GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
August 01, 2011

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

FORM 10-Q

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

For the quarterly period ended June 18, 2011

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 its 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)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock - $1 par value	OTC Markets, Inc.
9.375% Notes, due August 1, 2039	OTC Markets, Inc.

Securities registered pursuant to Section 12 (g) of the Act: None

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ________ Accelerated filer −−−−−−−− _________ Non-accelerated filer X
−−−−−−−−Smaller reporting company ________

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

The number of shares of common stock outstanding as of the close of business on July 27, 2011 was 53,852,470.

PART I – FINANCIAL INFORMATION

ITEM 1 – Financial Statements

The Great Atlantic & Pacific Tea Company, Inc.
(Debtors-in-Possession)
Consolidated Statements of Operations
(Dollars in thousands, except share and per share amounts)
(Unaudited)

	For the 16 Weeks Ended			
	June 18, 2011		June 19, 2010	
Sales	$	2,230,646	$	2,564,930
Cost of merchandise sold		(1,608,449)		(1,801,118)
Gross margin		622,197		763,812
Store operating, general and administrative expense		(788,727)		(821,016)
Goodwill, trademark and long-lived asset impairment		(55,418)		(5,398)
Loss from continuing operations before nonoperating income, interest expense, net and reorganization items, net		(221,948)		(62,602)
Nonoperating income		83		8,277
Interest expense, net		(48,454)		(61,142)
Reorganization items, net		77,878		-
Loss from continuing operations before income taxes		(192,441)		(115,467)
Benefit from (provision for) income taxes		14,650		(140)
Loss from continuing operations		(177,791)		(115,607)
Discontinued operations:				
Income (loss) from operations of discontinued businesses, net of income tax benefit of $1,142 and $0 for the 16 weeks ended June 18, 2011 and June 19, 2010, respectively		797		(7,115)
Gain on disposal of discontinued operations, net of income tax provision of $0 for the 16 weeks ended June 19, 2010		-		79
Reorganization items, net of income tax provision of $14,361 for the 16 weeks ended June 18, 2011		19,833		-
Income (loss) from discontinued operations		20,630		(7,036)
Net loss	$	(157,161)	$	(122,643)
Net (loss) income per share – basic:				
Continuing operations	$	(3.33)	$	(2.27)
Discontinued operations		0.38		(0.13)
Net loss per share – basic	$	(2.95)	$	(2.40)
Net (loss) income per share – diluted:				
Continuing operations	$	(3.33)	$	(4.60)
Discontinued operations		0.38		(0.23)

Net loss per share – diluted	$	(2.95)	$	(4.83)
Weighted average common shares outstanding:				
Basic		53,852,470		53,498,121
Diluted		53,852,470		30,524,651

See Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
16 Weeks Ended June 18, 2011	Shares	Amount	Capital	Loss	Deficit	Deficit
Balance at 2/26/2011	53,852,470	$53,852	$511,157	$ (75,309)	$ (1,630,664)	$ (1,140,964)
Net loss	-	-	-	-	(157,161)	(157,161)
Beneficial conversion feature related to preferred stock, net of accretion	-	-	(1,482)	-	-	(1,482)
Preferred stock financing fees amortization	-	-	(535)	-	-	(535)
Other share based awards	-	-	491	-	-	491
Other comprehensive loss	-	-	-	(1,236)	-	(1,236)
Balance at 06/18/2011	53,852,470	$53,852	$509,631	$ (76,545)	$ (1,787,825)	$ (1,300,887)
16 Weeks Ended June 19, 2010						
Balance at 2/27/2010	55,868,129	$55,868	$526,421	$ (79,403)	$ (1,032,089)	$ (529,203)
Net loss	-	-	-	-	(122,643)	(122,643)
Beneficial conversion feature related to preferred stock, net of accretion	-	-	(1,481)	-	-	(1,481)
Dividends on preferred stock	-	-	(4,308)	-	-	(4,308)
Preferred stock financing fees amortization	-	-	(534)	-	-	(534)
Stock options exercised	4,834	5	23	-	-	28
Other share based awards	250,245	250	(1,111)	-	-	(861)
Other comprehensive income	-	-	-	252	-	252
Balance at 06/19/2010	56,123,208	$56,123	$519,010	$ (79,151)	$ (1,154,732)	$ (658,750)

Comprehensive Loss	16 Weeks Ended	
	June 18, 2011	June 19, 2010
Net loss	$(157,161)	$(122,643)
	(1,236)	252

Pension and other postretirement benefits, net of tax of $1,719 and $0		
Other comprehensive (loss) income, net of tax of $1,719 and $0	(1,236)	252
Total comprehensive loss	$(158,397)	$(122,391)

See Notes to Consolidated Financial Statements.

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

Assets	June 18, 2011	February 26, 2011
Current assets:		
Cash and cash equivalents	$ 312,131	$ 352,607
Restricted cash	1,731	1,731
Accounts receivable, net of allowance for doubtful accounts of $5,189 and $5,554 at June 18, 2011 and February 26, 2011, respectively	161,982	209,966
Inventories, net	406,279	440,960
Prepaid expenses and other current assets	35,451	36,329
Assets held for sale	12,915	-
Total current assets	930,489	1,041,593
Non-current assets:		
Property:		
Property owned, net	1,040,903	1,163,853
Property under capital leases, net	60,296	63,346
Property, net	1,101,199	1,227,199
Goodwill	110,412	110,412
Intangible assets, net	120,988	124,288
Other assets	142,313	141,357
Total assets	$ 2,405,401	$ 2,644,849
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion of long-term debt	$ 350,000	$ -
Accounts payable	112,300	119,245
Book overdrafts	20,897	23,722
Accrued salaries, wages and benefits	105,111	109,428
Accrued taxes	32,309	26,175
Other accruals	75,427	65,048
Total current liabilities	696,044	343,618
Non-current liabilities:		
Long-term debt	-	350,000
Other non-current liabilities	75,539	74,162
Total liabilities not subject to compromise	771,583	767,780
Liabilities subject to compromise	2,789,412	2,874,734
Total liabilities	3,560,995	3,642,514
Series A redeemable preferred stock – no par value, $1,000 redemption value; authorized – 700,000 shares; issued 179,020 shares at June 18, 2011 and February 26, 2011	145,293	143,299

Commitments and contingencies (Refer to Note 20)				
Stockholders' deficit:				
Common stock – $1 par value; authorized – 260,000,000 shares; issued and outstanding – 53,852,470 shares at June 18, 2011 and February 26, 2011		53,852		53,852
Additional paid-in capital		509,631		511,157
Accumulated other comprehensive loss		(76,545)		(75,309)
Accumulated deficit		(1,787,825)		(1,630,664)
Total stockholders' deficit		(1,300,887)		(1,140,964)
Total liabilities and stockholders' deficit	$	2,405,401	$	2,644,849

See Notes to Consolidated Financial Statements.

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

	16 Weeks Ended June 18, 2011	16 Weeks Ended June 19, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (157,161)	$ (122,643)
Adjustments to reconcile net loss to net cash used in operating activities (see next page)	92,890	82,782
Other changes in assets and liabilities:		
Decrease in receivables	47,920	4,139
Decrease (increase) in inventories	26,573	(4,401)
(Increase) decrease in prepaid expenses and other current assets	(2,039)	1,209
Increase in other assets	(4,487)	(1,224)
(Decrease) increase in accounts payable	(21,151)	1,584
(Decrease) increase in accrued salaries, wages and benefits, and taxes	(1,853)	2,059
Increase (decrease) in other accruals	67,753	(1,763)
Decrease in other non-current liabilities	(67,943)	(19,978)
Other operating activities, net	(113)	(29)
Payment for reorganization items	(11,304)	-
Net cash used in operating activities	(30,915)	(58,265)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property	(11,177)	(19,668)
Proceeds from disposal of property	6,805	1,677
Decrease in restricted cash	-	302
Proceeds from sale of pharmacy assets	2,821	-
Net cash used in investing activities	(1,551)	(17,689)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	-	800
Principal payments on long-term debt	(55)	(69)
Principal payments on long-term real estate liabilities	(355)	(383)
Principal payments on capital leases	(3,360)	(3,775)
(Decrease) increase in book overdrafts	(2,825)	4,710
Payments of financing fees for debtor-in-possession financing	(1,415)	-
Deferred financing fees	-	(21)
Dividends paid on preferred stock	-	(7,000)
Proceeds from exercises of stock options	-	28
Net cash used in financing activities	(8,010)	(5,710)
Net decrease in cash and cash equivalents	(40,476)	(81,664)
Cash and cash equivalents at beginning of period	352,607	252,426
Cash and cash equivalents at end of period	$ 312,131	$ 170,762

See Notes to Consolidated Financial Statements.

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

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

	16 Weeks Ended	
	June 18, 2011	June 19, 2010
Depreciation and amortization	$ 59,444	$ 70,379
Impairment of long-lived assets	55,418	5,890
Nonoperating income	(83)	(8,277)
Non-cash interest expense	3,726	12,785
Stock compensation expense (income)	491	(861)
Pension withdrawal costs	13,923	-
Employee benefit related costs	3,672	1,965
LIFO adjustment	1,122	856
Asset disposition initiatives in the normal course of business	64,662	-
Asset disposition initiatives relating to discontinued operations	-	4
Non-cash occupancy charges for locations closed in the normal course of business	813	466
(Gains) losses on disposal of owned property and write-down of property, net	(146)	1,025
Amortization of deferred real estate income	(1,030)	(1,371)
Gain on disposal of discontinued operations	-	(79)
Gain on sale of pharmacy assets	(2,821)	-
C&S contract effect	6,986	-
Provision for deferred income taxes	(1,719)	-
Reorganization items, net relating to continuing operations	(77,878)	-
Reorganization items, net relating to discontinued operations	(34,194)	-
Financing fees	504	-
Total adjustments to net loss	$ 92,890	$ 82,782

See Notes to Consolidated Financial Statements.

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

1. Basis of Presentation

The accompanying Consolidated Statements of Operations, Consolidated Statements of Stockholders' Deficit and Comprehensive Loss, and Consolidated Statements of Cash Flows for the 16 weeks ended June 18, 2011 and June 19, 2010, and the Consolidated Balance Sheets at June 18, 2011 and February 26, 2011 of The Great Atlantic & Pacific Tea Company, Inc. ("we," "our," "us" or "our Company") are unaudited and, in the opinion of management, contain al 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 2010 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

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

Bankruptcy Filing
On December 12, 2010, our Company and all of our U.S. subsidiaries (the "Debtors") filed voluntary petitions for relief (the "Bankruptcy Filing") under chapter 11 of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York in White Plains (the "Bankruptcy Court"), which are being jointly administered under case number 10-24549. Management's decision to initiate the Bankruptcy Filing was in response to, among other things, our Company's deteriorating liquidity and management's conclusion that the challenges of successfully implementing additional financing initiatives and of obtaining necessary cost concessions from our Company's business and labor partners, was negatively impacting our Company's ability to implement our previously announced turnaround strategy. Our Company's non-U.S. subsidiaries, which are immaterial on a consolidated basis and have no retail operations, were not part of the Bankruptcy Filing.

We are currently operating as debtors-in-possession pursuant to the Bankruptcy Filing and continuation of our Company as a going-concern is contingent upon, among other things, the Debtors' ability (i) to comply with the terms and conditions of the DIP Credit Agreement described in Note 8 – Indebtedness and Other Financial Liabilities; (ii) to develop a plan of reorganization and obtain confirmation of that plan under the Bankruptcy Code; (iii) to reduce debt and other liabilities through the bankruptcy process; (iv) to return to profitability, including by securing necessary near-term cost concessions from our business and labor partners; (v) to generate sufficient cash flow from operations; and (vi) to obtain financing sources to meet our future obligations. The uncertainty regarding these matters raises substantial doubt about our ability to continue as a going concern.

Our Company was required to apply the FASB's provisions of Reorganizations effective on December 12, 2010, which is applicable to companies in chapter 11, which generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Bankruptcy Filing petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the Consolidated Statements of Operations beginning in the year ended February 26, 2011. The balance sheet must distinguish pre-Bankruptcy Filing liabilities subject to compromise from both those pre-Bankruptcy Filing liabilities that are not subject to compromise and from post-Bankruptcy Filing liabilities. As discussed in Note 8 - Indebtedness and Other Financial Liabilities, currently the Senior Secured Notes totaling $260.0

million have priority over the unsecured creditors of our Company. Based upon the uncertainty surrounding the ultimate treatment of the Notes in our reorganization plan, including the potential that these Notes may be impaired, these Notes are classified as “Liabilities subject to compromise” in our Consolidated Balance Sheets. Our Company continues to evaluate creditors' claims for other claims that may also have priority over unsecured creditors. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be approved by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization. In addition, cash used in reorganization items must be disclosed separately in our Consolidated Statements of Cash Flows.

Supply Agreement

On June 2, 2011, our Company entered into a definitive agreement with C&S Wholesale Grocers, Inc. (“C&S”) effective May 29, 2011, whereby C&S will provide warehousing, transportation, procurement, purchasing and ancillary services (the “Services”) in support of a substantial portion of our Company’s supply chain. This agreement terminates and replaces the warehousing, logistics, procurement and purchasing agreement under which the parties have been operating since 2008.

The term of the agreement is through the effective date of our Company’s plan of reorganization in its Bankruptcy Filing but may be extended by either party for a term concurrent with a fixed volume commitment based upon wholesale purchases of merchandise resulting in a term of approximately seven years. The cost structure of the agreement is a combination of a fixed cost and variable upcharge pricing model. The charges are subject to adjustment due to volume change or other material changes to the operating assumptions of the agreement.

Our Company expects it will realize a run-rate of more than $50 million in annual savings commencing with our Company's emergence from the Bankruptcy Filing pursuant to a plan of reorganization. The agreement provides our Company with important service enhancements, including detailed service specifications and key performance measures. The agreement also permits our Company to maintain product standards and specifications for all merchandise purchased for resale in our Company’s stores.

Significant Accounting Policies

A summary of our significant accounting policies may be found in our Annual Report on Form 10-K for the year ended February 26, 2011. There have been no significant changes in these policies during the 16 weeks ended June 18, 2011.

2. Recently Issued Accounting Pronouncements

Comprehensive Income. In June 2011, the FASB issued updated guidance on the presentation of comprehensive income, eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. All changes in our Company’s stockholders’ deficit will be presented in either a single continuous statement of comprehensive loss or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for public entities for fiscal years, and interim periods within those years, ending after December 15, 2011 with early adoption permitted. The impact of this update is expected to be immaterial.

3. Goodwill and Other Intangible Assets

The carrying values of our finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Our intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and other intangibles with indefinite useful lives that are not subject to amortization are tested for impairment in the fourth quarter of each fiscal year, or more frequently whenever events or changes in circumstances indicate that impairment may have occurred. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fourth quarter of fiscal 2010 for all of our reporting units in our reportable segments. This assessment concluded that there was no impairment.

Goodwill

The carrying amount of our goodwill was $110.4 million at June 18, 2011 and February 26, 2011, respectively. Our goodwill allocation by segment at June 18, 2011 and February 26, 2011 was as follows (in thousands):

	Fresh	Gourmet	Other	Total
Goodwill	$ 116,032	$ 12,110	$ 5,974	$ 134,116
Accumulated impairment losses	(23,704)	-	-	(23,704)
Goodwill at February 26, 2011	$ 92,328	$ 12,110	$ 5,974	$ 110,412
Goodwill	$ 116,032	$ 12,110	$ 5,974	$ 134,116
Accumulated impairment losses	(23,704)	-	-	(23,704)
Goodwill at June 18, 2011	$ 92,328	$ 12,110	$ 5,974	$ 110,412

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

Intangible Assets, net

Intangible assets acquired as part of our acquisition of Pathmark in December 2007 consisted of the following (in thousands):

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization at June 18, 2011	Accumulated Amortization at Feb. 26, 2011
Loyalty card customer relationships	5	$ 19,200	$ 13,114	$ 11,815
In-store advertiser relationships	20	14,720	2,604	2,378
Pharmacy payor relationships	13	75,000	20,414	18,639
Pathmark trademark	Indefinite	48,200	-	-
Total		$ 157,120	$ 36,132	$ 32,832

Amortization expense relating to our intangible assets for the 16 weeks ended June 18, 2011 and June 19, 2010 was $3.3 million during each period.

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

2011	$7,425
2012	9,670
2013	6,505
2014	6,505
2015	6,505
Thereafter	36,178

4. Fair Value Measurements

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

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity whose value is determined using pricing models, discounted cash flows, or similar methodologies, as well as instruments for which the determination of fair value requires significant judgment or estimation.

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of June 18, 2011 and February 26, 2011 (in thousands):

		Fair Value Measurements at June 18, 2011 Using		
	Total Carrying Value at June 18, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,552	$ -	$ 1,552	$ -
Liabilities:				
Series B warrant	$ 87	$ -	$ 87	$ -

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

		Fair Value Measurements at Feb. 26, 2011 Using		
	Total Carrying Value at Feb. 26, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,553	$ -	$ 1,553	$ -
Liabilities:				
Series B warrant	$ 170	$ -	$ 170	$ -

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the 16 weeks ended June 18, 2011.

Level 3 Valuations
We did not have any financial assets or liabilities classified as Level 3 within the fair value hierarchy as of June 18, 2011 and February 26, 2011.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis. Fair value measurements of our nonfinancial assets and nonfinancial liabilities on a nonrecurring basis using Level 3 inputs are primarily used in the impairment analyses of our goodwill and other indefinite-lived intangible assets, our long-lived assets and closed locations occupancy costs. Long-lived assets and closed locations occupancy costs were measured at fair value on a nonrecurring basis using Level 3 inputs, as unobservable inputs were used to measure their fair value. Refer to Note 5 – Valuation of Long-Lived Assets, Note 16 – Discontinued Operations and Note 17 – Asset Disposition Initiatives for more information relating to the valuation of these assets and liabilities.

Long-Term Debt
The following table provides the carrying values recorded on our balance sheet and the estimated fair values of financial instruments as of June 18, 2011 and February 26, 2011 (in thousands):

	At June 18, 2011		At February 26, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current portion of long-term debt	$ 350,000	$ 350,000	$ 159	$ 159
Long-term debt-subject to compromise, net of related discount	905,278	470,674	1,255,225	765,577

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

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

5. Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

Impairments due to closure or conversion in the normal course of business
We review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During the 16 weeks ended June 18, 2011 and June 19, 2010, we recorded impairment losses on long-lived assets of nil and $0.5 million, respectively, related to stores that were closed or converted in the normal course of business. These amounts were recorded within “Store operating, general and administrative expense” in our Consolidated Statements of Operations.

Impairments due to store closures
In February 2011, our Company obtained authority from the Bankruptcy Court to close 32 stores in six states as we continue to fully implement our comprehensive financial and operational restructuring. As a result, we recorded an impairment charge of $31.4 million during fiscal 2010, of which $19.4 million, $9.0 million and $3.0 million related our Fresh, Pathmark, and Other reporting segments, respectively. These store closures were completed on April 16, 2011. During the 16 weeks ended June 18, 2011, we recorded an additional impairment charge of $0.4 million, of which $0.3 million and $0.1 million were attributed to our Pathmark and Fresh reporting segments, respectively. These amounts were recorded within “Goodwill, trademark, and long-lived asset impairment” in our Consolidated Statements of Operations.

In April and May 2011, our Company obtained approval from the Bankruptcy Court to sell, or alternatively, to close, an additional 25 stores located in Maryland, Delaware and the District of Columbia (the “Southern Stores”). During the first quarter of fiscal 2011, our Company held an auction whereby we agreed to sell our interests in 12 of our existing stores based in Maryland and the District of Columbia, all of which are a part of our Fresh reportable segment, for approximately $37.8 million. The transactions closed during June and July 2011. During the 16 weeks ended June 18, 2011, we recorded an impairment charge of $2.9 million, all of which pertained to our Fresh reporting segment. These amounts were recorded within “Goodwill, trademark, and long-lived asset impairment” in our Consolidated Statements of Operations. These store closures were completed by July 9, 2011.

There were no such closures during the 16 weeks ended June 19, 2010.

Impairments due to unrecoverable assets
As a result of recently performed projections combined with continued cash flow loss experience, we determined that a triggering event had occurred that required us to test the related long-lived assets for potential impairment. We recorded an impairment charge of $52.1 million and $5.4 million during the 16 weeks ended June 18, 2011 and June 19, 2010, respectively, to partially write down these stores’ long-lived assets, which consist of favorable leases, capital leases, and land and buildings, with a carrying amount of $84.3 million to their fair value of $32.2 million and with a carrying amount of $40.5 million to their fair value of $35.1 million for the 16 weeks ended June 18, 2011 and June 19, 2010, respectively. The impairment charge of $52.1 million recorded during the 16 weeks ended June 18, 2011 all related to our Pathmark reportable segment. The impairment charge of $5.4 million recorded during the 16 weeks ended June 19, 2010, all related to our Pathmark reporting segment with the exception of $0.9 million which was attributed to our Fresh reporting segment. These amounts were recorded within “Goodwill, trademark, and long-lived

asset impairment" in our Consolidated Statements of Operations.

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

6. Other Accruals

Other accruals at June 18, 2011 and February 26, 2011 were comprised of the following (in thousands):

	At June 18, 2011			At February 26, 2011		
	Other Accruals Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Other Accruals	Other Accruals Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Other Accruals
Self-insurance reserves	$ 52,446	$ (43,406)	$ 9,040	$ 47,792	$ (45,466)	$ 2,326
Deferred taxes	27,064	-	27,064	28,335	-	28,335
Closed locations reserves	6,261	(6,261)	-	11,358	(11,358)	-
Damages claim for rejected leases	168,796	(168,796)	-	106,642	(106,642)	-
Pension withdrawal liabilities	10,461	(10,461)	-	10,461	(10,461)	-
GHI liability for employee benefits	7,946	(7,946)	-	7,776	(7,776)	-
Accrued occupancy-related costs for open stores	40,721	(22,200)	18,521	48,742	(24,523)	24,219
Deferred income	20,664	(11,931)	8,733	23,299	(21,363)	1,936
Deferred real estate income	1,799	(1,799)	-	2,508	(2,508)	-
Accrued audit, legal and other	10,377	(6,886)	3,491	11,777	(8,118)	3,659
Accrued interest	49,213	(43,021)	6,192	35,600	(33,921)	1,679
Other postretirement and postemployment benefits	2,918	(2,918)	-	2,918	(2,918)	-
Accrued advertising	488	-	488	718	-	718
Other accruals	11,208	(9,310)	1,898	10,181	(8,005)	2,176
Total	$ 410,362	$ (334,935)	$ 75,427	$ 348,107	$ (283,059)	$ 65,048

1 Refer to Note 9 – Liabilities subject to compromise for additional information.

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7. Other Non-Current Liabilities

Other non-current liabilities at June 18, 2011 and February 26, 2011 were comprised of the following (in thousands):

	At June 18, 2011			At February 26, 2011		
	Non-Current Liabilities Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Other Non-Current Liabilities	Non-Current Liabilities Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Other Non-Current Liabilities
Self-insurance reserves	$ 365,797	$ (352,854)	$ 12,943	$ 366,891	$ (354,704)	$ 12,187
Closed locations reserves	5,093	(5,093)	-	39,192	(39,192)	-
Pension withdrawal liabilities	102,152	(102,152)	-	86,735	(86,735)	-
GHI liability for employee benefits	88,755	(88,755)	-	86,505	(86,505)	-
Pension plan benefits	127,659	(127,659)	-	125,000	(125,000)	-
Other postretirement and postemployment benefits	38,913	(38,913)	-	38,737	(38,737)	-
Loans on life insurance policies	61,943	-	61,943	61,943	-	61,943
Deferred rent liabilities	51,570	(51,524)	46	56,287	(56,287)	-
Deferred income	22,676	(22,112)	564	53,031	(53,031)	-
Deferred real estate income	33,196	(33,196)	-	86,801	(86,801)	-
Unfavorable lease liabilities	825	(825)	-	4,201	(4,201)	-
Other non-current liabilities	10,721	(10,678)	43	11,348	(11,316)	32
Total	$ 909,300	$ (833,761)	$ 75,539	$ 1,016,671	$ (942,509)	$ 74,162

1 Refer to Note 9 – Liabilities subject to compromise for additional information.

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(Unaudited)

8. Indebtedness and Other Financial Liabilities

Our debt obligations at June 18, 2011 and February 26, 2011 consisted of the following (in thousands):

	At June 18, 2011			At February 26, 2011		
	Indebtedness Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Indebtedness	Indebtedness Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise1	Indebtedness
Debtor-in-Possession Credit Agreement, due June 14, 2012	$ 350,000	$ -	$ 350,000	$ 350,000	$ -	$ 350,000
Related Party Promissory Note, due August 18, 2011	10,000	(10,000)	-	10,000	(10,000)	-
5.125% Convertible Senior Notes, due June 15, 2011	165,000	(165,000)	-	165,000	(165,000)	-
9.125% Senior Notes, due December 15, 2011	12,840	(12,840)	-	12,840	(12,840)	-
6.750% Convertible Senior Notes, due December 15, 2012	255,000	(255,000)	-	255,000	(255,000)	-
11.375% Senior Secured Notes, due August 1, 2015	260,000	(260,000)	-	260,000	(260,000)	-
9.375% Notes, due August 1, 2039	200,000	(200,000)	-	200,000	(200,000)	-
Other	2,438	(2,438)	-	2,544	(2,544)	-
Subtotal	1,255,278	(905,278)	350,000	1,255,384	(905,384)	350,000
Less current portion of long-term debt	(350,000)	-	(350,000)	(159)	159	-
Long-term debt	$ 905,278	$ (905,278)	$ -	$ 1,255,225	$ (905,225)	$ 350,000

1 Refer to Note 9 – Liabilities subject to compromise for additional information.

DEBTOR-IN-POSSESSION CREDIT AGREEMENT
In connection with the Bankruptcy Filing, on December 13, 2010, the Bankruptcy Court entered its interim financing order, among other things, permitting us to enter into a Superpriority Debtor-in-Possession Credit Agreement (as amended and restated in its entirety by that certain Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of December 21, 2010, further amended and restated in its entirety by that certain Second Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of January 10, 2011, further

amended and restated in its entirety by that certain Third Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of January 13, 2011, further amended (subsequent to the reporting period) by that certain First Amendment to the Third Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of July 8, 2011 ("the First Amendment to the DIP Credit Agreement"), as may be therefore further amended, amended and restated, supplemented or otherwise modified from time to time (the "DIP Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent and as collateral agent (in such capacity, the "Agent"), the lenders from time to time party thereto (collectively, the "DIP Lenders") and our Company and certain subsidiaries as borrowers thereunder. On December 14, 2010, we satisfied all of the conditions to the effectiveness of the DIP Credit Agreement and to the initial closing thereunder and consummated the transactions contemplated thereunder including the refinancing in full of our Company's and its applicable subsidiaries' obligations under the pre-existing first lien credit facility. The Bankruptcy Court entered a final order approving the DIP Credit Agreement on January 11, 2011. Pursuant to the terms of the DIP Credit Agreement:

- the DIP Lenders agreed to lend up to $800.0 million in the form of a $350.0 million term loan and a $450.0 million revolving credit facility with a $250.0 million sublimit for letters of credit, in each case subject to the terms and conditions therein;

- our Company's and the Subsidiary Borrower's obligations under the DIP Credit Agreement and the other specified loan documents are guaranteed by our Company's certain other subsidiaries that are Debtors ("Subsidiary Guarantors" and, together with our Company and the Subsidiary Borrowers, the "Loan Parties"); and

- the Loan Parties' obligations under the DIP Credit Agreement and such other specified loan documents are secured by a security interest in, and lien upon, substantially all of the Loan Parties' existing and after-acquired personal and real property, having the priority and subject to the terms therein and in the order(s) entered into by the Bankruptcy Court, as applicable.

Our Company will have the option to have interest on the revolving loans under the revolving credit facility provided under the DIP Credit Agreement accrue at an alternate base rate plus 200 basis points or at adjusted LIBOR plus 300 basis points. Our Company will have the option to have interest on the term loan provided under the DIP Credit Agreement accrue at an alternate base rate plus 600 basis points or at adjusted LIBOR (with a floor of 175 basis points) plus 700 basis points. The DIP Credit Agreement limits, among other things, our Company's and the other Loan Parties' ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay certain indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of certain indebtedness and certain material contracts. Notably, however, the DIP Credit Agreement permits our Company to use the proceeds generated from the sale of the Southern Stores in the operation of our business rather than requiring us to use those proceeds to reduce the Loan Parties' outstanding indebtedness under the DIP Credit Agreement.

The DIP Credit Agreement also contains certain financial covenants, including a minimum excess availability covenant of $100.0 million (or $75.0 million at any time after August 13, 2011 but on or before November 5, 2011, or $50.0 million at any time after November 5, 2011), minimum liquidity covenant of $100.0 million and minimum cumulative EBITDA covenant as defined in the DIP Credit Agreement. Minimum cumulative EBITDA measured beginning on April 24, 2011 is as follows (in millions):

Date	Minimum Cumulative EBITDA
August 13, 2011	$ -
September 10, 2011	10.0
October 8, 2011	20.0
November 5, 2011	35.0

December 3, 2011	50.0
December 31, 2011	65.0
January 28, 2012	90.0
February 25, 2012	100.0
March 24, 2012	110.0
April 21, 2012	125.0
May 19, 2012	150.0
June 16, 2012	175.0

Meeting our EBITDA covenant requires increasing levels of performance throughout the year, including the successful implementation of our business improvement initiatives. As of the balance sheet date, we have entered into a definitive agreement with C&S to provide services and we are in the process of negotiating with union locals to obtain consensual modifications to collective bargaining agreements necessary for our successful reorganization. We may not achieve our minimum cumulative EBITDA covenant. A financial covenant violation could result in termination of the DIP Credit Agreement and/or termination of our access to funding thereunder. If either (or both) of those were to occur, our Company could be without sufficient cash availability to meet our operating needs or satisfy our obligations as they fall due, in which instance we may be unable to successfully reorganize.

The DIP Credit Agreement matures upon the earliest to occur of (a) June 14, 2012, (b) the acceleration of the loans and the termination of the commitment thereunder, and (c) the substantial consummation (as defined in Section 1101(2) of the Bankruptcy Code, which for purposes hereof shall be no later than the effective date thereof) of a plan of reorganization that is confirmed pursuant to an order entered by the Bankruptcy Court.

Warrants

Our Series B warrants issued as part of the acquisition of Pathmark on December 3, 2007, are exercisable at $32.40 and expire on June 9, 2015. The Tengelmann Warenhandelsgesellschaft KG (“Tengelmann”) stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengelmann’s outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengelmann Stockholder Agreement). In addition, Tengelmann has the ability to exercise a “Put Right” whereby it has the ability to require our Company to purchase our common stock held by Tengelmann to settle these warrants. Based on the rights provided to Tengelmann, our Company does not have sole discretion to determine whether the payment upon exercise of these warrants will be settled in cash or through issuance of an equivalent portion of our shares. Therefore, these warrants are recorded as liabilities and marked-to-market each reporting period based on our Company’s current stock price.

The value of the Series B warrants as of June 18, 2011 and February 26, 2011 was $0.1 million and $0.2 million, respectively, and is included in “Liabilities subject to compromise” in our Consolidated Balance Sheets. Our “Nonoperating income” for the 16 weeks ended June 18, 2011 and June 19, 2010 was comprised of gains of approximately $0.1 million and $8.3 million, respectively, relating to market value adjustments for Series B warrants.
The following assumptions and estimates were used in the Black-Scholes model used to value the Series B warrants:

	At June 18, 2011	At Feb. 26, 2011
Expected life	3.98 Years	4.29 Years
Volatility	116.7%	111.3%
Dividend yield range	0%	0%

Risk-free interest rate	1.53%	2.16%

Call Option and Financing Warrants

On or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC," which accounts for 50% of our call option and financing warrant transactions, filed for bankruptcy protection, which is an event of default under such transactions. We are monitoring the developments affecting LBOTC, noting the impact of the LBOTC bankruptcy effectively reduced conversion prices for 50% of our convertible senior notes to their stated prices of $36.40 for the 5.125% Notes and $37.80 for the 6.750% Notes.

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

9. Liabilities Subject to Compromise

As a result of the Bankruptcy Filing, the payment of pre-petition indebtedness is subject to compromise or other treatment under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-Bankruptcy Filing liabilities are stayed. Although payment of pre-petition claims generally is not permitted, the Bankruptcy Court granted the Debtor authority to pay certain pre-petition claims in designated categories and subject to certain terms and conditions. This relief generally was designed to preserve the value of our Company's businesses and assets. Among other things, the Bankruptcy Court authorized us to pay certain pre-petition claims relating to employee wages and benefits, customers, vendors, and suppliers.

We have been paying and intend to continue to pay undisputed post-petition claims in the ordinary course of business. In addition, we may reject pre-petition executory contracts and unexpired leases with respect to our operations, with the approval of the Bankruptcy Court. Any damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as "Liabilities subject to compromise" in our Consolidated Balance Sheets. We previously notified all known claimants subject to the bar date of their need to file a proof of claim with the Bankruptcy Court. A bar date is the date by which claims against our Company must be filed if the claimants disagree with the amounts included in our schedule of assets and liabilities filed with the Bankruptcy Court and wish to receive any distribution in the Bankruptcy Filing. The bar date of June 17, 2011 set by the Bankruptcy Court has passed. Thus far, claimants filed over nine thousand claims against our Company, asserting approximately $27.8 billion worth of liabilities. Our Company and our retained professionals are continuing to review and analyze the proofs of claim submitted by claimants and will investigate any material differences between these claims and liability amounts estimated by our Company. If necessary, in the event of a claims dispute, the Bankruptcy Court will make a final determination whether such claims should be allowed and, if so, the appropriate amount of such allowed claims. The ultimate amount of such liabilities is not determinable at this time.

Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as "Liabilities subject to compromise" may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, or other events. We expect that certain amounts currently classified as "Liabilities subject to compromise" may in fact be paid in the ordinary course as they come due. Any resulting changes in classification will be reflected in subsequent financial statements.

Liabilities subject to compromise consist of the following (in thousands):

	At June 18, 2011	At February 26, 2011
Accounts payable	$ 204,044	$ 212,135
Accrued salaries, wages, and benefits	10,941	10,939
Self-insurance reserves	396,260	400,170
Closed locations reserves	11,354	50,550
Damages claim for rejected leases	168,796	106,642
Pension withdrawal liabilities	112,613	97,196
GHI liability for employee benefits	96,701	94,281
Accrued occupancy related costs for open stores	22,200	24,523
Deferred income	34,043	74,394
Deferred real estate income	34,995	89,309
Accrued audit, legal and other	6,886	8,118
Accrued interest	43,021	33,921
Other postretirement and postemployment benefits	41,831	41,655
Other accruals	9,310	8,005
Pension plan benefits	127,659	125,000
Deferred rent liabilities	51,524	56,287
Unfavorable lease liabilities	825	4,201
Other noncurrent liabilities	10,678	11,316
5.125% Convertible Senior Notes, due June 15, 2011	165,000	165,000
Related Party Promissory Note, due August 18, 2011	10,000	10,000
9.125% Senior Notes, due December 15, 2011	12,840	12,840
6.750% Convertible Senior Notes, due December 15, 2012	255,000	255,000
11.375% Senior Secured Notes, due August 1, 2015	260,000	260,000
9.375% Notes, due August 1, 2039	200,000	200,000
Other debt	2,525	2,714
Obligations under capital leases	110,337	121,058
Real estate liabilities	390,029	399,480
Total liabilities subject to compromise	$ 2,789,412	$ 2,874,734

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Rejected Leases
During the 16 weeks ended June 18, 2011, we rejected 44 of our leases through the bankruptcy process. We reduced the reserves balance associated with these leases by $39.0 million, net to the allowance claim for damages of $168.8 million. The remaining closed locations reserves balance of $11.3 million pertains to locations for which the leases have not been rejected. In connection with the 44 rejected leases, the related deferred real estate income, unfavorable lease liabilities, obligations under capital leases and real estate liabilities were written off, all which were recorded to "Reorganization items, net" in our Consolidated Statements of Operations. Refer to Note 14 – Reorganization Items, Net, for further discussion of our rejected leases.

Non-debtor Financing Agreements
Intercompany financing agreements with foreign non-Debtor subsidiaries of $94.1 million are not reflected in the above liabilities subject to compromise table as these amounts were eliminated on a consolidated basis.

10. Redeemable Preferred Stock

On August 4, 2009, our Company issued 60,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann Warenhandelsgesellschaft KG ("Tengelmann") and 115,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-Y, without par value, to affiliates of Yucaipa Companies LLC ("Yucaipa"), together referred to as the "Preferred Stock," for approximately $162.8 million, after deducting approximately $12.2 million in closing and issuance costs. Each share of the Preferred Stock has an initial liquidation preference of one thousand dollars, subject to adjustment.

The Preferred Stock issuance was classified within temporary stockholders' equity in our Consolidated Balance Sheets as of June 18, 2011 and February 26, 2011. The holders of the Preferred Stock are entitled under a pre-bankruptcy agreement to an 8.0% dividend, payable quarterly in arrears in cash or in additional shares of Preferred Stock if our Company does not meet the liquidity levels required to pay the dividends. However, no dividends have been paid during the pendency of our bankruptcy case.

On November 24, 2010 our Company's Board of Directors authorized a payment-in-kind ("PIK") dividend on our Preferred Stock, payable on December 15, 2010 to holders of record on November 15, 2010 ("Record Date"). Dividends are required to be PIK in the event our Company does not have the ability to pay the dividends in cash. As of the Record Date, we did not have the ability to pay the dividends in cash. The calculation of PIK dividends on our Preferred Stock is based upon the rate defined by the original terms of the Preferred Stock at 9.5% per annum. The PIK dividends of approximately $4.0 million are included in "Series A Redeemable Preferred Stock" in our Consolidated Balance Sheets.

Deferred financing fees amortization and embedded beneficial conversion features accretion for the 16 weeks ended June 18, 2011 and June 19, 2010 was $0.5 million and $1.5 million, respectively, during each period. During the 16 weeks ended June 19, 2010, we accrued Preferred Stock dividends of $4.3 million, within "Additional paid-in capital" and paid Preferred Stock cash dividends of $7.0 million.

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11. Stock Based Compensation

At June 18, 2011, we had two stock-based compensation plans, the 2008 Long Term Incentive and Share Award Plan and the 2004 Non-Employee Director Compensation Plan. The general terms of each plan are reported in our Fiscal 2010 Annual Report on Form 10-K.

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

	For the 16 Weeks Ended	
	June 18, 2011	June 19, 2010
Stock options	$ 756	$ (368)
Restricted stock units	199	231
Performance restricted stock units	-	(973)
Common stock granted to Directors	(464)	249
Total stock-based compensation expense (income)	$ 491	$ (861)

There were no stock-based grants during the 16 weeks ended June 18, 2011.

Stock options
As of June 18, 2011, approximately $6.7 million, after tax, of total unrecognized compensation expense related to unvested stock option awards will be recognized over a weighted average period of 2.1 years.