts were included in "Income from operations of discontinued businesses, net of tax" on our Statements of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.

### 8. ASSET DISPOSITION INITIATIVES

Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Statements of Consolidated Operations and Statements of Consolidated Cash Flows for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005. 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".

18

	12 weeks ended December 2, 2006			
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Closure of Stores in the Midwes
Balance Sheet accruals				
Vacancy	\$ (3,796)	\$ 49	\$ -	\$ 1,9
PV interest	197	300	169	7
Severance	-	-	-	
Total accrued to balance sheet	(3,599)	349	169	2,7
Non-accruable items recorded on Statements of Operations				
Gain on capital lease termination	-	-	-	(5
Loss on sale of property	-	-	-	
Closing costs	(5)	-	-	
Total non-accruable items	(5)	-	-	(5
Less PV interest	(197)	(300)	(169)	(7
Total amount recorded				

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

on Statements of Operations excluding PV interest	(3,801)	49	-	1,8
Less closing costs	5	-	-	
Total amount recorded On Statements of Cash Flows	\$ (3,796)	\$ 49	\$ -	\$ 1,8

19

12 weeks ended December 3, 2005

	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Closure of Stores in the Midwest
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				
Gain on capital lease termination	-	-	-	(588)
Property writeoffs	-	-	-	12
Inventory related costs	-	-	-	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
Less closing costs	-	-	-	(1,059)
Total amount recorded On Statements of Cash Flows	\$ -	\$ (1,689)	\$ 302	\$ 17,078

40 weeks ended December 2, 2006

	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Closure of Stores in the Midwest	D Op
Balance Sheet accruals					
Vacancy	\$ (5,429)	\$ 4,482	\$ (3,021)	\$ 4,794	
PV interest	756	1,150	574	2,778	
Severance	(95)	-	-	(16)	
Total accrued to balance sheets	(4,768)	5,632	(2,447)	7,556	
Non-accruable items recorded on Statements of Operations					
Gain on capital lease termination	-	-	-	(55)	
Property writeoffs	-	-	-	-	
Inventory related costs	-	-	-	-	
Loss on sale of property	-	-	-	46	
Closing costs	(5)	-	-	93	
Total non-accruable items	(5)	-	-	84	
Less PV interest	(756)	(1,150)	(574)	(2,778)	
Total amount recorded on Statements of Operations excluding PV interest	(5,529)	4,482	(3,021)	4,862	
Less closing costs	5	-	-	(93)	
Total amount recorded On Statements of Cash Flows	\$ (5,524)	\$ 4,482	\$ (3,021)	\$ 4,769	

40 weeks ended December 3, 2005

	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Closure of Stores in the Midwest
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				
Gain on capital lease termination	-	-	-	(588)
Property writeoffs	-	-	-	6,873
Inventory related costs	-	-	-	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



## PROJECT GREAT RENEWAL

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.
	U.S.	Canada	Total	U.S.	Canada	Total	
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)	1,541	7	1,548	-	-	-	1,5
Utilization (2)	(5,858)	(167)	(6,025)	(223)	-	(223)	(6,0
Adjustments (3)	(3,648)	(90)	(3,738)	-	-	-	(3,6
Balance at							
February 25, 2006	\$ 19,999	\$ -	\$ 19,999	\$ 1,437	\$ -	\$ 1,437	\$ 21,4
Addition (1)	756	-	756	-	-	-	7
Utilization (2)	(3,796)	-	(3,796)	(99)	-	(99)	(3,8
Adjustments (3)	(5,429)	-	(5,429)	(95)	-	(95)	(5,5
Balance at							
December 2, 2006	\$ 11,530	\$ -	\$ 11,530	\$ 1,243	\$ -	\$ 1,243	\$ 12,7

- (1) The additions to store occupancy of \$2.6 million, \$1.9 million, and \$1.5 million during fiscal 2003, 2004 and 2005, respectively, and \$0.8 million during the 40 weeks ended December 2, 2006 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 \$20.0 million, \$5.6 million, and \$6.0 million for fiscal 2003, 2004 and 2005, respectively, and \$3.8 million during the 40 weeks ended December 2, 2006 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of \$0.3 million, \$0.5 million, and \$0.2 million for fiscal 2003, 2004 and 2005, respectively, and \$0.1 million during the 40 weeks ended December 2, 2006 represents payments

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

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 2005, we recorded an additional reduction of \$3.6 million in occupancy accruals due to subleasing additional closed stores and converting a previously closed store to a store that was opened in fiscal 2006. During the 40 weeks ended December 2, 2006, we recorded adjustments for a reduction in vacancy related costs for our properties of \$5.4 million due to changes in our estimation of such future costs. We also recorded a decrease of \$0.1 million for the reversal of previously accrued severance and benefits due to changes in individual severings and associated benefit costs.

We paid \$108.2 million of the total occupancy charges from the time of the original charges through December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$30.2 million of the total net severance charges from the time of the original charges through December 2, 2006, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of \$11.5 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 \$1.2 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 the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.

23

At December 2, 2006 and February 25, 2006, approximately \$3.0 million and \$5.1 million, respectively, of the reserve were included in "Other accruals" and the remaining amounts were included in "Other non-current liabilities" on our Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of December 2, 2006 of \$12.8 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. We 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

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.
	U.S.	Canada	Total	U.S.	Canada	Total	
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

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

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)	2,170	-	2,170	-	-	-	2,1	
Utilization (2)	(5,262)	-	(5,262)	(97)	-	(97)	(5,3	
Adjustments (3)	(2,089)	-	(2,089)	-	-	-	(2,0	
Balance at								
February 25, 2006	\$ 26,718	\$ -	\$ 26,718	\$ 17	\$ -	\$ 17	\$ 26,7	
Addition (1)	1,150	-	1,150	-	-	-	1,1	
Utilization (2)	(8,354)	-	(8,354)	(17)	-	(17)	(8,3	
Adjustments (3)	4,482	-	4,482	-	-	-	4,4	
Balance at								
December 2, 2006	\$ 23,996	\$ -	\$ 23,996	\$ -	\$ -	\$ -	\$ 23,9	

- (1) The additions to store occupancy of \$2.9 million, \$2.4 million, and \$2.2 million during fiscal 2003, 2004 and 2005, respectively, and \$1.2 million during the 40 weeks ended December 2, 2006 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 \$11.0 million, \$6.0 million, and \$5.3 million during fiscal 2003, 2004 and 2005, respectively, and \$8.4 million during the 40 weeks ended December 2, 2006 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of \$3.5 million, \$2.3 million, \$0.1 million, and \$0.02 million during fiscal 2003, 2004, 2005 and the 40 weeks ended December 2, 2006, respectively, 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 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. 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 \$2.1 million related to the reversals of previously accrued occupancy costs due to the favorable result of subleasing one of the closed properties and changes in our original estimate of our future vacancy obligations for closed stores. Finally, during the 40 weeks ended December 2, 2006, we recorded adjustments for additional vacancy related costs of \$4.5 million due to changes in our estimation of such future costs.

We paid \$52.8 million (\$49.8 million in the U.S. and \$3.0 million in Canada) of the total occupancy charges from the time of the original charges through

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

December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$28.2 million (\$19.2 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 2, 2006, which resulted from the termination of approximately 1,100 employees. The remaining occupancy liability of \$24.0 million primarily relates to expected future payments under long term leases through 2022. The severance liability has been fully utilized as of December 2, 2006 and no additional future payments for severance and benefits to individual employees will be paid out. None of these stores were open during the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.

At December 2, 2006 and February 25, 2006, approximately \$5.8 million and \$6.6 million of the reserve, respectively, were included in "Other accruals" and the remaining amounts were included in "Other non-current liabilities" on our Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of December 2, 2006 of \$24.0 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. We 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

The following table summarizes the activity to date related to the charges recorded for this initiative all of which were in the U.S.

	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)	710	-	710
Utilization (2)	(2,738)	(6)	(2,744)
Adjustment (3)	4,376	-	4,376
	-----	-----	-----
Balance at February 25, 2006	\$ 18,250	\$ -	\$ 18,250
Addition (1)	574	-	574
Utilization (2)	(1,329)	-	(1,329)
Adjustment (3)	(3,021)	-	(3,021)
	-----	-----	-----
Balance at December 2, 2006	\$ 14,474	\$ -	\$ 14,474
	=====	=====	=====

- (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, fiscal 2005 and the 40 weeks ended December 2, 2006 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

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

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.

25

- (2) Occupancy utilization of \$1.1 million, \$4.7 million, \$2.7 million and \$1.3 million during fiscal 2003, fiscal 2004, fiscal 2005 and for the 40 weeks ended December 2, 2006, 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 fiscal 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 fiscal 2005, we recorded an increase of \$4.4 million in occupancy accruals due to changes in our original estimate of when we would terminate certain leases, obtain sublease rental income related to such leases and changes in our original estimate of our future vacancy obligations for closed stores. During the 40 weeks ended December 2, 2006, we recorded adjustments for a reduction in vacancy related costs for our properties of \$3.0 million due to changes in our estimation of such future costs.

We paid \$9.9 million of the total occupancy charges from the time of the original charge through December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. The remaining occupancy liability of \$14.5 million relates to expected future payments under long term leases and is expected to be paid out in full by 2022. We paid \$8.9 million of the total net severance charges from the time of the original charges through December 2, 2006, which resulted from the termination of approximately 300 employees. The severance liability has been fully utilized as of December 2, 2006 and no additional future payments for severance and benefits to individual employees will be paid out. None of these stores were open during the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.

At December 2, 2006 and February 25, 2006, approximately \$1.3 million and \$1.6 million, respectively, of the liability were included in "Other accruals" and the remaining amounts were included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of \$14.5 million as of December 2, 2006 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.

### CLOSURE OF STORES IN THE MIDWEST

-----  
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 close stores in the Midwest. This planned store closure included the closing of a total of 35 stores, all of which have been closed as of December 2, 2006. The remaining business located in the Midwestern United States will continue to operate as part of our core business going forward.

The following table summarizes the activity to date related to the charges recorded for these store closures.

	Occupancy	Severance and Benefits	Total
	-----	-----	-----
Original charge (1)	\$ 14,766	\$ 1,337	\$ 16,103
Additions (2)	75,259	1,373	76,632
Utilization (3)	(9,538)	(2,439)	(11,977)
Adjustment (4)	9,153	(44)	9,109
	-----	-----	-----
Balance at			
February 25, 2006	\$ 89,640	\$ 227	\$ 89,867
Additions (2)	2,778	--	2,778
Utilization (3)	(11,177)	(211)	(11,388)
Adjustment (4)	4,794	(16)	4,778
	-----	-----	-----
Balance at			
December 2, 2006	\$ 86,035	\$ --	\$ 86,035
	=====	=====	=====

- (1) The original charge to occupancy during fiscal 2005 represents charges related to closures of the first 8 stores in conjunction with our decision to close stores in the Midwest of \$14.8 million. The original charge to severance during fiscal 2005 of \$1.3 million related to individual severings as a result of these store closures.
- (2) The additions to occupancy during fiscal 2005 represent 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 \$1.6 million. The additions to occupancy during the 40 weeks ended December 2, 2006 represent interest accretion on future occupancy costs which were recorded at present value at the time of the original charge in the amount of \$2.8 million. The additional charge to severance during fiscal 2005 of \$1.4 million related to individual severings as a result of the additional stores identified for closures.
- (3) Occupancy utilization of \$9.5 million and \$11.2 million for fiscal 2005 and the 40 weeks ended December 2, 2006, respectively, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of \$2.4 million and \$0.2 million for fiscal 2005 and the 40 weeks ended December 2, 2006, respectively, represents payments made to terminated employees during the period.
- (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 2005, we recorded an increase of \$9.2 million in occupancy accruals due to changes in our original estimate of our future vacancy obligations for closed stores. We also

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

recorded a decrease of \$0.04 million for the reversal of previously accrued severance and benefits due to changes in individual severings and associated benefit costs. During the 40 weeks ended December 2, 2006, we recorded adjustments for additional vacancy related costs for our properties of \$4.8 million due to changes in our estimation of such future costs. We also recorded a decrease of \$0.02 million for the reversal of previously accrued severance and benefits due to changes in individual severings and associated benefit costs.

We paid \$20.7 million of the total occupancy charges from the time of the original charge through December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$2.6 million of the total net severance charges from the time of the original charges through December 2, 2006, which resulted from the termination of approximately 125 employees. The remaining occupancy liability of \$86.0 million relates to expected future payments under long term leases and is expected to be paid out in full by 2025. The severance liability has been fully utilized as of December 2, 2006 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 2, 2006 and December 3, 2005 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:

27

	12 Weeks Ended		40 weeks Ended	
	December 2, 2006	December 3, 2005	December 2, 2006	Dec
Sales	\$ -	\$ 2,994	\$ -	\$
Loss from operations	\$ -	\$ (938)	\$ -	\$

At December 2, 2006 and February 25, 2006, approximately \$17.0 million and \$22.5 million of the liability were included in "Other accruals" and the remaining amounts were included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of \$86.0 million as of December 2, 2006 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.

### U.S DISTRIBUTION OPERATIONS AND WAREHOUSES

During fiscal 2005, our Company entered into definitive agreements, including an Asset Purchase Agreement and a 15 year Supply Agreement, selling our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. The Asset Purchase Agreement included the assignment of

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

our leases in Central Islip, New York and Baltimore, Maryland, and a warranty deed for our owned facilities in Dunmore, Pennsylvania. 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 was completed during the fourth quarter of fiscal 2005.

The following table summarizes the activity to date related to the charges recorded for the closing of these facilities.

	Occupancy	Severance and Benefits	Total
	-----	-----	-----
Original charge (1)	\$ --	\$ 40,417	\$ 40,417
Additions (2)	15,420	7,296	22,716
Utilization (3)	(337)	(43,597)	(43,934)
Adjustments (4)	--	(493)	(493)
	-----	-----	-----
Balance at			
February 25, 2006	\$ 15,083	\$ 3,623	\$ 18,706
Additions (2)	187	32	219
Utilization (3)	(12,207)	(2,309)	(14,516)
Adjustment (4)	2,348	135	2,483
	-----	-----	-----
Balance at			
December 2, 2006	\$ 5,411	\$ 1,481	\$ 6,892
	=====	=====	=====

- (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 fiscal 2005 related to future occupancy costs such as rent, common area maintenance and real estate taxes, and future obligations for the warehouses sold to C&S Wholesale Grocers, Inc. The additions to occupancy during the 40 weeks ended December 2, 2006 represent interest accretion on future occupancy costs which were recorded at present value at the time of the original charge in the amount of \$0.2 million. The additions to severance and benefits during fiscal 2005 represented charges related to additional individual severings as well as retention and productivity incentives that were accrued as earned.
- 28
- (3) Occupancy utilization of \$0.3 million and \$12.2 million for fiscal 2005 and the 40 weeks ended December 2, 2006, respectively, represents payments associated with the closure of certain warehouses. Severance and benefits utilization of \$43.6 million and \$2.3 million for fiscal 2005 and the 40 weeks ended December 2, 2006, respectively, 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 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. During the 40 weeks ended December 2, 2006, we



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

recorded adjustments for additional vacancy related costs for our properties of \$2.3 million due to changes in our estimation of such future costs. During the 40 weeks ended December 2, 2006, we recorded adjustments of \$0.1 million primarily related to additions to severance and benefits due to changes in individual severings and associated benefit costs.

We paid \$12.5 million of the total occupancy charges from the time of the original charge through December 2, 2006 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$45.9 million of the total net severance and benefits charges from the time of the original charges through December 2, 2006, which resulted from the termination of approximately 140 employees. The remaining occupancy liability of \$5.4 million relates to expected future payments under long term leases and is expected to be paid out in full by 2026. The remaining severance and benefits liability of \$1.5 million relates to expected future payments for severance and benefits to individual employees and will be fully paid out by February 23, 2008.

As of December 2, 2006 and February 25, 2006, approximately \$0.2 million and \$1.4 million, respectively, of the liability were included in "Accrued salaries, wages and benefits," \$1.6 million and \$11.3 million, respectively, of the liability were 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 \$6.9 million as of December 2, 2006 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, Inc. Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on reasonable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.

29

### 9. 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 2, 2006
U.S.	Canada	U.S.

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

	-----	-----	-----
Service cost	\$ 1,219	\$ -	\$ 1
Interest cost	2,612	-	2
Expected return on plan assets	(2,850)	-	(3)
Amortization of unrecognized net prior service gain	(41)	-	
Amortization of unrecognized net loss	38	-	
Administrative expenses and other	116	-	
	-----	-----	-----
Net pension cost	\$ 1,094	\$ -	\$
	=====	=====	=====

	For the 40 Weeks End		
	December 2, 2006		D
	U.S.	Canada	U.
	-----	-----	-----
Service cost	\$ 4,064	\$ -	\$ 4
Interest cost	8,705	-	9
Expected return on plan assets	(9,500)	-	(10)
Amortization of unrecognized net prior service (gain) cost	(137)	-	
Amortization of unrecognized net loss	125	-	
Administrative expenses and other	311	-	
	-----	-----	-----
Net pension cost	\$ 3,568	\$ -	\$ 3
	=====	=====	=====

CONTRIBUTIONS

We previously disclosed in our consolidated financial statements for the year ended February 25, 2006, that we expected to contribute \$5.2 million in cash to our defined benefit plans in fiscal 2006. As of December 2, 2006, we contributed approximately \$3.6 million to our defined benefit plans. We plan to contribute approximately \$1.6 million to our plans in the remainder of fiscal 2006.

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 2, 2006		D
	U.S.	Canada	U.
	-----	-----	-----
Service cost	\$ 87	\$ -	\$
Interest cost	270	-	
Amortization of gain	(51)	-	
Prior service gain	(311)	-	
	-----	-----	-----
Net postretirement benefits income	\$ (5)	\$ -	\$

	For the 40 Weeks End		D	
	December 2, 2006			U.
	U.S.	Canada		
Service cost	\$ 288	\$ -	\$	
Interest cost	902	-		
Amortization of (gain) loss	(171)	-		
Prior service gain	(1,036)	-	(1	
Net postretirement benefits (income) cost	\$ (17)	\$ -	\$	

30

10. STOCK BASED COMPENSATION

During the 12 and 40 weeks ended December 2, 2006, compensation expense related to share-based incentive plans was \$0.8 million and \$6.6 million, after tax, respectively, compared to \$2.1 million and \$7.0 million, after tax, during the 12 and 40 weeks ended December 3, 2005, respectively.

Included in share-based compensation expense recorded during the 12 and 40 weeks ended December 2, 2006 was \$0.2 million and \$0.9 million, respectively, related to expensing of stock options, \$0.5 million and \$4.8 million, respectively, relating to expensing of restricted stock, and \$0.1 million and \$0.9 million, respectively, relating to expensing of common stock to be granted to our Board of Directors at the Annual Meeting of Stockholders.

Included in share-based compensation expense recorded during the 12 and 40 weeks ended December 3, 2005, was \$0.6 million 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.

At December 2, 2006, 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 and 2006 activity is reported below.

I. The 1998 Long Term Incentive and Share Award Plan: This plan provides for the grant of awards in the form of options, SAR's, restricted shares, restricted share units, performance shares, performance units, dividend equivalent, or other share based awards to our Company's officers and key employees. The total number of shares available for issuance under this plan is 8,000,000 subject to anti-dilution provisions. 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 during fiscal

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

2005 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 units 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.

Performance restricted stock units issued under this plan during fiscal 2006 are earned based on our Company achieving certain operating targets in Fiscal 2008 and are 100% vested in Fiscal 2008 upon achievement of those targets.

31

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, as amended, "Accounting for Stock-Based Compensation" 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 weeks ended December 2, 2006 and 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 for options granted during the 40 weeks ended December 2, 2006:

	40 weeks ended Dec. 2, 2006
	-----
Expected life	7 years
Volatility	56%
Risk-free interest rate	4.96%

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 2, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
	-----	-----	-----
Outstanding at February 25, 2006	1,534,385	\$ 19.24	

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

Adjustment for dividend*	371,995	-	
Granted	86,430	27.71	
Canceled or expired	(251,958)	21.29	
Exercised	(333,161)	14.94	
	-----	-----	
Outstanding at December 2, 2006	1,407,691	\$ 15.33	4.
	=====	=====	=====
Exercisable at:			
December 2, 2006	1,143,876	\$ 16.27	3.
			=====
Nonvested at:			
December 2, 2006	263,815	\$ 11.24	7.
			=====

The total intrinsic value of options exercised during the 40 weeks ended December 2, 2006 was \$4.5 million.

As of December 2, 2006, approximately \$0.9 million, after tax, of total unrecognized compensation expense related to unvested stock option awards will be recognized over a weighted average period of 0.9 years.

The amount of cash received from the exercise of stock options was approximately \$5.0 million for the 40 weeks ended December 2, 2006.

32

### Performance Restricted Stock Units

During the 12 and 40 weeks ended December 2, 2006, our Company granted nil and 393,162 shares of performance restricted stock units to selected employees, respectively, for a total grant date fair value of \$10.8 million. Approximately \$14.9 million of unrecognized fair value compensation expense relating to these performance restricted stock units and those issued in the previous year are expected to be recognized through fiscal 2009 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 2, 2006:

	Shares	Weighted Average Exercise Price
	-----	-----
Nonvested at February 25, 2006	1,285,000	\$ 14.42
Adjustment for dividend*	339,369	-
Granted	393,162	27.59
Canceled or expired	(157,024)	14.55
Exercised	-	-
	-----	-----
Nonvested at December 2, 2006	1,860,507	\$ 14.56
	=====	=====

\* As discussed in Note 3 - Special One-Time Dividend, our Company adjusted the number and/or price of all unexercised stock options and nonvested performance restricted stock units as of April 12, 2006, to ensure that an individual's right to purchase stock at an aggregate value remained the same both before and after the special one-time dividend payment. These

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

adjustments had no impact on stock compensation expense for the 40 weeks ended December 2, 2006.

- II. 2004 Non-Employee Director Compensation Plan: This plan provides for the annual grant of Company common stock equivalent of \$90 to members of our Board of Directors. The \$90 grant of common stock shall be made on the first business day following the Annual Meeting of Stockholders. 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.

### 11. INCOME TAXES

The income tax provision recorded for the 40 weeks ended December 2, 2006 and December 3, 2005 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 2, 2006, the valuation allowance was decreased by \$11.9 million and \$19.0 million, respectively, as compared to decreased by \$14.9 million and \$242.1 million during the 12 and 40 weeks ended December 3, 2005, 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.

33

In October 2004, the U.S. government passed the "Homeland Investment Act" which allowed companies to repatriate cash balances from their controlled foreign subsidiaries at a reduced tax rate. This was achieved by permitting a one time 85% dividends received deduction. Our Company completed the sale of our Canadian subsidiary to Metro, Inc. during fiscal 2005. As a result of this transaction, our Company had repatriated \$949.0 million from our foreign subsidiaries, of which \$500.0 million was 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 recorded a tax provision of \$98.1 million, in fiscal 2005, for the potential disallowance of the 85% dividend received deduction. This amount was recorded in "(Provision for) benefit from income taxes" in our Statements of Consolidated Operations for fiscal 2005 and in "Other non-current liabilities" in our Consolidated Balance Sheet at February 25, 2006. During the 12 and 40 weeks ended December 2, 2006, this tax provision was reduced by \$44.2 million and \$61.5 million, respectively, principally due to the recognition of foreign tax credits and current year operating losses. The tax impact of the utilization of foreign tax credits for the 12 and 40 weeks ended December 2, 2006, was \$45.0 million. The tax impact of the utilization of current year operating losses was a provision of \$0.8 million and a benefit of \$16.5 million, respectively, for the 12 and 40 weeks ended

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

December 2, 2006. This reduction was recorded in "Benefit from (provision for) income taxes" in our Statements of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006. In addition, as a result of the completion of our tax return during the quarter, the provision was reduced by \$4.9 million along with a corresponding increase in current taxes payable of \$4.9 million. The balance in the provision of \$31.7 million is included in "Other non-current liabilities" in our Consolidated Balance Sheet at December 2, 2006.

For the third quarter of fiscal 2006, our effective income tax rate of 1,165.4% changed from the effective income tax rate of 22.4% in the third quarter of fiscal 2005 as follows:

	12 Weeks Ended			
	December 2, 2006		December 3, 2005	
	Tax Benefit	Effective Tax Rate	Tax Benefit	Effective Tax Rate
United States	\$ 43,702	(1,165.4%)	\$ 21,279	(22.4%)

The change in our effective tax rate was primarily due to (i.) the recognition of tax benefits during the 12 weeks ended December 2, 2006 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, (ii) the recognition of foreign tax credits, (iii) the decrease in our valuation allowance as discussed above, and (iv) the tax benefit from not providing deferred taxes on the undistributed earnings of our investment in Metro, Inc.

34

For the 40 weeks ended December 2, 2006, our effective income tax rate of 235.7% changed from the effective income tax rate of 26.3% for the 40 weeks ended December 3, 2005 as follows:

	40 Weeks Ended			
	December 2, 2006		December 3, 2005	
	Tax Benefit	Effective Tax Rate	Tax Provision	Effective Tax Rate
United States	\$ 58,584	(235.7%)	\$ (134,346)	23.1%
Canada	-	-	(18,539)	3.2
	\$ 58,584	(235.7%)	\$ (152,885)	26.3%

The change in our effective tax rate was primarily due to (i.) the recognition

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

of tax benefits during the 40 weeks ended December 2, 2006 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, (ii) the recognition of foreign tax credits, (iii) the decrease in our valuation allowance as discussed above, (iv) the tax benefit from not providing deferred taxes on the undistributed earnings of our investment in Metro, Inc., and (v.) the absence of a tax provision that was recorded for our Canadian operations during the 40 weeks ended December 3, 2005 that was not recorded during the 40 weeks ended December 2, 2006 due to the sale of our Canadian operations during the second quarter of fiscal 2005.

At December 2, 2006 and February 25, 2006, we had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheet totaling \$50.4 million and \$60.0 million, respectively, and a net non-current deferred tax liability which is included in "Other non-current liabilities" on our Consolidated Balance Sheets totaling \$50.4 million and \$60.0 million, respectively.

### 12. 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 2, 2006 and 12 weeks ended December 3, 2005, we operated in two reportable segments: United States and our investment in Metro, Inc. During the 40 weeks ended December 3, 2005, 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 have significant influence over substantive operating decisions through our membership on Metro, Inc.'s Board of Directors and its committees. The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2005 Annual Report. We measure segment performance based upon income (loss) from operations.

35

Interim information on segments is as follows:

	12 Weeks Ended		
	December 2, 2006	December 3, 2005	December 2006
Sales			
United States	\$ 1,543,004	\$ 1,580,942	\$ 5,242



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

Canada *	-	-	-
	-----	-----	-----
Total Company	\$ 1,543,004	\$ 1,580,942	\$ 5,242
	=====	=====	=====
Sales by category			
Grocery (1)	\$ 1,057,506	\$ 1,087,448	\$ 3,544
Meat (2)	300,682	309,866	1,029
Produce (3)	180,688	179,722	654
Other (4)	4,128	3,906	13
	-----	-----	-----
Total Company	\$ 1,543,004	\$ 1,580,942	\$ 5,242
	=====	=====	=====
(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.			
Depreciation and amortization			
United States	\$ 40,556	\$ 46,274	\$ 135
Canada *	-	-	-
	-----	-----	-----
Total Company	\$ 40,556	\$ 46,274	\$ 135
	=====	=====	=====
Income (loss) from operations			
United States	\$ 1,152	\$ (81,557)	\$ (7)
Canada *	-	-	-
	-----	-----	-----
Total Company	\$ 1,152	\$ (81,557)	\$ (7)
	=====	=====	=====
(Loss) income from continuing operations before income taxes			
United States	\$ (14,773)	\$ (98,235)	\$ (55)
Canada *	-	-	-
Equity investment in Metro, Inc.	11,023	3,397	30
	-----	-----	-----
Total Company	\$ (3,750)	\$ (94,838)	\$ (24)
	=====	=====	=====
Capital expenditures			
United States	\$ 63,671	\$ 25,185	\$ 184
Canada *	-	-	-
	-----	-----	-----
Total Company	\$ 63,671	\$ 25,185	\$ 184
	=====	=====	=====
Total assets			
United States			\$ 1,849
Equity investment in Metro, Inc.			367
			-----
Total Company			\$ 2,217
			=====
			December 2006

\* We sold our Canadian operations during fiscal 2005; thus, we have included the operating results of our Canadian subsidiary through the date of its sale.

36

### 13. INDEBTEDNESS

During fiscal 2005, we entered into a new, cash collateralized, Letter of Credit Agreement that enables us to issue letters of credit up to \$200 million. Refer to Note 5 - Cash, Cash Equivalents, Restricted Cash, and Marketable Securities for further discussion of our Letter of Credit Agreement. We also secured a \$150 million Revolver with four lenders enabling us to borrow funds on a revolving basis for working capital loans and letters of credit. The Revolver includes a \$100 million accordion feature which gives us the ability to increase commitments from \$150 million to \$250 million. Effective April 4, 2006, we exercised the accordion option and increased our commitments to \$250 million.

At December 2, 2006 and February 25, 2006, there were \$128.5 million and nil, respectively, in outstanding borrowings under our Revolver.

During the third quarter of fiscal 2006, our Company transferred 6,000,000 of our Class A subordinate shares of Metro, Inc. from our foreign subsidiary to the United States. These transferred shares are being used as collateral for our new Letter of Credit Agreement that we entered into during fiscal 2005 and have allowed us to reduce the amount of restricted cash and/or marketable securities we were required to maintain as collateral previously.

### 14. HURRICANE KATRINA AND IMPACT ON U.S. BUSINESS

During the second quarter of fiscal 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 2, 2006, 23 of these stores were open and operating and the remaining 5 stores were closed in fiscal 2005.

During the third quarter of fiscal 2005, we recorded a charge for future occupancy costs of \$7.1 million for our 5 closed stores, which has been included in "Store operating, general and administrative expense" in our Statement of Consolidated Operations for the 12 and 40 weeks ended December 3, 2005.

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 "Store operating, general and administrative expense" in our Statements of Consolidated Operations and in "Impairment loss relating to Hurricane Katrina" in our Consolidated Statement of Cash Flows for the 40 weeks ended December 3, 2005.

We maintain property insurance coverage which provides for reimbursement from losses resulting from property damage, loss of product as well as business interruption coverage. We have recovered and expect to recover the remaining 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. During the third quarter of

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

fiscal 2006, we received a cash payment of \$5.0 million, representing an insurance settlement for a portion of our losses caused by Hurricane Katrina, of which \$4.3 million was recorded as gain to reduce "Store operating, general and administrative expense" in our Statement of Consolidated Operations for the 12 and 40 weeks ended December 2, 2006.

### 15. 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 Statements of Consolidated Operations during fiscal 2005.

37

During the second quarter of fiscal 2006, our Company received a cash payment of \$1.6 million for our portion of the settlement funds for this class action litigation. During the remainder of fiscal 2006, we will continue to work with the Claims Administrator to ensure that any additional monies owed to our Company in connection with this litigation are received. This process may result in additional recoveries being recorded in future periods.

#### 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.

38

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

### INTRODUCTION

-----

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

- o Basis of Presentation - a discussion of our Company's results during the 12 and 40 weeks ended December 2, 2006 and December 3, 2005.
- o Overview - a general description of our business; the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.

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

- o Outlook - a discussion of certain trends or business initiatives for the remainder of fiscal 2006 that Management wishes to share with the reader to assist in understanding the business.
- o Review of Continuing Operations and Liquidity and Capital Resources -- a discussion of results for the 12 weeks ended December 2, 2006 compared to the 12 weeks ended December 3, 2005 and results for the 40 weeks ended December 2, 2006 compared to the 40 weeks ended December 3, 2005; current and expected future liquidity; and the impact of various market risks on our Company.
- o Critical Accounting Estimates - a discussion of significant estimates made by Management.
- o Impact of New Accounting Pronouncements - a discussion of authoritative pronouncements that have been or will be adopted by our Company.
- o Market Risk - a discussion of the impact of market changes on our consolidated financial statements.

### BASIS OF PRESENTATION

-----

The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. for the 12 and 40 weeks ended December 2, 2006 and December 3, 2005 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 2005 Annual Report to Stockholders on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company and all subsidiaries.

### OVERVIEW

-----

The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores and discount food stores in 9 U.S. states and the District of Columbia. Our Company's business consists strictly of its retail operations, comprised of 410 stores as of December 2, 2006.

39

Our United States retail operations are organized in three regions: North Region, operating A&P supermarkets in New York and Northern New Jersey, 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 Central New Jersey and Sav-A-Center supermarkets in the greater New Orleans market.

A&P remained on course in the third quarter with respect to ongoing operating, merchandising, store development and cost reduction strategies.

Although the pace of sales development slowed somewhat, results in our core markets remained apace with competitors, despite intensified challenges in response to our ongoing merchandising and promotion strategies; the short-term disruption caused by our increased store renovation activity; and our cycling

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

against the double-digit sales increases achieved in New Orleans in 2005 when we led the industry in restoring operations in the wake of Hurricane Katrina.

Alongside the fundamental retail improvements that remain in progress, our Company continued converting suitable locations to our successful Fresh store format. We completed 11 Fresh conversions during the quarter, the most in any single quarter this year. As stated, these upgrades have produced overall sales increases, as well as a profitable shift to greater fresh category distribution - further driving bottom line store contribution.

In addition to our Fresh store development, the evolution of our discount Food Basics operations continued, giving us appealing alternative concepts on both the fresh and discount sides of our business. Combined with our gourmet store development at The Food Emporium in New York - where the first example of our developing Fine Food concept was launched at the Bridgemarket in November - this fulfills the three-tier marketing strategy that will largely be in place in our Northeast and Mid-Atlantic operations within the next two years.

While our operations remained challenged in Michigan, we continued refining our merchandising offer while also focusing on operating discipline and cost control, resulting in a stable bottom line performance there. And as stated, our Sav-A-Center operation in New Orleans continues to perform well, albeit with lower same store sales comparisons versus fiscal 2005 as we cycle against prior results.

Across the business, we continued the improvement of fundamentals, in merchandising execution, promotional effectiveness, store operating best practices and cost reduction. Benefits continue to develop from our logistics partnership with C&S Wholesale Grocers, Inc. with whom we are working steadily to drive ongoing efficiency, service levels and in-stock performance, aimed at profitable sales growth.

### OUTLOOK

-----

Our objective in the 4th quarter of fiscal 2006 is to remain focused on the strategic elements that have driven our improvement thus far, while also exploring opportunities to grow our business and market presence via acquisition, as we continue to anticipate industry consolidation in and around our core Northeastern markets.

Accordingly, the execution of our marketing and retail development plans will continue to be high priorities, as will the continued cost control disciplines we have established. Key elements are:

40

- o Continue to improve our every-day grocery pricing and value image in all markets, through efficient buying and distribution, and innovative marketing and promotion;
- o Move forward with our capital plan for the conversion of 2 additional locations to the Fresh format;
- o Complete the fine-tuning of the discount Food Basics concept for future application in appropriate locations;
- o Continue the development of our new generation Fine Foods concept under The Food Emporium banner;

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

- o Continue developing productive strategies for the Farmer Jack operations in Michigan; and the Sav-A-Center stores in and around New Orleans.

Always underpinning those strategies is the ongoing adherence to cost control and reduction wherever possible, without compromising the progress of the business. We will continue to seek and optimize additional means of improving labor productivity in cooperation with our people and their labor unions, and by seeking all reasonable opportunities to lower administrative, advertising, occupancy and other operating expenses.

In summary, we remain both encouraged by our ongoing improvement, and confident that sound execution of our strategies will lead us to our ultimate goals of sustainable profitability, and a new era of growth and expansion in the months and years ahead.

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

- o 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 merchandisers, warehouse clubs, drug stores, dollar 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.
- o Changes in the general business and economic conditions in our operating regions, including the rate of inflation, population growth, the rising prices of oil and gas, the nature and extent of continued consolidation in the food industry and employment and job growth in the markets in which we operate, may affect our ability to hire and train qualified employees to operate our stores. This would negatively affect earnings and sales growth. General economic changes may also affect the shopping habits and buying patterns of our customers, which could affect sales and earnings. We have assumed economic and competitive situations will not worsen in fiscal 2006 and 2007. However, we cannot fully foresee the effects of changes in economic conditions, inflation, population growth, the rising prices of oil and gas, customer shopping habits and the consolidation of the food industry on our business.

41

- o 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 or if performance varies significantly from expectations.
- o 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 reduce shrink 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

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

vendors.

- o 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.
- o The amount of contributions made to our pension and multi-employer plans will be affected by the performance of investments made by the plans and the extent to which trustees of the plans reduce the costs of future service benefits.
- o Our Company is currently required to acquire a significant amount of our saleable inventory from one supplier, C&S Wholesale Grocers, Inc. Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on reasonable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.
- o 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.

42

### 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.

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 did not include any weeks during the 12 and 40 weeks ended December 2, 2006, compared to zero and 24 weeks during the 12 and 40 weeks ended December 3, 2005.

12 WEEKS ENDED DECEMBER 2, 2006 COMPARED TO THE 12 WEEKS ENDED DECEMBER 3, 2005

OVERALL

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

Sales for the third quarter of fiscal 2006 were \$1.5 billion compared to \$1.6 billion with the third quarter of fiscal 2005; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, decreased -3.0%. Results from continuing operations improved from a loss of \$73.5 million for the third quarter of fiscal 2005 to income from continuing operations of \$40.0 million for the third quarter of fiscal 2006. Net income per share - basic and diluted for the third quarter of fiscal 2006 was \$0.98 and \$0.97, respectively, compared to a net loss per share - basic and diluted of \$1.74 for the third quarter of fiscal 2005.

	12 Weeks Ended Dec. 2, 2006	12 Weeks Ended Dec. 3, 2005	(Unfavorable) / Favorable
	-----	-----	-----
Sales	\$ 1,543.0	\$ 1,580.9	\$ (37.9)
Decrease in comparable store sales	(3.0%)	(0.3%)	NA
Income (loss) from continuing operations	40.0	(73.5)	113.5
Income from discontinued operations	0.7	2.5	(1.8)
Net income (loss)	40.7	(71.0)	111.7
Net income (loss) per share - basic	0.98	(1.74)	2.72
Net income (loss) per share - diluted	0.97	(1.74)	2.71

### SALES

-----

Sales for the third quarter of fiscal 2006 of \$1,543.0 million decreased \$37.9 million or 2.4% from sales of \$1,580.9 million for third quarter of fiscal 2005. The following details the dollar impact of several items affecting the decrease in sales from the third quarter of fiscal 2005 to the third quarter of fiscal 2006:

	Impact of New Stores	Impact of Closed Stores	Comparable Store Sales	Impact of Hurricane Katrina	Other
	-----	-----	-----	-----	-----
United States	\$ 4.9	\$ (20.3)	\$ (47.2)	\$ 24.5	\$ 0.2

The decrease in U.S. sales was primarily attributable to the closing of 17 stores since the beginning of the third quarter of fiscal 2005, of which 4 were closed in fiscal 2006, decreasing sales by \$20.3 million and the decline in comparable store sales of \$47.2 million or -3.0% driven mainly by a decrease in comparable store sales of -7.0% and -28.9% for the Midwest and New Orleans, respectively. These decreases were partially offset by the opening or re-opening of 10 new stores since the beginning of the third quarter of fiscal 2005, of which 9 were opened or re-opened in fiscal 2006, increasing sales by \$4.9 million, the increase in sales for our New Orleans stores that were temporarily closed as a result of Hurricane Katrina during the 12 weeks ended December 3, 2005 of \$24.5 million, and the increase in sales relating to an information technology services agreement with Metro, Inc. of \$0.2 million. Included in the



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

10 stores opened since the beginning of the third quarter of fiscal 2005 was 6 Clemens Markets stores we purchased from C&S Wholesale Grocers, Inc. during the third quarter of fiscal 2006.

Average weekly sales per supermarket for the U.S. were approximately \$329,700 for the third quarter of fiscal 2006 versus \$333,400 for the corresponding period of the prior year, a decrease of 1.1% primarily due to the impact of negative comparable store sales.

### GROSS MARGIN

Gross margin of \$464.6 million increased 73 basis points as a percentage of sales to 30.11% for the third quarter of fiscal 2006 from gross margin of \$464.5 million or 29.38% for the third quarter of fiscal 2005. We believe the impact on margin for changes in costs and special reductions was not significant. The following table details the dollar impact of several items affecting the gross margin dollar (decrease) increase from the third quarter of fiscal 2005 to the third quarter of fiscal 2006:

	Sales Volume	Gross Margin Rate	Total
	-----	----	-----
United States	\$ (11.1)	\$ 11.2	\$ 0.1

### STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

SG&A expense was \$463.4 million or 30.03% for the third quarter of fiscal 2006 as compared to \$546.1 million or 34.54% for the third quarter of fiscal 2005.

Included in SG&A in the U.S. for the third quarter of fiscal 2006 were certain charges as follows:

- o costs relating to the closing of our owned warehouses in Edison, New Jersey and Bronx, New York of \$0.7 million (5 basis points) that were not sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. as discussed in Note 8 - Asset Disposition Initiatives;
- o costs relating to the closures of stores in the Midwest as discussed in Note 8 - Asset Disposition Initiatives of \$1.9 million (12 basis points);
- o costs relating to the consolidation of our operating offices in line with our smaller operations in the U.S. of \$0.2 million (1 basis point); and
- o costs relating to a voluntary labor buyout program in the South Region of \$0.2 million (1 basis point).

44

Partially offset by:

- o net real estate activity of \$11.1 million (72 basis points) during the third quarter of fiscal 2006; and
- o gain from proceeds of insurance settlement of \$4.3 million (28 basis points) received during the third quarter of fiscal 2006 for a portion of our losses caused by Hurricane Katrina, as discussed in Note 14 - Hurricane Katrina and Impact on U.S. Business.

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

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

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 8 - Asset Disposition Initiatives;
- o costs relating to the divestiture of our Midwestern U.S. business as discussed in Note 8 - 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 14 - Hurricane Katrina and Impact on U.S. Business;
- o costs relating to the impairment of unrecoverable assets of \$8.1 million (51 basis points) as discussed in Note 6 - 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).

There was no change in SG&A within our core U.S. operations during the third quarter of fiscal 2006 as compared to the third quarter of fiscal 2005.

During the 12 weeks ended December 2, 2006 and December 3, 2005, we recorded impairment losses on long-lived assets as follows:

	12 weeks ended December 2, 2006 -----	12 weeks end December 3, 2005 -----
Impairments due to closure or conversion in the normal course of business	\$ 1.0	\$ 3.8
Impairments due to unrecoverable assets	-	8.1
Impairments due to closure of stores impacted by Hurricane Katrina(1)	-	6.1
	-----	-----
Total impairments	\$ 1.0 =====	\$ 18.0 =====

(1) Refer to Note 14 - Hurricane Katrina and Impact on U.S. Business

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

-----

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 \$0.6

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

million and \$6.1 million during the 12 weeks ended December 2, 2006 and December 3, 2005, respectively.

### INTEREST EXPENSE

Interest expense of \$17.2 million for the third quarter of fiscal 2006 increased from the prior year amount of \$15.4 million primarily as a result of increased borrowings on our revolving line of credit.

### EQUITY IN EARNINGS OF METRO, INC.

We use the equity method of accounting to account for our investment in Metro, Inc. on the basis that we have significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and through an information technology services agreement with Metro, Inc. During the 12 weeks ended December 2, 2006 and December 3, 2005, we recorded \$11.0 million and \$3.4 million, respectively, in equity earnings relating to our equity investment in Metro, Inc.

### INCOME TAXES

The benefit from income taxes from continuing operations for the third quarter of fiscal 2006 was \$43.7 million compared to \$21.3 million for the third quarter of fiscal 2005. 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 2006, our effective income tax rate of 1,165.4% changed from the effective income tax rate of 22.4 % in the third quarter of fiscal 2005 as follows:

	12 Weeks Ended			
	December 2, 2006		December 3, 2005	
	Tax Benefit	Effective Tax Rate	Tax Benefit	Effective Tax Rate
United States	\$ 43,702	(1,165.4%)	\$ 21,279	(22.4%)

The change in our effective tax rate was primarily due to (i.) the recognition of tax benefits during the 12 weeks ended December 2, 2006 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 and the sale of our Canadian operations, (ii) the recognition of foreign tax credits, (iii) the decrease in our valuation allowance, and (iv) the tax benefit from not providing deferred taxes on the undistributed earnings of our investment in Metro, Inc.

### 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.

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

Income from operations of discontinued businesses, net of tax, for the third quarter of fiscal 2006 was \$0.8 million as compared to \$2.0 million for the third quarter of fiscal 2005, which was primarily due to adjustments as a result of changes in estimates partially offset by interest accretion on future occupancy payments that were recorded at present value at the time of the original charge.

46

The gain on disposal of discontinued operations, net of tax, was \$0.6 million for the third quarter of fiscal 2005 which was primarily related to the sale of a Kohl's warehouse in the third quarter of fiscal 2005. There were no similar gains in the third quarter of fiscal 2006.

40 WEEKS ENDED DECEMBER 2, 2006 COMPARED TO THE 40 WEEKS ENDED DECEMBER 3, 2005

### OVERALL

Sales for the 40 weeks ended December 2, 2006 were \$5.2 billion, compared with \$7.1 billion for the 40 weeks ended December 3, 2005; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, decreased -0.2%. Income from continuing operations decreased from \$429.4 million for the 40 weeks ended December 3, 2005 to \$33.7 million for the 40 weeks ended December 2, 2006, primarily due to the absence of the gain on sale of our Canadian operations recorded during the 40 weeks ended December 3, 2005. Net income per share - basic and diluted for the 40 weeks ended December 2, 2006 was \$0.82 and \$0.81, respectively, compared to net income per share - basic and diluted of \$10.77 and \$10.62, respectively, for the 40 weeks ended December 3, 2005.

	40 Weeks Ended Dec. 2, 2006 -----	40 Weeks Ended Dec. 3, 2005 -----	Unfavorable -----
Sales	\$ 5,242.1	\$ 7,132.8	\$ (1,890.7)
Decrease in comparable store sales	(0.2%)	(0.6%)	NA
Income from continuing operations	33.7	429.4	(395.7)
Income from discontinued operations	0.4	2.3	(1.9)
Net income	34.1	431.7	(397.6)
Net income per share - basic	0.82	10.77	(9.95)
Net income per share - diluted	0.81	10.62	(9.81)

### SALES

-----

Sales for the 40 weeks ended December 2, 2006 of \$5,242.1 million decreased \$1,890.7 million or 26.5% from sales of \$7,132.8 million for 40 weeks ended December 3, 2005. The lower sales were due to a decrease in U.S. sales of \$166.8 million and a decrease in Canadian sales of \$1,723.9 million. The following table presents sales for each of our reportable operating segments for the 40 weeks ended December 2, 2006 and the 40 weeks ended December 3, 2005:

40 Weeks Ended                      40 Weeks Ended

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

	Dec. 2, 2006	Dec. 3, 2005	Decrease
	-----	-----	-----
United States	\$ 5,242.1	\$ 5,408.9	\$ (166.8)
Canada	-	1,723.9	(1,723.9)
	-----	-----	-----
Total	\$ 5,242.1	\$ 7,132.8	\$ (1,890.7)
	=====	=====	=====

47

The following details the dollar impact of several items affecting the decrease in sales by reportable operating segment from the 40 weeks ended December 3, 2005 to the 40 weeks ended December 2, 2006:

	Impact of New Stores	Impact of Closed Stores	Comparable Store Sales	Impact of Hurricane Katrina	Other
	-----	-----	-----	-----	-----
United States	\$ 21.0	\$ (223.5)	\$ (11.6)	\$ 38.8	\$ 8.5
Canada	-	-	-	-	(1,723.9)
	-----	-----	-----	-----	-----
Total	\$ 21.0	\$ (223.5)	\$ (11.6)	\$ 38.8	\$ (1,715.4)
	=====	=====	=====	=====	=====

The decrease in U.S. sales was primarily attributable to the closing of 53 stores since the beginning of fiscal 2005, of which 4 were closed in fiscal 2006, decreasing sales by \$223.5 million and the decline in comparable store sales of \$11.6 million or -0.2% driven mainly by a decrease in comparable store sales of -5.3% for the Midwest. These decreases were partially offset by the opening or re-opening of 11 new stores since the beginning of fiscal 2005, of which 10 were opened or re-opened in fiscal 2006, increasing sales by \$21.0 million, the increase in sales for our New Orleans stores that were temporarily closed as a result of Hurricane Katrina during the 40 weeks ended December 3, 2005 of \$38.8 million and the increase in sales relating to an information technology services agreement with Metro, Inc. of \$8.5 million. Included in the 53 stores closed since the beginning of fiscal 2005 were 35 stores closed as part of the asset disposition initiative as discussed in Note 8 of our Consolidated Financial Statements. Included in the 10 stores opened since the beginning of the third quarter of fiscal 2005 was 6 Clemens Markets stores we purchased from C&S Wholesale Grocers, Inc. during the 40 weeks ended December 2, 2006.

The decrease in Canadian sales of \$1,723.9 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 for the 40 weeks ended December 2, 2006 as compared to the inclusion of 24 weeks for the 40 weeks ended December 3, 2005.

Average weekly sales per supermarket for the U.S. were approximately \$336,300 for the 40 weeks ended December 2, 2006 versus \$326,400 for the corresponding period of the prior year, an increase of 3.0% primarily due to the impact of closing smaller stores partially offset by the negative comparable store sales.

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

### 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 2, 2006 as compared to the 40 weeks ended December 3, 2005. Gross margin as a percentage of sales increased 191 basis points to 30.22% for the 40 weeks ended December 2, 2006 from 28.31% for the 40 weeks ended December 3, 2005, 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 2, 2006		40 Weeks December 3, 2005
	Gross Margin	Rate to Sales %	Gross Margin
United States	\$1,584.1	30.22%	\$1,598.4
Canada	-	-	420.7
Total	\$1,584.1	30.22%	\$2,019.1

48

The following table details the dollar impact of several items affecting the gross margin dollar decrease from the 40 weeks ended December 3, 2005 to the 40 weeks ended December 2, 2006:

	Sales Volume	Gross Margin Rate	Other	Total
United States	\$ (49.3)	\$ 35.0	\$ -	\$ (14.3)
Canada	-	-	(420.7)	(420.7)
Total	\$ (49.3)	\$ 35.0	\$ (420.7)	\$ (435.4)

### 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 2, 2006 compared with the 40 weeks ended December 3, 2005. SG&A expense was \$1,591.2 million or 30.35% for the 40 weeks ended December 2, 2006 as compared to \$2,283.9 million or 32.02% for the 40 weeks ended December 3, 2005.

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

	40 Weeks Ended Dec. 2, 2006		40 Weeks Ended Dec. 3, 2005	
	SG&A	Rate to Sales %	SG&A	Rate to
United States	\$ 1,591.2	30.35%	\$ 1,920.4	35
Canada	-	-	363.5	21
<b>Total</b>	<b>\$ 1,591.2</b>	<b>30.35%</b>	<b>\$ 2,283.9</b>	<b>32</b>

Included in SG&A in the U.S. for the 40 weeks ended December 2, 2006 were certain charges as follows:

- o costs relating to the closing of our owned warehouses in Edison, New Jersey and Bronx, New York of \$5.7 million (11 basis points) that were not sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. as discussed in Note 8 - Asset Disposition Initiatives;
- o costs relating to the closures of stores in the Midwest as discussed in Note 8 - Asset Disposition Initiatives of \$4.9 million (9 basis points);
- o costs relating to the consolidation of our operating offices in line with our smaller operations in the U.S. of \$3.8 million (7 basis points); and
- o costs relating to a voluntary labor buyout program in the South Region of \$4.5 million (9 basis points).

Partially offset by:

- o net real estate activity of \$21.0 million (40 basis points); and
- o gain from proceeds of insurance settlement of \$4.3 million (8 basis points) received during the 40 weeks ended December 2, 2006 for a portion of our losses caused by Hurricane Katrina, as discussed in Note 14 - Hurricane Katrina and Impact on U.S. Business.

Included in SG&A in the U.S. for the 40 weeks ended December 3, 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 \$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 8 - Asset Disposition Initiatives;
- o costs relating to the divestiture of our Midwestern U.S. business as discussed in Note 8 - Asset Disposition Initiatives of \$103.6 million (192 basis points);

- o 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);
- o costs relating to the impairment of unrecoverable assets of \$17.7 million (33 basis points) as discussed in Note 6 - Valuation of Long-Lived Assets;
- o costs relating to an administrative reorganization during the 40 weeks ended December 3, 2005, of \$13.8 million (26 basis points);
- o costs relating to the consolidation of our operating offices in line with

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

- o our smaller operations in the U.S. of \$5.6 million (10 basis points);
- o costs relating to the cash tender offer completed during the 40 weeks ended December 3, 2005, of \$29.5 million (55 basis points); and
- o costs relating to the settlement of our net investment hedge of \$15.4 million (29 basis points).

Partially offset by:

- o net real estate activity of \$22.3 million (41 basis points) during the 40 weeks ended December 3, 2005.

SG&A within our core U.S. operations decreased by 42 basis points during the 40 weeks ended December 2, 2006 as compared to the 40 weeks ended December 3, 2005 primarily due to a reduction in administration expenses of \$21.8 million (32 basis points) and a reduction in advertising costs of \$4.7 million (5 basis points).

The decrease in SG&A in Canada of \$363.5 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 costs during the 40 weeks ended December 2, 2006 as compared to 24 weeks during the 40 weeks ended December 3, 2005.

During the 40 weeks ended December 2, 2006 and December 3, 2005, we recorded impairment losses on long-lived assets as follows:

	40 weeks ended Dec. 2, 2006	40 De
	U.S.	U.S.
	-----	-----
Impairments due to closure or conversion in the normal course of business	\$ 3.5	\$ 4.8
Impairments due to unrecoverable assets	-	17.7
Impairments related to our asset disposition initiatives (1)	1.1	15.5
Impairments due to closure of stores impacted by Hurricane Katrina (2)	-	6.1
	-----	-----
Total impairments	\$ 4.6 =====	\$ 44.1 =====

(1) Refer to Note 8 - Asset Disposition Initiatives

(2) Refer to Note 14 - Hurricane Katrina and Impact on U.S. Business

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

-----  
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



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

million (gain of \$780.4 million after tax) during the 40 weeks ended December 3, 2005.

### INTEREST EXPENSE

Interest expense of \$56.2 million for the 40 weeks ended December 2, 2006 decreased from the prior year amount of \$76.8 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 \$17.2 million, and (ii.) the absence of interest expense relating to our Canadian operations that was recorded during the 40 weeks ended December 3, 2005 of \$8.4 million but not recorded during the 40 weeks ended December 2, 2006 as a result of its sale partially offset by an increase in interest expense of \$3.5 million due to our increased borrowings on our revolving line of credit.

### EQUITY IN EARNINGS OF METRO, INC.

We use the equity method of accounting to account for our investment in Metro, Inc. on the basis that we have significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and through an information technology services agreement with Metro, Inc. During the 40 weeks ended December 2, 2006 and December 3, 2005, we recorded \$30.8 million and \$3.4 million, respectively, in equity earnings relating to our equity investment in Metro, Inc.

### INCOME TAXES

The benefit from income taxes from continuing operations for the 40 weeks ended December 2, 2006 was \$58.6 million compared to a provision for income taxes from continuing operations for the 40 weeks ended December 3, 2005 of \$152.9 million (a \$134.3 million provision for our U.S. operations and an \$18.6 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 2, 2006, our effective income tax rate of 235.7% changed from the effective income tax rate of 26.3% for the 40 weeks ended December 3, 2005 as follows:

	40 Weeks Ended			
	December 2, 2006		December 3, 2005	
	Tax Benefit	Effective Tax Rate	Tax Provision	Effective Tax Rate
United States	\$ 58,584	(235.7%)	\$ (134,346)	235.7%
Canada	-	-	(18,539)	26.3%
	\$ 58,584	(235.7%)	\$ (152,885)	26.3%

The change in our effective tax rate was primarily due to (i.) the recognition of tax benefits during the 40 weeks ended December 2, 2006 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 and the sale of our

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

Canadian operations, (ii) the recognition of foreign tax credits, (iii) the decrease in our valuation allowance, (iv) the tax benefit from not providing deferred taxes on the undistributed earnings of our investment in Metro, Inc., and (v.) the absence of a tax provision that was recorded for our Canadian operations during the 40 weeks ended December 3, 2005 that was not recorded during the 40 weeks ended December 2, 2006 due to the sale of our Canadian operations during the second quarter of fiscal 2005.

51

### 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.

Income from operations of discontinued businesses, net of tax, for the 40 weeks ended December 2, 2006 was \$0.4 million as compared to \$1.7 million for the 40 weeks ended December 3, 2005, which was primarily due to adjustments as a result of changes in estimates partially offset by interest accretion on future occupancy payments that were recorded at present value at the time of the original charge.

The gain on disposal of discontinued operations, net of tax, was \$0.6 million for 40 weeks ended December 3, 2005 which was related to the sale of a Kohl's warehouse in the third quarter of fiscal 2005. There were no similar gains for the 40 weeks ended December 2, 2006.

### LIQUIDITY AND CAPITAL RESOURCES

#### CASH FLOWS

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

	Dec. 2, 2006	Dec. 3, 2005
	-----	-----
Net cash used in operating activities	\$ (42,864)	\$ (157,462)
	-----	-----
Net cash provided by investing activities	\$ 52,858	\$ 429,777
	-----	-----
Net cash used in financing activities	\$ (146,915)	\$ (402,634)
	-----	-----

Net cash flow used in operating activities of \$42.9 million for the 40 weeks ended December 2, 2006 primarily reflected our net income of \$34.1 million, adjusted for non-cash charges for (i.) depreciation and amortization of \$135.8 million, (ii.) asset disposition initiatives of \$3.7 million, partially offset by (iii.) gains on the disposal of owned property of \$23.2 million, (iv.) income

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

tax benefit of \$61.5 million, and (v.) our equity in earnings of Metro, Inc. of \$30.8 million, and a decrease in accounts receivables of \$49.8 million partially offset by an increase in inventory of \$32.4 million, a decrease in accounts payable of \$10.2 million, a decrease in accrued salaries, wages and benefits of \$30.5 million, a decrease in other accruals of \$57.1 million primarily due to timing and a decrease in non-current liabilities of \$20.4 million due mainly to closed store accruals. Refer to Working Capital below for discussion of changes in working capital items. Net cash flow used in operating activities of \$157.5 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 \$163.1 million, (iii.) income tax provision of \$119.6 million, and (iv.) 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.

52

Net cash flow provided by investing activities of \$52.9 million for the 40 weeks ended December 2, 2006 primarily reflected proceeds received from the sale of certain of our assets of \$37.5 million, a decrease in restricted cash of \$142.7 million, and net proceeds from maturities of marketable securities of \$82.2 million partially, offset by the purchase of 6 Clemens Markets stores from C&S Wholesale Grocers, Inc. of \$24.7 million, and property expenditures totaling \$184.0 million, which included 3 new supermarkets, 26 major remodels and 33 minor remodels. For the remainder of fiscal 2006, we have planned capital expenditures of approximately \$15 to \$20 million, which relates primarily to enlarging or remodeling approximately 6 supermarkets. We currently expect to close approximately 2 to 4 stores during the remainder of fiscal 2006. Net cash flow provided by investing activities of \$429.8 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, an increase in restricted cash of \$146.7 million, and net purchases of marketable securities of \$243.0 million.

Net cash flow used in financing activities of \$146.9 million for the 40 weeks ended December 2, 2006 primarily reflected principal payments on long term borrowings of \$1,134.5 million, principal payments on capital leases of \$4.1 million, and dividends paid of \$299.1 million partially offset by proceeds from long-term borrowings of \$1,262.9 million, proceeds from the exercise of stock options of \$5.0 million and an increase in book overdrafts of \$19.7 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 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.

On April 25, 2006, our Company paid a special one-time dividend to our shareholders of record on April 17, 2006 equal to \$7.25 per share. This dividend payout totaling \$299.1 million was considered a return of capital to our shareholders and accordingly was recorded as a reduction of "Additional paid in capital" in our Consolidated Balance Sheets at December 2, 2006. The transaction was funded primarily by cash available on the balance sheet resulting from the strategic restructuring of the Company during fiscal 2005.

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

We believe that our present cash resources, including invested cash on hand as well as our marketable securities, available borrowings from our Revolver 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 would be able to liquidate our investment in Metro, Inc. and or modify the operating plan in order to ensure that we have appropriate resources.

### WORKING CAPITAL

-----  
We had working capital of \$277.2 million at December 2, 2006 compared to working capital of \$599.7 million at February 25, 2006. We had cash and cash equivalents aggregating \$92.7 million at December 2, 2006 compared to \$229.6 million at February 25, 2006. The decrease in working capital was attributable primarily to the following:

53

- o A decrease in cash and cash equivalents as detailed in the Statements of Consolidated Cash Flows;
- o A decrease in restricted cash and marketable securities due to the payment of a one-time special dividend as discussed in Note 3 - Special One-Time Dividend;
- o A decrease in accounts receivable due to the timing and collection of receipts;
- o An increase in the current portion of our long-term debt primarily due to our 7.75% Notes becoming due on April 15, 2007; and
- o An increase in accounts payable (inclusive of book overdrafts) due to timing of payments.

Partially offset by the following:

- o An increase in inventories due to seasonality;
- o A decrease in accrued salaries, wages and benefits due to timing of payments; and
- o A decrease in other accruals due to timing.

### REVOLVING CREDIT AGREEMENT

-----  
During fiscal 2005, 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 secured a \$150 million Revolver with four lenders enabling us to borrow funds on a revolving basis for working capital loans and letters of credit. The Revolver includes a \$100 million accordion feature which gives us the ability to increase commitments from \$150 million to \$250 million. Effective April 4, 2006, we exercised the accordion option and increased our commitments 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.

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

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. At December 2, 2006, there were no letters of credit outstanding under this agreement; however, there were \$128.5 million in outstanding borrowings under the Revolver. As of December 2, 2006, after reducing availability for borrowing base requirements, we had \$121.5 million available under the Revolver. Combined with cash we held in short-term investments and restricted marketable securities of \$88.3 million, we had total cash availability of \$209.8 million at December 2, 2006.

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

During the third quarter of fiscal 2006, the Company transferred 6,000,000 of our Class A subordinate shares of Metro, Inc. from our foreign subsidiary to the United States. These transferred shares are being used as collateral for our new Letter of Credit Agreement that we entered into during fiscal 2005 and has allowed us to reduce the amount of restricted cash and/or marketable securities we were required to maintain as collateral previously.

54

### PUBLIC DEBT OBLIGATIONS

-----  
Outstanding notes totaling \$244.7 million at December 2, 2006 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 Revolver 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 cash tender offer in fiscal 2005. Our notes are not guaranteed by any of our subsidiaries.

### OTHER

-----  
We currently have active 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.

Although our Company paid a special one-time dividend to our shareholders of record on April 17, 2006 equal to \$7.25 per share, our Company's practice 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 2006. 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 \$1.6 million related to a shopping center, which will expire in 2011.

In the normal course of business, we have assigned to third parties various

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

leases related to former operating stores (the "Assigned Leases"). At the time the 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 2, 2006, 113 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 \$293.8 million, which could be partially or totally offset by reassigning or subletting such leases.

Our existing senior debt rating was Caal with negative outlook with Moody's Investors Service ("Moody's") and B- with stable outlook with Standard & Poor's Ratings Group ("S&P") as of December 2, 2006. Our liquidity rating was SGL3 with Moody's as of December 2, 2006. Our recovery rating was 1 with S&P as of December 2, 2006 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.

55

### 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.

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

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 2, 2006, we recorded impairment losses on long-lived assets as follows:

	12 weeks ended Dec. 2, 2006	40 weeks Dec. 2,
	-----	-----
Impairments due to closure or conversion in the normal course of business	\$ 1.0	\$
Impairments related to our asset disposition initiatives (1)	-	
	-----	-----
Total impairments	\$ 1.0	\$
	=====	=====

(1) Refer to Note 8 - Asset Disposition Initiatives

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 and Closed Warehouse Reserves

-----

For closed stores and warehouses 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 and warehouse 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 2, 2006, we had recorded liabilities for estimated probable obligations of \$167 million. Of this amount, \$17 million relates to stores closed in the normal course of business, \$141 million relates to stores and warehouses closed as part of the asset disposition initiatives (see Note 8 of our Consolidated Financial Statements), and \$9 million relates to stores closed as part of our exit of the northern New England and Kohl's businesses (see Note 7 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

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

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.

### Income Taxes

-----  
As discussed in Note 11 of the Consolidated Financial Statements, our Company recorded a valuation allowance for the entire U.S. net deferred tax asset since, in accordance with SFAS 109; it was more likely than not that the net deferred tax asset would not be utilized based on historical cumulative losses. Under SFAS 109, this valuation allowance could be reversed in future periods if our Company experiences improvement in our U.S. operations.

### IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

-----  
In October 2005, the Financial Accounting Standards Board ("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 was effective for our Company as of the first quarter of fiscal 2006. We evaluated the provisions of FSP FAS 13-1 and have adopted the guidance. This adoption did not have a material impact on our Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement 109 ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

57

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 (our year ended February 28, 2009). Our Company is currently evaluating the impact, if any, of the provisions of SFAS 157.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined



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

Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158") and is effective for our fiscal year ended February 24, 2007. SFAS 158 was issued to improve the overall financial statement presentation of pension and other postretirement plans and does not impact the determination of net periodic benefit cost or the measurement of plan assets or obligations. This standard requires companies to recognize the funded status of their defined benefit pension and other postretirement benefit plans as a net liability or asset on their balance sheets and requires any unrecognized prior service costs and actuarial gains or losses to be recognized as a component of accumulated other comprehensive income or loss. Additionally, SFAS 158 no longer allows companies to measure their plans as of any date other than the end of their fiscal year; however, this provision is not effective for companies until fiscal years ending after December 15, 2008 (our year ended February 28, 2009). We currently measure our plan assets and obligations using a December 31 measurement date. Had this new standard been in effect for our fiscal year ended February 25, 2006, we estimate that our stockholders' equity would have been increased by approximately \$17 million. The impact of adoption could differ materially from this estimate as it will reflect asset performance through the end of the calendar year as well as interest rates and other factors that will be applicable as of December 31, 2006.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). This bulletin provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessment. SAB 108 is effective for our fiscal year ending February 24, 2007. The cumulative effect, if any, of applying the provisions of SAB 108 will be reported as an adjustment to beginning-of-year retained earnings. We are currently evaluating the impact of SAB 108.

### 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.

58

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 \$374.9 million in total indebtedness as of December 2, 2006 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 2, 2006, a presumed 1% change in the variable floating rate would have impacted interest expense by \$0.3 million and \$0.6 million, respectively. During the 12 and 40 weeks ended December 3, 2005, a

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

presumed 1% change in 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 \$36.7 million at December 2, 2006. During the 12 and 40 weeks ended December 3, 2005, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of nil and \$3.0 million, respectively.

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, 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, our Company's President and Chief Executive Officer along with our Company's Senior Vice President, Chief Financial Officer, concluded that our Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes during our Company's fiscal quarter ended December 2, 2006 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.

59

### 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

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

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.

60

### PART II. OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS

None

#### ITEM 1A - RISK FACTORS

Set forth below is a summary of the material risks to an investment in our securities.

- o 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 merchandisers, warehouse clubs, drug stores, dollar 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.
- o Changes in the general business and economic conditions in our operating regions, including the rate of inflation, population growth, the rising prices of oil and gas, the nature and extent of continued consolidation in the food industry and employment and job growth in the markets in which we operate, may affect our ability to hire and train qualified employees to operate our stores. This would negatively affect earnings and sales growth. General economic changes may also affect the shopping habits and buying patterns of our customers, which could affect sales and earnings. We have assumed economic and competitive situations will not worsen in fiscal 2006 and 2007. However, we cannot fully foresee the effects of changes in economic conditions, inflation, population growth, the rising prices of oil and gas, customer shopping habits and the consolidation of the food industry on our business.
- o 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 or if performance varies significantly from expectations.
- o 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 reduce shrink 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

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

vendors.

- o 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.

61

- o The amount of contributions made to our pension and multi-employer plans will be affected by the performance of investments made by the plans and the extent to which trustees of the plans reduce the costs of future service benefits.
- o Our Company is currently required to acquire a significant amount of our saleable inventory from one supplier, C&S Wholesale Grocers, Inc. Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on reasonable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.
- o 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.

### ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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

None

### ITEM 5 - OTHER INFORMATION

None

## ITEM 6 - EXHIBITS

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

EXHIBIT NO. -----	DESCRIPTION -----
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)

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

- 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 and Item 8.01 to Form 8-K filed April 10, 2006)
- 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) and a technical amendment (incorporated herein by reference to Exhibit 10.1 to Form 10-K filed on May 9, 2006)
- 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)

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

- 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 October 25, 2004 (incorporated herein by reference to Exhibit 10.12 to Form 10-K filed on May 10, 2005)
- 10.13 Employment Agreement, made and entered into as of the 25th day of January, 2006, by and between our Company and Jennifer MacLeod (incorporated herein by reference to Exhibit 10.13 to Form 10-K filed on May 9, 2006)
- 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 (incorporated herein by reference to Exhibit 10.17 to Form 10-Q filed on January 6, 2006)
- 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

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

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, to Appendix B to the Proxy Statement dated May 27, 2005 and to Appendix B to the Proxy Statement dated May 25, 2006)
- 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 Description of 2006 Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.28 to Form 10-Q filed on July 21, 2006)
- 10.29 Form of 2006 Restricted Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.29 to Form 10-Q filed on July 21, 2006)
- 10.30 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)
- 10.31 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 and to Appendix C to the Proxy Statement dated May 25, 2006)
- 10.32 Description of Management Incentive Plan (incorporated herein by reference to Exhibit 10.30 to Form 10-K filed on May 9, 2006)
- 10.33 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)
- 10.34 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)
- 10.35 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)
- 10.36 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



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

- reference to Exhibit 10.41 to Form 10-Q filed on October 18, 2005)
- 10.37 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)
- 16 Letter on Change in Certifying Accountant (incorporated herein by reference to Forms 8-K filed on September 18, 2002 and September 24, 2002, and Form 8-K/A filed on September 24, 2002)
- 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 9, 2006)
- 31.1\* Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32\* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed with this 10-Q

67

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 9, 2007

By: /s/ Melissa E. Sungela

-----  
Melissa E. Sungela, Vice President,

Corporate Controller (Chief  
Accounting Officer)