GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-K
May 10, 2011

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

FORM 10-K

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

For the fiscal year ended February 26, 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 if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes [ ] No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 ------- X Non-accelerated filer _________ 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 aggregate market value of the voting stock held by non-affiliates of the Registrant as of the close of business on September 11, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was $23,170,101.

The number of shares of common stock outstanding as of the close of business on April 29, 2011 was 53,852,470.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III, Items 10, 11, 12, 13, and 14, and Part IV, Item 15 are incorporated by reference in an amendment to this Annual Report on Form 10-K, which will be filed by the registrant within 120 days after the close of its 2010 fiscal year.

PART I

ITEM 1 – Business

General

The Great Atlantic & Pacific Tea Company, Inc. ("A&P", "we", "our", "us" or "our Company") is engaged in the retail fo business. We operated 393 stores averaging approximately 42,000 square feet per store as of February 26, 2011.

Operating under the trade names A&P®, SuperFresh®, Waldbaum's®, Super Foodmart®, Food Basics®, The Food Emporium®, Best Cellars®, Best Cellars at A&P®, Pathmark® and Pathmark Sav-A-Center®, we sell groceries, meat, fresh produce and other items commonly offered in supermarkets and wine, beer and spirits in our Best Cellars® and Best Cellars at A&P® locations. In addition, many of our stores offer bakeries, delicatessens, pharmacies, floral departments, fresh seafood and cheese departments and on-site banking. National, regional and local brands are sold as well as a selection of our private label brands. In support of our retail operations, we sell private label products in our stores under other brand names of our Company which include, without limitation, America's Choice®, America's Choice Gold®, America's Choice Healthy Kids®, Hartford Reserve®, Smart Price®, Green Way®, Via Roma®, and Live Better Wellness®.

Building upon a broad base of supermarkets, our Company has historically expanded and diversified within the retail food business through the acquisition of other supermarket chains and the development of several alternative store types. We now operate our stores with merchandise, pricing and identities tailored to appeal to different segments of the market, including buyers seeking gourmet and ethnic foods, a wide variety of premium quality private label goods and health and beauty aids along with the array of traditional grocery products.

Our Internet address is www.aptea.com. We make available free of charge through our Internet website our annual reports as soon as reasonably practicable after we electronically file such material with, or furnish them to, the Securities and Exchange Commission. All of such materials are located at the "Investors" page. We also provide through our Internet website a hyperlink to the Securities and Exchange Commission ("SEC") website, where the Company's quarterly reports on Form 10-Q, current reports on Form 8-K, and Forms 3, 4 and 5 filed with respect to our equity securities under Section 16(a) of the Securities Exchange Act of 1934, as amended, may be accessed electronically. The information found on our website shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended (collectively, the "Acts"), and shall not otherwise be deemed filed under the Acts.

Bankruptcy Filing

On December 12, 2010 (the "Petition Date"), 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"), case number 10-24549. Management's decision to make 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.

Our Company was required to apply the FASB's provisions of Reorganizations effective on the Petition Date, 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. The balance sheet must distinguish prepetition liabilities subject to compromise from both those prepetition liabilities that are not subject to compromise and from post-petition liabilities. As discussed in Note 9 to our Consolidated Financial Statements - Indebtedness and Other Financial Liabilities, currently the Superpriority Debtor-in-Possession Credit Agreement is senior to all debt. 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 on 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 or reorganization. In addition, cash provided by reorganization items must be disclosed separately in the Consolidated Statements of Cash Flows. Lastly, these accompanying consolidated financial statements do not reflect any adjustments of the carrying value of assets and liabilities which may result from any plan of reorganization adopted by our Company.

Reporting Requirements

As a result of the Bankruptcy Filing, our Company is now required to file various documents with, and provide certain information to, the Bankruptcy Court and various third parties, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports in forms prescribed by federal bankruptcy law, as well as certain financial information on an unconsolidated basis. Such materials will be prepared according to requirements of federal bankruptcy law. Although such materials accurately provide then-current information required under federal bankruptcy law, they are nonetheless unconsolidated, unaudited, and are prepared in a format different from that used in our Company's consolidated financial statements filed under the securities laws. Accordingly, our Company believes that the substance and format do not allow meaningful comparison with its regular publicly disclosed consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to our Company's securities, or for comparison with other financial information filed with the SEC.

Notifications

Shortly after the Petition Date, our Company began notifying current or potential creditors of the Bankruptcy Filing. Subject to certain exceptions under the Bankruptcy Code, the Bankruptcy Filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against our Company or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from our Company, or to create, perfect or enforce any lien against the property of our Company, or to collect on monies owed or otherwise exercise rights or remedies with respect to a claim arising prior to the Petition Date are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business. Certain creditors and other parties in interest have filed motions for relief from the automatic stay with the Bankruptcy Court, although no such motions have been granted (or resolved consensually with our Company) on a basis that would have a material effect on our Company’s businesses. Nonetheless, there can be no assurance that the Bankruptcy Court will not at some future date grant relief from the automatic stay, or other similar creditor relief, that would have a material, adverse effect on our Company’s businesses.

Creditors' Committee

As required by the Bankruptcy Code, the United States trustee for the Southern District of New York appointed the Creditors' Committee. The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to our Company. There can be no assurance that the Creditors' Committee will support our Company’s positions on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization, and the Creditors' Committee in fact has taken positions adverse to our Company in proceedings related to the Chapter 11 Filing. Disagreements between the Company and the Creditors' Committee could protract the court proceedings, negatively impact our Company’s ability to operate and delay the Company’s emergence from Chapter 11.

Executory Contracts — Section 365

Under section 365 and other relevant sections of the Bankruptcy Code, our Company may assume, assume and assign, or reject certain executory contracts and unexpired leases, including, without limitation, leases of real property, subject to the approval of the Bankruptcy Court and certain other conditions. Any description of an executory contract or unexpired lease in this Form 10-K, including, where applicable, our Company’s express termination rights or a quantification of our obligations, must be read in conjunction with, and is qualified by, any overriding rejection rights our Company have under section 365 of the Bankruptcy Code. Claims may arise as a result of rejecting any executory contract. At this time, we are unable to estimate precisely the rejection damages that may result from rejecting any leases or other executory contracts.

Plan of Reorganization

In order to emerge successfully from bankruptcy, our Company will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve our Company obligations arising prior to the Petition Date, set forth the revised capital structure of the newly reorganized entities and establish the framework for corporate governance subsequent to exit from bankruptcy.

Automatically, upon commencing the Chapter 11 Filing, our Company under the Bankruptcy Code had the exclusive right for 120 days after the Petition Date to file a plan of reorganization. Our Company has since obtained court approval extending this exclusivity through August 31, 2011. If we do file a plan, our Company will be entitled to 60 additional days to obtain necessary acceptances of our plan.

In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed, by the Bankruptcy Court in order to become effective.

A plan of reorganization will be deemed accepted by holders of claims against and equity interests in our Company if (1) at least one-half in number and two-thirds in dollar amount of claims actually voting in each impaired class of claims have voted to accept the plan, and (2) at least two-thirds in amount of equity interests actually voting in each impaired class of equity interests has voted to accept the plan. Under certain circumstances, however, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan. The precise requirements and evidentiary showing for confirming a plan, notwithstanding its rejection by one or more impaired classes of claims or equity interests, depends upon a number of factors including without limitation, the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinated or senior claims, preferred or common stock). Generally, with respect to a class of claim holders, a plan may be "crammed down" even if such class receives no recovery if the proponent of the plan demonstrates that (1) no class junior to such class is receiving or retaining property under the plan, and (2) no class of claims or interests senior to the "crammed down" class is being paid more than in full.

Reorganization Costs

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. We have incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect our results of operations.

Risks and Uncertainties

The ability of our Company, both during and after the Bankruptcy Court proceedings, to continue as a going concern, is dependent upon, among other things, (i) the ability of our Company to maintain adequate liquidity, including the generation of cash from operations, and (ii) the ability of our Company to confirm a plan of reorganization under the Bankruptcy Code. Uncertainty as to the outcome of these factors raises substantial doubt about our Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect or provide for the consequences of the bankruptcy proceedings, except for unsecured claims allowed by the Bankruptcy Court. In particular, such financial statements do not purport to show (a) as to assets, their realization value on a liquidation basis or their availability to satisfy liabilities, (b) as to liabilities arising prior to the Petition Date, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (c) as to stockholder accounts, the effect of any changes that may be made in the capitalization of our Company, or (d) as to operations, the effects of any changes that may be made in the underlying business. A plan of reorganization would likely cause material changes to the amounts currently disclosed in the consolidated financial statements.

Negative events associated with the Bankruptcy Filing could adversely affect revenues and our Company's relationship with customers, as well as with vendors and employees, which in turn could adversely affect our Company's operations and financial condition, particularly if the Bankruptcy Court proceedings become more protracted. Also, transactions outside of the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our Company's ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Bankruptcy Court proceedings, the ultimate impact that events that occur during these proceedings will have on our Company's business, financial condition and results of operations cannot be predicted or quantified accurately, and until such issues are resolved, there remains substantial doubt about our Company's ability to continue as a going concern.

As a result of the Bankruptcy Filing, realization of assets and liquidation of liabilities are subject to uncertainty. While operating as a debtor-in-possession under the protection of Bankruptcy Code and subject to Bankruptcy Court approval or otherwise as permitted in the normal course of business, our Company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in the consolidated historical financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

Under the priority scheme established by the Bankruptcy Code, certain post-petition liabilities and pre-petition liabilities need to be satisfied before shareholders are entitled to receive any distribution. The ultimate recovery to creditors, convertible preferred securities holders and/or common shareholders, if any will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. A plan of reorganization could also result in holders of preferred and common stock receiving no value for their interests. Because of such possibilities, the value of the common stock is highly speculative. Accordingly, the Company urges that appropriate caution be exercised with respect to existing and future investments in any of these liabilities and/or securities. Amounts reflected in our Consolidated Financial Statements relative to these constituencies are not intended to represent the fair value or redemption values that will be realized by these constituencies under the bankruptcy proceedings.

Fresh Start Accounting

As required by the FASB's provisions of Reorganizations, we will adopt fresh start accounting upon the conclusion of the Bankruptcy Filing. The consolidated financial statements for the periods ended February 26, 2011 and prior do not include the effect of any changes in our capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

Sources of Supply

Our Company currently acquires a majority of our saleable inventory from one supplier, C&S Wholesale Grocers, Inc. (“C&S”). Under our March 7, 2008 agreement with C&S, C&S provides warehousing, logistics, procurement and purchasing services (the “Services”) in support of our Company's entire supply chain. This agreement expires on September 29, 2018. The agreement defines the parties' respective responsibilities for the procurement and purchase of merchandise intended for use or resale at our Company's stores, as well as the parties' respective remuneration for warehousing and procurement/purchasing activities. In consideration for its services, C&S is paid an annual fee and has incentive income opportunities based upon our cost savings and increases in retail sales volume. The agreement also provides that we will purchase virtually our entire warehoused inventory from C&S. We are rebidding the Services to ensure that the structure and cost and costs of our entire supply chain are more closely aligned with the needs of our business. The rebidding of the Services may result in a rejection or termination of our agreement with C&S in Bankruptcy Court. We anticipate that the rebidding process will result in significant cost savings in fiscal 2011 and beyond, but there can be no assurance that these efforts will be successful or will result in any savings or improvements.

Licenses and Trademarks

Our stores require a variety of licenses and permits that are renewed on an annual basis. Payment of a fee is generally the only condition to maintaining such licenses and permits. We maintain registered trademarks for nearly all of our store banner trade names and private label brand names. Trademarks are generally renewable on a 10 year cycle. We consider trademarks an important way to establish and protect our Company brands in a competitive environment.

Employees

As of February 26, 2011, we had approximately 39,000 employees, of which 68% were employed on a part-time basis. Approximately 92% of our employees are covered by union contracts. We believe that we have good relationships with our labor union partners.

Competition

The supermarket business is highly competitive throughout the marketing areas served by our Company and is generally characterized by low profit margins on sales with earnings primarily dependent upon rapid inventory turnover, effective cost controls and the ability to achieve high sales volume. We compete for sales and store locations with a number of national and regional chains, as well as with many independent and cooperative stores and markets.

Segment Information

The segment information required is contained within Item 8 under the caption "Note 20 – Segments" in the Notes to Consolidated Financial Statement and is herein incorporated by reference.

ITEM 1A – Risk Factors

Our future performance is subject to uncertainties and other risk factors that could have a negative impact on our business and cause actual results to differ materially from our expectations. Various factors could have a negative effect on our Company's financial position and results of operations. These risk factors include, among others, the following:

- Failure to execute on our turnaround plan could adversely affect our Company's liquidity, financial condition and results of operations.

We are currently operating 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 Debtor-In-Possession Credit Agreement ("DIP Credit Agreement") described in Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities; (ii) to develop a plan of reorganization and obtain confirmation under the Bankruptcy Code; (iii) to reduce debt and other liabilities through the bankruptcy process; (iv) to return to profitability, including necessary near-term cost concession from our business and labor partners beginning as early as June 2011 with the benefits reflected in our results shortly thereafter; (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.

- As a result of the Bankruptcy Filing, our historical financial information may not be indicative of our future financial performance.

Our capital structure will likely be significantly altered under any plan of reorganization ultimately confirmed by the Bankruptcy Court. Under fresh-start reporting rules that may apply to the Debtor upon the effective date of a plan of reorganization, our assets and liabilities would be adjusted to fair values and our accumulated deficit would be restated to zero. Accordingly, if fresh-start reporting rules apply, our financial condition and results of operations following our emergence from the Bankruptcy Filing would not be comparable to the financial condition and results of operations reflected in our historical financial statements. In connection with the Bankruptcy Filing and the development of a plan of reorganization, it is also possible that additional restructuring and related charges may be identified and recorded in future periods. Such charges could be material to our consolidated financial position and results of operations in any given period.

- Operating during the Bankruptcy Filing may restrict our ability to pursue our strategic and operational initiatives.

Under the Bankruptcy Filing, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond in a timely manner to certain events or take advantage of certain opportunities. Additionally, the terms of the DIP Credit Agreement limit our ability to undertake certain business initiatives. These limitations include, among other things, our ability to:

- incur indebtedness;
- incur or create liens;
- dispose of assets;
- prepay certain indebtedness and make other restricted payments;
- enter into sale and leaseback transactions; and
- modify the terms of certain indebtedness and certain material contracts.

- The pursuit of the Bankruptcy Filing may have an adverse effect on our business and results of operations.

The requirements of the Bankruptcy Filing have consumed and will continue to consume a substantial portion of our corporate management's time and attention and leave them with less time to devote to the operation of our business. This diversion of attention may materially and adversely affect the conduct of our business, and, as a result, on our financial condition and results of operations, particularly if the Bankruptcy Filing is protracted.

Furthermore, we have incurred and will continue to incur during the pendency of the Bankruptcy Filing substantial costs for professional fees and other expenses associated with the administration of the Bankruptcy Filing. A prolonged continuation of the Bankruptcy Filing may also require us to seek additional financing. If we require additional financing during the pendency of the Bankruptcy Filing and we are unable to obtain the financing on favorable terms or at all, our chances of successfully reorganizing our businesses may be seriously jeopardized, and as a result, any securities in our Company could become devalued or become worthless.

- We may not be able to remain in compliance with the requirements of the DIP Credit Agreement therefore the lending commitments under the DIP Credit Agreement may be terminated by the DIP Lender.

The DIP Credit Agreement also contains certain financial covenants, including a minimum excess availability covenant of $100.0 million, 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

We are currently in compliance with all covenants. Meeting our EBITDA covenant requires increasing levels of performance throughout the year. Achieving this improving performance will require our Company to successfully implement our business improvement initiatives beginning as early as June 2011 with the benefits reflected in our results shortly thereafter. 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. The Bankruptcy Court entered a final order approving the DIP Credit Agreement on January 11, 2011.

If, as a result of our breach of the terms thereof, the DIP Credit Agreement is terminated or our access to funding thereunder is restricted or terminated, we may not have sufficient cash availability to meet our operating needs or satisfy our obligations as they fall due, in which instance we could be required to seek a sale of our Company or certain of its material assets pursuant to Section 363 of the Bankruptcy Code, or to convert the Bankruptcy Filing into a liquidation under Chapter 7 of the Bankruptcy Code.

- If we are unable to implement a plan of reorganization or if sufficient debtor-in-possession financing is not available we could be required to seek a sale of our Company or certain of its material assets pursuant to Section 363 of the Bankruptcy Code, or liquidate under Chapter 7 of the Bankruptcy Code.

There can be no assurance that the Bankruptcy Court will approve a proposed plan or that the DIP Credit Agreement will not be terminated by the DIP Lender for our breach thereof. If either of these events were to occur we could be forced to liquidate under Chapter 7 of the Bankruptcy Code.

- As a result of approval and implementation of a proposed plan, should such occur, certain changes in ownership of our Company could occur, which could adversely affect our ability to utilize our significant net operating loss carry-forwards upon our emergence from the Bankruptcy Filing.

There are certain tax attributes, such as net operating loss carry-forwards, that may be limited or lost altogether in the event of an ownership change as defined under Section 382 of the Internal Revenue Code. If a change of ownership were to occur as a result of the implementation of the proposed plan, upon our emergence from the Bankruptcy Filing there could be significant valuation allowances placed on deferred tax assets.

- We may experience increased levels of employee attrition.

During the pendency of the Bankruptcy Filing, we may experience increased levels of employee attrition, and our employees are facing considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale, at the corporate, field and store levels, could have a materially adverse affect on our ability to meet customer, trade partner and strategic partner expectations, thereby adversely affecting our business and results of operations. Our ability to engage, motivate and retain key employees or take other measures intended to motivate and incent key employees to remain with us through the pendency of the Bankruptcy Filing is limited during the Bankruptcy Filing by restrictions on implementation of retention programs.

- Trading in our securities during the pendency of the Bankruptcy Filing is highly speculative and poses substantial risks. Our common stock may be cancelled and holders of such common stock may not receive any distribution with respect to, or be able to recover any portion of, their investments.

It is unclear at this stage of the Bankruptcy Filing if any plan of reorganization would allow for distributions with respect to our common stock. It is likely that these equity interests will be cancelled and extinguished in connection with confirmation of a plan of reorganization by the Bankruptcy Court and the holders thereof would not be entitled to receive, and would not receive or retain, any property or interest in property on account of such equity interests. In the event of cancellation of these equity interests, amounts invested by such holders in our outstanding equity securities will not be recoverable. As a result, our currently outstanding common stock would have no value. Trading prices for our common stock may bear little or no relationship to the actual recovery, if any, by the holders thereof in the Bankruptcy Filing. Accordingly, we urge extreme caution with respect to existing and future investments in our equity securities and any of our other securities.

- Our common stock and 9 3/8% senior quarterly interest bonds are no longer listed on a national securities exchange and are quoted only on the Pink Sheets, which could negatively affect our stock price, bond price and marketplace liquidity.

As of December 13, 2010, our common stock and 9 3/8% senior quarterly interest bonds ("9 3/8% bonds") trade exclusively on the Pink OTCQB market (the "Pink Sheets") and are currently traded under the symbols GAPTQ and GAJTQ, respectively. The Pink Sheets is a significantly more limited market than the NYSE, and the quotation of our common stock and 9 3/8% bonds on the Pink Sheets may result in a less liquid market available for existing and potential stockholders and bondholders, respectively, to trade in our common stock and 9 3/8% bonds. This could further depress the trading price of our common stock and 9 3/8% bonds.

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

The retail food and food distribution industries and the operation of our business, specifically in the New York, New Jersey and Philadelphia regions, are sensitive to a number of economic conditions and other factors such as: (i) food price deflation or inflation, (ii) softness in local and national economies, (iii) the availability of favorable credit and trade terms, (iv) changes in business plans, operations, results and prospects, and (v) other economic conditions that may affect consumer buying habits. Any one or more of these economic conditions can affect our retail sales, the demand for products we distribute to our retail customers, our operating costs and other aspects of our business. Failure to achieve sufficient levels of cash flow at reporting units could also result in additional impairment charges on goodwill, intangible assets and/or long-lived assets.

Changes in the general business and economic conditions in our markets, including the rate of inflation, population growth, the fluctuating prices of oil and gas, the nature and extent of continued consolidation in the food industry and the unemployment rate in the markets in which we operate, may negatively affect earnings and sales growth. General economic changes may also affect the shopping habits and buying patterns of our customers, which could affect sales and earnings.

Our ability to achieve profitability will be affected by, among other things: (i) our success in executing our category management and purchasing programs, which are designed to improve our gross margins and reduce product costs, (ii) the effectiveness of efforts to improve our value proposition for our customers through our merchandising and marketing programs and to enhance customers' experience in our stores, (iii) our ability to achieve productivity improvements and reduce shrink in our stores, (iv) our success in generating efficiencies in our supporting activities, (v) our ability to eliminate or maintain a minimum level of supply and/or quality control problems with our vendors, (vi) the rebidding of our warehousing, logistics, procurement, and purchasing services; and (vii) the results of negotiations with our union partners to alter existing collective bargaining agreements.

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

The retail food business is extremely competitive and is characterized by high inventory turnover and narrow profit margins. The retail food business is subject to competitive practices that may affect the prices at which we are able to sell products at our retail locations, sales volume, and our ability to attract and retain customers. In addition, the nature and extent of consolidation in the retail food industry could affect our competitive position in the markets we serve.

Our retail food business and the grocery retailing industry continue to experience aggressive competition from mass merchandisers, warehouse clubs, drug stores, convenience stores, discount merchandisers, dollar stores, restaurants, other retail chains, nontraditional competitors and emerging alternative formats in the markets where we have retail operations. Competition with these outlets is based on price, store location, advertising and promotion, product mix, quality and service. Some of these competitors may have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do, and we may be unable to compete successfully in the future. Increasingly competitive markets have made it difficult generally for grocery store operators to achieve comparable store sales gains. Because sales growth has been difficult to attain, our competitors have attempted to maintain market share through increased levels of promotional activities and discount pricing, creating a more difficult environment in which to consistently increase year-over-year sales. Price-based competition has also, from time to time, adversely affected our operating margins. Competitors' greater financial strengths enable them to participate in aggressive pricing strategies such as selling inventory below costs to drive overall increased sales. Our continued success is dependent upon our ability to effectively compete in this industry and to reduce operating expenses, including managing health care and pension costs contained in our collective bargaining agreements. The competitive practices and pricing in the food industry generally and particularly in our principal markets may cause us to reduce our prices in order to gain or maintain our market share of sales, thus reducing margins.

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

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

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

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

- Our vendors may shorten our payment terms, which would impair our ability to effectively manage our cash flow.

We have negotiated payment terms with most of our vendors. However, there can be no assurance that we will be able to maintain such terms in the future.

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

Pursuant to the terms of a long-term supply agreement that expires on September 29, 2018, we currently acquire most of our saleable inventory, including groceries and perishables, from one supplier, C&S. During fiscal 2010, products supplied from C&S accounted for approximately 74% of our Company's supermarket inventory purchases. Recently, we have experienced some difficulty in the supply of isolated products to certain stores and supply interruptions by C&S could occur in the future. Any significant interruption in this supply chain, either as a result of disruptions at C&S or if our supply agreement with C&S were terminated for any reason, could have a material adverse effect on our business and results of operations. We are therefore subject to the risks of C&S's business, including potential labor disruptions at C&S facilities, increased regulatory obligations and distribution problems which may affect C&S's ability to obtain products. While we believe that other suppliers could provide similar products on reasonable terms, they are limited in number. In addition, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.

We are rebidding the Services to ensure that the structure and cost and costs of our entire supply chain are more closely aligned with the needs of our business. The rebidding of the Services may result in a rejection or termination of our agreement with C&S in Bankruptcy Court. We anticipate that the rebidding process will result in significant cost savings in fiscal 2011 and beyond, but there can be no assurance that these efforts will be successful or will result in any savings or improvements.

- We may be adversely affected by unexpected changes in the insurance market or changes in factors affecting our self-insurance reserve estimates.

We use a combination of self-insurance and insurance coverage to provide for the potential liabilities for general liability, property losses, fleet liability, workers' compensation, employee benefits and directors and officers. There is no assurance that we will be able to continue to maintain our insurance coverage or obtain comparable coverage at a reasonable cost. Self-insurance reserves are determined based on actual claims experience and actuarially estimated claims incurred but not reported. Actuarial projections are subject to a high degree of variability, due to fluctuations in future interest and inflation rates, future economic conditions, litigation trends, benefit level changes, changes in state regulations, and changes in other factors. An increase in the frequency of claims, cost of claims or changes in actuarial assumptions could adversely affect our results of operations and financial condition.

- We may be adversely affected by rising utility and fuel costs.

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

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

Many financial institutions have in the past reduced and, in some cases, ceased to provide funding to borrowers. Based on information available to us, we have no indication that the financial institutions acting as lenders under our credit facility would be unable to fulfill their commitments. Continued turbulence in the global credit markets and U.S. economy may adversely affect our results of operations, financial condition and liquidity.

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

Tengelmann, our Company's former majority stockholder, owns beneficially and of record a substantial percentage of our common stock on a fully diluted basis. As a result of this equity ownership and our stockholder agreement with Tengelmann, Tengelmann has the power to significantly influence the results of stockholder votes and the election of our board of directors, as well as transactions involving a potential change of control of our Company. Tengelmann may support strategies and directions for our Company which are in its best interests but which are opposed to other stakeholders. So long as Tengelmann retains sufficient ownership of our Company's voting power, Tengelmann has rights to board representation, as well as consent rights in connection with certain major Company actions including changes to Company policies and organizational documents, dispositions and financing activity.

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

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

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

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

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

Acts or threats of war or terror or other criminal activity directed at the grocery or drug store industry, the transportation industry, or computer or communications systems, whether or not directly involving our stores, could increase our security costs, adversely affect our operations, or impact general consumer behavior and spending as well as customer orders and our supply chain. Other events that give rise to actual or potential food contamination, drug contamination, or food-borne illnesses could have an adverse effect on our operating results.

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

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

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

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

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

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

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

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

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

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

Our financial performance is greatly influenced by increasing wage and benefit costs, including pension and health care costs, a competitive labor market and the risk of labor disruption of our highly unionized workforce.

We have approximately 39,000 employees, of which approximately 68% are employed on a part-time basis. Over the last few years, increased benefit costs have caused our Company's labor costs to increase. We cannot assure you that our labor costs will not continue to increase, or that any such increases would be offset through increased prices of products in our stores. Any significant failure to attract and retain qualified employees, to control our labor costs or to recover any increased labor costs through increased prices charged to customers could have a material adverse effect on our results of operations.

As of February 26, 2011, approximately 92% of our employees were represented by unions and covered by collective bargaining or similar agreements that are subject to periodic renegotiations. Although we believe that we will successfully negotiate new collective bargaining agreements, these negotiations may not prove successful, may result in a significant increase in the cost of labor or may result in the disruption of our operations.

We believe that we have good relationships with our union partners. To reorganize as a viable business, our Company believes it needs to secure cost savings in multiple areas, including obligations arising under our collective bargaining agreements. Our Company is currently seeking to negotiate with its union partners to obtain consensual modifications to its collective bargaining agreements that are necessary for our Company's successful reorganization. Our Company's goal is to consensually modify its collective bargaining obligations by agreement with each of its union partners, although our Company cannot guaranty whether such outcome can be achieved.

If our Company is unable to obtain cost savings from its labor partners on a consensual basis, our Company may need to avail itself of certain rights and remedies under the Bankruptcy Code with regard to its collective bargaining obligations. In particular, Section 1113(c) of the Bankruptcy Code permits our Company to reject its collective bargaining agreements if our Company first satisfies a number of substantive and procedural requirements and the Bankruptcy Court determines, among other things, that the "balance of the equities clearly favors rejection." Our Company has not sought to reject any of its collective bargaining agreements at this time.

There can be no assurance that our Company will succeed in obtaining necessary labor cost savings or that work stoppages or labor disturbances will not occur as a result of this process.

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

We will be required to make contributions to these multi-employer pension plans in amounts established under collective bargaining agreements. Pension expenses for these plans, which are recognized as contributions, are currently funded. Benefits generally are based on a fixed amount for each year of service. We contributed $56.6 million, $62.3 million and $48.2 million to multi-employer pension plans in fiscal 2010, fiscal 2009 and fiscal 2008, respectively. We could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans, which benefits could be significant and material for us. To date, we have not established any liabilities for future withdrawals because such withdrawals from these plans are not probable and the amount cannot be estimated. As a result, we expect that contributions to these plans may increase. Additionally, the benefit levels and related items will be issues in the negotiation of future collective bargaining agreements. Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur withdrawal liability to the plan, which represents the portion of the plan's underfunding that is allocable to the withdrawing employer under complex actuarial and allocation rules. The amount of any increase or decrease in our required contributions to these multi-employer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plans affecting the costs of future service benefits, government regulations and the actual return on assets held in the plans, among other factors.

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

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

- The loss of key personnel could negatively affect our business.

We are dependent upon a number of key personnel and members of management. If we were to lose the services of a significant number of key personnel or management within a short period of time, this could have a material adverse effect on our operations. We do not maintain key person insurance on any personnel or management. Our continued success is also dependent upon our ability to attract and retain qualified personnel to meet our future growth needs. We face intense competition for qualified personnel, many of whom are subject to offers from competing employers. We may not be able to attract and retain necessary team members to operate our business.

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

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

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

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

We have substantial indebtedness. As of February 26, 2011, we had total indebtedness of $1,376.5 million, consisting of approximately $350.0 million outstanding under our debtor-in-possession financing, $260.0 million of senior secured notes – subject to compromise, $645.4 million of other outstanding notes – subject to compromise, approximately $121.1 million outstanding under capital lease obligations – subject to compromise. Our indebtedness could have important consequences to you. For example, it could: (i) make it more difficult for us to satisfy our obligations with respect to the notes and our other indebtedness, which could in turn result in an event of default on the notes or such other indebtedness, (ii) require us to dedicate a substantial portion of our cash flow from operations to debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes, (iii) impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes, (iv) diminish our ability to withstand a downturn in our business, the industry in which we operate or the economy generally, (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and (vi) place us at a competitive disadvantage compared to certain competitors that have proportionately less debt.

ITEM 1B – Unresolved Staff Comments

None.

ITEM 2 – Properties

At February 26, 2011, we owned 51 properties consisting of the following:

Stores, Not Including Stores in Owned Shopping Centers	
Land and building owned	6
Building owned and land leased	22
Total stores	28
Shopping Centers	
Land and building owned	4
Building owned and land leased	1
Total stores	5
Administrative and Other Properties	
Land and building owned	6
Undeveloped land	12
Total other properties	18
Total Properties	51

Seventeen of these properties are pledged under our Company's Amended and Restated Superpriority Debtor-In-Possession Credit agreement and six of these properties are pledged under our 11.375% Senior Secured Notes, which are subject to compromise.

At February 26, 2011, we operated 393 retail stores, of which 10 were owned and 383 were leased. These stores are geographically located as follows:

Company Stores:	
Connecticut	16
District of Columbia	1
Delaware	13
Maryland	25
New Jersey	136
New York	164
Pennsylvania	37
Virginia	1
Total Stores	393

The total area of all of our operated retail stores is 16.5 million square feet averaging approximately 42,000 square feet per store. Excluding our Wine, Beer and Spirits stores and The Food Emporium® stores, which are generally smaller in size, the average store size is approximately 45,000 square feet. With the exception of our Wine, Beer and Spirits stores, our stores built over the past several years and those planned in the future generally range in size from 40,000 to 60,000 square feet. The selling area of new stores ranges from approximately 60% to 75% of the total square footage.

Our Company considers our stores, warehouses, and other facilities adequate for our operations.

ITEM 3 – Legal Proceedings

The information required is contained within Item 8 under the caption “Note 22 – Commitments and Contingencies” in the Notes to Consolidated Financial Statements and is herein incorporated by reference.

ITEM 4 – [Removed and Reserved]

PART II

ITEM 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information required is contained within Item 6 – Selected Financial Data and under Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K and is herein incorporated by reference.

The high and low market price of our Company’s stock by quarter for fiscal 2010 and 2009 are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2010				
High	$8.86	$4.74	$4.36	$3.32
Low	$4.04	$2.61	$2.86	$0.16
Fiscal Year 2009				
High	$7.47	$7.02	$12.31	$12.89
Low	$3.02	$3.63	$6.35	$7.27

As of December 13, 2010, our common stock trades exclusively on the Pink OTCQB market (the “Pink Sheets”) and are currently traded under the symbol GAPTQ. The Pink Sheets is a significantly more limited market than the New York Stock Exchange, and the quotation of our common stock on the Pink Sheets may result in a less liquid market available for existing and potential stockholders to trade in our common stock. This could further depress the trading price of our common stock.

Stock Performance Graph

The following performance graph compares the five-year cumulative total stockholder return (assuming reinvestment of dividends) of the Company's Common Stock to the Standard & Poor's 500 Index and the Company's Peer Group which consists of the Company, Supervalu Inc., Safeway, Inc. and The Kroger Co. The “Peer Group” for the purposes of the Stock Performance Graph is a subset of, and should not be confused for, the peer group list of companies used to benchmark executive compensation as will be discussed in an amendment to this Annual Report on Form 10-K that will be filed within 120 days after the close of our Company’s 2010 fiscal year. The performance graph assumes $100 is invested in the Company's Common Stock, the Standard & Poor's 500 Index and the Company's Peer Group on February 24, 2006, and that dividends paid during the period were reinvested to purchase additional shares. The Company’s fiscal year ends the last Saturday in February.

Last Business Day of Fiscal Year	S&P 500	A&P	Peer Group
	$	$	$
02/24/06	100	100	100
02/23/07	113	118	129
02/22/08	105	106	114
02/28/09	57	15	64
02/27/10	86	28	77
02/26/11	102	1	63

The performance graph above is being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of our Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 6 – Selected Financial Data

Five Year Summary of Selected Financial Data

	Fiscal 2010(j) (52 Weeks)	Fiscal 2009(j) (52 Weeks)	Fiscal 2008(h) (53 Weeks)	Fiscal 2007 (a)(b)(c)(h) (52 Weeks)	Fiscal 2006 (52 Weeks)
	(Dollars in thousands, except per share amounts)				
Operating Results					
Sales	$ 8,078,455	$ 8,813,568	$ 9,516,186	$ 6,401,130	$ 5,369,203
Loss from operations	(450,621)	(600,574)	(75,063)	(39,240)	(27,170)
Depreciation and amortization	(218,398)	(245,460)	(260,991)	(178,152)	(148,762)
Loss on sale of Canadian operations	-	-	-	(436)	(1,299)
Gain on sale of Metro, Inc.	-	-	-	184,451	-
Interest expense (d)	(218,409)	(193,058)	(157,591)	(112,218)	(65,884)
(Loss) income from continuing operations	(673,400)	(780,650)	(117,882)	86,578	12,751
Income (loss) from discontinued operations	74,825	(95,848)	(53,730)	(247,660)	14,142
Net (loss) income	(598,575)	(876,498)	(171,612)	(161,082)	26,893
Per Share Data					
(Loss) income from continuing operations – basic	(12.84)	(14.79)	(2.31)	1.99	0.31
Income (loss) from discontinued operations – basic	1.39	(1.80)	(1.05)	(5.69)	0.34
Net (loss) income – basic	(11.45)	(16.59)	(3.36)	(3.70)	0.65
(Loss) income from continuing operations – diluted	(277.17)	(26.12)	(4.90)	1.36	0.30
Income (loss) from discontinued operations – diluted	29.48	(3.22)	(1.06)	(5.59)	0.34
Net (loss) income – diluted	(247.69)	(29.34)	(5.96)	(4.23)	0.64
Cash dividends – common stock (g)	-	-	-	-	7.25
Book value per share (e)	(21.19)	(9.47)	5.03	7.78	10.36

	Fiscal 2010 (52 Weeks)	Fiscal 2009 (52 Weeks)	Fiscal 2008(h) (53 Weeks)	Fiscal 2007 (a)(b)(c)(h) (52 Weeks)	Fiscal 2006 (52 Weeks)
	(Dollars in thousands, except per share amounts)				
Financial Position					
Current assets	$ 1,041,593	$ 940,706	$ 918,522	$ 886,245	$ 748,908
Current liabilities	343,618	729,845	746,535	771,815	558,391
Working capital (e)	697,975	210,861	171,987	114,430	190,517
Current ratio (e)	3.03	1.29	1.23	1.15	1.34
Expenditures for property	71,070	86,378	115,994	122,850	208,159
Total assets	2,644,849	2,836,760	3,526,697	3,622,633	2,111,623
Current portion of long-term debt (f)	-	191	5,283	11,875	32,069
Current portion of capital lease obligations	-	13,702	11,574	10,716	1,554
Long-term debt (d) (i) (k)	350,000	990,359	919,364	732,172	284,214
Long-term portion of capital lease obligations	-	136,880	147,921	157,430	29,938
Liabilities subject to compromise (l)	2,874,734	-	-	-	-
Total debt (e)	1,376,442	1,141,132	1,084,142	912,193	347,775
Debt to total capitalization (e)	585 %	186 %	79 %	67 %	45 %
Series A redeemable preferred stock (i)	143,299	132,757	-	-	-
Equity					
Stockholders' (deficit) equity (g)	(1,140,964)	(529,203)	289,893	444,120	430,670
Weighted average shares outstanding – basic	53,719,700	53,203,741	50,948,194	43,551,459	41,430,600
Weighted average shares outstanding – diluted	2,538,236	29,771,904	50,883,221	44,295,214	41,902,358
Number of registered stockholders (e)	5,242	5,485	5,677	5,856	4,649
Other (e)					
Number of employees	39,000	45,000	48,000	51,000	38,000
New store openings	1	5	1	10	10
Total number of stores at year end	393	429	436	447	406

Total store area (square feet)	16,512,891	18,106,877	18,385,645	18,813,135	16,538,410

(a) On December 3, 2007, our Company completed the acquisition of Pathmark Stores, Inc.

(b) As of February 23, 2008 our Midwest and Greater New Orleans operations were classified as discontinued operations.

(c) In November 2007, our Company completely disposed of our investment in Metro, Inc.

(d) In December 2007, we issued $165 million 5.125% convertible notes due June 15, 2011 and $255 million 6.75% convertible notes due December 15, 2012. These notes are subject to compromise as of February 26, 2011. In addition, in December 2007, we entered into a new $675 million credit agreement, which was later amended in July 2009 to $655 million. On December 14, 2010, we satisfied all of the conditions to the effectiveness of the DIP Credit Agreement and refinanced the $655 million credit agreement.

(e) Unaudited.

(f) In April 2007, our 7.75% Notes become due and payable in full.

(g) On April 25, 2006, our Company paid a special one-time dividend to our stockholders of record on April 17, 2006 equal to $7.25 per share. This dividend payout totaling $299.1 million was recorded as a reduction of "Additional paid in capital" in our Consolidated Balance Sheets at February 24, 2007.

(h) Our 6.750% Convertible Notes are subject to new accounting guidance for convertible debt instruments with cash settlement features, As a result of adopting this guidance during fiscal 2009, we reclassified $26.4 million of debt and deferred financing costs to "Additional paid-in capital", net of deferred taxes. We also retrospectively recognized additional non-cash interest expense of $0.4 million for fiscal 2007 and $3.5 million for fiscal 2008.

(i) On August 4, 2009, we issued $260.0 million of 11.375% senior secured notes due 2015 and 175,000 shares of 8.0% Cumulative Convertible Preferred Stock for approximately $162.8 million, net of closing and issuance costs. The senior secured notes are subject to compromise as of February 26, 2011.

(j) During fiscal 2010, we recorded trademark impairment charges of $12.7 million, long-lived asset impairment charges of $45.3 million, resulting from our interim impairment testing and long-lived asset impairment charges of $56.2 million from store closures during third quarter 2010 and first quarter 2011, respectively. During fiscal 2009, we recorded goodwill impairment charges of $345.5 million, trademark impairment charges of $66.4 million and long-lived asset impairment charges of $65.2 million, resulting from our interim and annual impairment testing.

(k) As of February 26, 2011, we have a $350.0 million term loan outstanding from the DIP Credit Agreement.

(l) Refer to Note 10 to our Consolidated Financial Statements.

ITEM 7 – Management's Discussion and Analysis of Financial Condition and Results of Operation

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. ("We", "Our", "Us", "A&P", or "our Company"). 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:

- Basis of Presentation — a description of our Company's fiscal years.
- Overview — a general description of our business.
- Operating Results — a summary discussion of operating results during fiscal 2010, addressing the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.
- Outlook — a discussion of certain trends or business initiatives for the upcoming year that Management wishes to share with the reader to assist in understanding the business.
- Review of Operations and Liquidity and Capital Resources – a discussion of results for fiscal 2010, fiscal 2009 and fiscal 2008, significant business initiatives, current and expected future liquidity.
- Critical Accounting Estimates — a discussion of significant estimates made by Management.
- Market Risk — a discussion of the impact of market changes on our consolidated financial statements.

BASIS OF PRESENTATION

Our fiscal year ends on the last Saturday in February. Fiscal 2010 and fiscal 2009 were each comprised of 52 weeks. Fiscal 2008 was comprised of 53 weeks consisting of 12 four-week periods and one five-week period. Except where noted, all amounts are presented in millions.

OVERVIEW

Our Company is based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores, and limited assortment food stores in 7 U.S. states and the District of Columbia under the A&P®, SuperFresh®, Waldbaum's®, Super Foodmart®, Food Basics®, The Food Emporium®, Best Cellars®, Best Cellars at A&P®, Pathmark®, and Pathmark Sav-A-Center® trade names. Our Company's business consists strictly of our retail operations, which totaled 393 stores as of February 26, 2011.

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

OPERATING RESULTS

This fiscal year brought with it major shifts in our business strategy as a result of our comprehensive turnaround plan that we announced during our second quarter. Key elements of our turnaround plan included changes within our executive management team and further enhancement of value for our customers and their shopping experience in our stores through our broad selection of food products and superior customer service.

The five key elements, or building blocks, of our turnaround plan are:

- Installing a strong executive management team;
- Reducing our structural and operating costs;
- Improving our value proposition for our customers;
- Enhancing our customers' experience in our stores; and
- Emerging from Chapter 11.

During our second quarter, we put in place a new senior management team with the operating and financial experience that the Company needs to drive our turnaround. As part of our plan, we closed 25 non-productive and sold seven non-core stores in Connecticut during the third quarter.

Despite these efforts, on December 12, 2010, our Company filed voluntary petitions ("Bankruptcy Filing") under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. We took this difficult but necessary step to enable our Company to fully implement our comprehensive financial and operational restructuring. While we have made substantial progress on the operational and merchandising aspects of our turnaround plan, we concluded that we could not complete our turnaround without availing ourselves of the Bankruptcy Filing. We intend for this allow us to restructure our debt, reduce our structural costs, and address our legacy issues. In connection with the Bankruptcy filing, on December 13, 2010 we obtained $800.0 million Debtor-in-Possession ("DIP") financing provided by JPMorgan Chase Bank, N.A. Of the total DIP facility, a $350.0 million term loan was immediately funded to our Company.

Our Fresh and Pathmark segments continued to have lower revenue and operating income in fiscal 2010 as compared to fiscal 2009. Our management team has begun to address these challenges by making the difficult decision to close underperforming stores during fiscal 2010 and fiscal 2011.

Our Gourmet stores located in Manhattan, New York continued to deliver among the best results in the industry, despite a decline in comparable store sales, scheduled cash rent increases and increased utility costs, which contributed to a reduced segment income from fiscal 2009.

Our Discount business experienced an increase in comparable store sales, partially offset by year-over-year increases in operating costs, primarily relating to labor and occupancy costs attributable to scheduled rent increases.

Our Wine, Beer & Spirits businesses continue to perform well with a year-over-year increase in segment income attributable primarily to positive comparable same store sales.

OUTLOOK

We closed an additional 32 stores in six states during our first quarter 2011 and announced plans to market an additional 25 stores for sale. We continue to evaluate the need to close or sell underperforming stores.

Our Company currently acquires a majority of our saleable inventory from one supplier, C&S Wholesale Grocers, Inc. ("C&S"). Under our March 7, 2008 agreement with C&S, C&S provides warehousing, logistics, procurement and purchasing services (the "Services") in support of our Company's entire supply chain. We are rebidding the Services to ensure that the structure and costs of our entire supply chain are more closely aligned with the needs of our business. The rebidding of Services may result in a rejection or termination of our agreement with C&S in Bankruptcy Court. We anticipate that the rebidding process will result in significant cost savings in fiscal 2011 and beyond, but there can be no assurances that these efforts will be successful or will result in any savings or improvements.

We believe that we have good relationships with our union partners. To reorganize as a viable business, our Company believes it needs to secure cost savings in multiple areas, including obligations arising under our collective bargaining agreements. Our Company is currently seeking to negotiate with its union partners to obtain consensual modifications to its collective bargaining agreements that are necessary for our Company's successful reorganization. Our Company's goal is to consensually modify its collective bargaining obligations by agreement with each of its union partners, although our Company cannot guaranty whether such outcome can be achieved.

If our Company is unable to obtain cost savings from its labor partners on a consensual basis, our Company may need to avail itself of certain rights and remedies under the Bankruptcy Code with regard to its collective bargaining obligations. In particular, Section 1113(c) of the Bankruptcy Code permits our Company to reject its collective bargaining agreements if our Company first satisfies a number of substantive and procedural requirements and the Bankruptcy Court determines, among other things, that the "balance of the equities clearly favors rejection." Our Company has not sought to reject any of its collective bargaining agreements at this time.

There can be no assurance that our Company will succeed in obtaining necessary labor cost savings or that work stoppages or labor disturbances will not occur as a result of this process.

The Bankruptcy Filing provides our Company the resources to implement our comprehensive financial and operational restructuring. We remain committed to implementing our turnaround strategy while operating our business during the Chapter 11 restructuring process. However, there can be no assurance regarding these matters. Further deterioration of comparable store revenues beyond what is contemplated in our current plans in fiscal 2011 would negatively impact our anticipated profitability and cash flows from operations. While reversing negative consumer trends is a very difficult process and the timing and success of these measures cannot be assured, we anticipate that our initiatives to lower retail prices and improve our customers' shopping experience will reverse the decreasing customer count and comparable store sales decline that we have been experiencing. There can be no assurance that our operational and financial turnaround strategy will be successful or that the DIP Lenders or the Bankruptcy Court will approve the proposed plan, and under such circumstances we could be forced to consider other alternatives to maximize potential recovery for our various creditor constituencies, including a possible sale of material assets, pursuant to section 363 of the Bankruptcy Code. The uncertainty regarding these matters raises substantial doubt about our Company's ability to continue as a going concern.

REVIEW OF OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

Our consolidated financial information presents the results related to our operations of discontinued businesses separate from the results of our continuing operations.

FISCAL 2010 COMPARED WITH FISCAL 2009

The following table summarizes our results of operations for fiscal 2010 compared to fiscal 2009:

	Fiscal 2010	Fiscal 2009	Favorable (unfavorable)	% Change
	(in millions, except percentages and per share data)			
Sales	$ 8,078.5	$ 8,813.6	$ (735.1)	(8.3%)
Decrease in comparable store sales	(5.3%)	(4.3%)	NA	NA
Loss from continuing operations	$ (673.4)	$ (780.7)	$ 107.3	13.7%
Income (loss) from discontinued operations	$ 74.8	$ (95.8)	$ 170.6	>100%
Net loss	$ (598.6)	$ (876.5)	$ 277.9	31.7%
Net loss per share - basic	$ (11.45)	$ (16.59)	$ 5.14	31.0%
Net loss per share - diluted	$ (247.69)	$ (29.34)	$ (218.35)	>(100%)

Average weekly sales per supermarket were approximately $391.7 thousand for fiscal 2010 versus $411.2 thousand for the corresponding period of the prior year, a decrease of 4.7% primarily due to the overall decline in our sales resulting from the current economic environment and its negative effect on consumer spending.

SALES

	Fiscal 2010	Fiscal 2009
	(in thousands)	
Sales		
Fresh	$ 4,060,958	$ 4,402,044
Pathmark	3,451,876	3,855,251
Gourmet	266,003	273,060
Other	299,618	283,213
Total Sales	$ 8,078,455	$ 8,813,568

Sales decreased by $735.1 million, from $8,813.6 million in fiscal 2009 to $8,078.5 million in fiscal 2010, primarily due to a decline in comparable store sales of $463.1 million, reflecting decreased volume, and store closures of $283.8 million, partially offset by sales from one new store of $11.8 million.

The sales decline in our Fresh segment of $341.0 million was primarily related to a decline of $207.1 million in comparable store sales due to reduced volume and store closures of $145.7 million, partially offset by an increase in sales from new stores of $11.8 million. The decrease in sales in our Pathmark segment of $403.4 million was primarily attributed to a decline of $267.6 million in comparable store sales due to reduced volume and store closures of $135.8 million. Sales generated by our Gourmet segment decreased by $7.1 million, due to a decline in comparable store sales as a result of decreasing volume. Sales increased by $16.4 million in our Other segment, representing our Discount and our Wine, Beer & Spirits businesses, primarily driven by increased comparable sales generated by our Discount business, due to increased volume, partially offset by store closures in our Wine, Beer & Spirits business of

$2.2 million. Refer to Note 20 to our Consolidated Financial Statements – Segments for further discussion of our reportable segments.

GROSS MARGIN

Gross margin as a percentage of sales decreased 54 basis points from 30.26% in fiscal 2009 to 29.72% for fiscal 2010.

The following table details how volume and rate impact the gross margin dollar decrease from fiscal 2009 to fiscal 2010 (in millions):

	Sales Volume	Rate	Total
Total Company	$ (43.7)	$ (222.4)	$ (266.1)

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

Store operating, general and administrative ("SG&A") expense was $2,737.1 million or 33.88% as a percentage of sales for fiscal 2010, as compared to $2,790.2 million or 31.66% as a percentage of sales for fiscal 2009.

SG&A expenses for fiscal 2010 included (i) insurance reserve adjustment of $88.3 million, or 109 basis points, (ii) net real estate related costs of $60.0 million, or 74 basis points (iii) net restructuring and other costs of $26.1 million, or 33 basis points, and (iv) stock-based compensation of $1.3 million, or 2 basis points.

SG&A expenses for fiscal 2009 included (i) insurance reserve adjustment of $38.3 million, or 44 basis points, (ii) net real estate related costs of $37.1 million, or 42 basis points, (iii) net restructuring and other costs of $16.7 million, or 19 basis points (which includes $14.6 million of severance costs relating to labor rationalization initiatives during fiscal 2009), (iv) stock-based compensation of $5.7 million, or 6 basis points and (v) pension withdrawal costs of $2.4 million, or 3 basis points.

Excluding the items listed above, SG&A as a percentage of sales increased by 119 basis points during fiscal 2010, as compared to fiscal 2009. Despite decreases in labor and occupancy expenditures of $68.3 million and $35.8 million, respectively, the corresponding rates as a percentage of sales increased by 63 basis points and 32 basis points, respectively. In addition, corporate and banner administrative expenses increased by $28.1 million, or 47 basis points, as the decline in corporate and administrative costs resulting from restructuring activities was more than offset by an increase in corporate costs attributable to store-related activities, primarily benefits and occupancy costs. The increases in rate to sales were partially offset by reductions of 23 basis points in various other operating expenses and non-allocated corporate overhead.

During fiscal 2010 and fiscal 2009, we recorded impairment losses on long-lived assets relating to closure or conversion of stores in the normal course of business of $7.2 million and $6.5 million, respectively. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels do not improve, there may be a need to take further actions which may result in additional future impairments on long-lived assets, including impairment of assets that are held and used.

GOODWILL, TRADEMARK AND LONG-LIVED ASSET IMPAIRMENT

During fiscal 2010 we recorded long-lived asset impairment charges aggregating $101.5 million as a result of the following:

- As a result of experiencing cash flow losses at certain stores, we determined that triggering events had occurred that required us to test the related long-lived assets for potential impairment. We recorded impairment charges of $45.3 million during fiscal 2010 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 $114.9 million to their fair value of $69.6 million for fiscal 2010.

- In August 2010, our Company announced a plan to close 25 stores in five states as we began the implementation and execution phase of our comprehensive turnaround. The affected stores include locations in close proximity to other Company stores, those facing real estate and cost issues, and underperforming non-core stores. In February 2011, our company filed a motion seeking approval to close 32 stores in six states as we continue to fully implement our comprehensive financial and operational restructuring. These store closures were completed on April 16, 2011. As a result, we recorded a total impairment charge for closed stores of $56.2 million during fiscal 2010.

Refer to Note 4 to our Consolidated Financial Statements – Valuation of Long-Lived Assets for additional information.

As we worked through our turnaround plan during the third quarter, we experienced significant impediments to lowering our operating costs, leading to revised projections and triggering a requirement for an interim impairment analysis. As a result of our testing, we concluded that no goodwill impairment was required; however an impairment of $12.7 million for our Pathmark trademark was recorded. We performed our annual impairment tests during our fourth quarter noting no further impairments. Refer to Note 2 to our Consolidated Financial Statements – Goodwill and Other Intangible Assets for additional information.

We believe our estimates used to perform the impairment analysis of our goodwill, trademark and long-lived assets are appropriate given the current market conditions; however, future impairment charges could be required due to changes in the market conditions or other factors relating to our performance.

SEGMENT (LOSS) INCOME

	Fiscal 2010	Fiscal 2009
	(in thousands)	
Segment (loss) income		
Fresh	$ 41,573	$ 111,582
Pathmark*	(84,017)	(46,326)
Gourmet	20,419	25,691
Other	1,822	1,472
Total Segment (loss) income	$ (20,203)	$ 92,419

* Includes results from A&P stores that have been subsequently converted to Pathmark stores.

Segment income decreased $112.6 million from income of $92.4 million for fiscal 2009 to a loss of $20.2 million for 2010. Our Fresh and Pathmark segments experienced segment income declines of $70.0 million and $37.7 million, respectively, primarily attributable to declines in sales and lower gross margins, partially offset by reduced labor, operating and occupancy expenses. Segment income from our Gourmet business declined by $5.3 million, due to a decline in sales and gross margins. Segment income for our Other segment, representing our Discount and Wine, Beer and Spirits businesses, increased by approximately $0.4 million, primarily driven by labor utilization in our Wine, Beer and Spirits business. Refer to Note 20 to our Consolidated Financial Statements – Segments for further discussion of our reportable operating segments.

NONOPERATING INCOME

During fiscal 2010 and fiscal 2009, we recorded favorable fair value adjustments of $13.8 million and unfavorable fair value adjustments of $9.2 million, respectively, relating to our Series B warrants acquired in connection with our purchase of Pathmark. These adjustments are primarily a function of fluctuations in the market price of our Company's common stock.

INTEREST EXPENSE, NET

Interest expense, net increased $25.5 million from $192.9 million in fiscal 2009 to $218.4 million in fiscal 2010, primarily attributable to the $35.7 million in financing fees and $7.8 million in contractual interest from the DIP Credit Agreement in fiscal 2010. During fiscal 2010, we also recorded $29.5 million of interest expense and bond issue cost amortization relating to our $260 million 11.375% senior secured notes due 2015 that were issued in August 2009, an increase of $12.8 million from fiscal 2009.

These increases in interest expense were partially offset by a decrease of $9.8 million of non-cash interest expense recorded during fiscal 2010, to reflect the impact of the lower discount rate used to revalue our GHI contractual obligation at February 26, 2011 than at February 27, 2010, which is derived each period from published zero-coupon AA corporate bond yields, as well as a decrease in interest expense of $3.5 million from our $655 million Credit Agreement, which was paid off with proceeds from the DIP Credit Agreement during fourth quarter 2010. During fiscal 2010, dividends on our Series A Redeemable Preferred Stock was charged to Additional paid-in capital as opposed to interest expense as had been previously done during fiscal 2009 for $3.5 million. During fiscal 2010, we also had aggregate decreases in contractual interest expense of $9.7 million for our Related Party Promissory Note, due August 18, 2011, 9.125% Senior Notes, due December 15, 2011, 5.125% Convertible Senior Notes, due June 15, 2011, 6.750% Convertible Senior Notes, due December 15, 2012, and 9.375% Notes, due August 1, 2039, all of which are unsecured obligations that we ceased accruing interest for during the fourth quarter 2010 as a result of the Bankruptcy Filing. Lastly, we had aggregate decreases of interest expense of approximately $3.9 million attributed to amortization of deferred financing fees and discounts on unsecured obligations that we ceased amortizing as a result of the Bankruptcy Filing.

REORGANIZATION ITEMS, NET

Reorganization items, net represent amounts incurred as a direct result of the Bankruptcy Filing. We have rejected 98 of our leases and adjusted the reserve balance associated with these leases to the allowable claim for damages, of which $59.4 million was attributed to continuing operations. Debt discounts and deferred financing fees for secured and unsecured pre-petition indebtedness were reclassified against the book value of the related debt and adjustments of $15.6 million and $35.8 million, respectively, were made to adjust the debt to face value. After our Company's Bankruptcy Filing, we repaid our pre-existing first lien credit facility with a balance of $140.5 million with the proceeds from the $350.0 million term loan under the DIP Credit Agreement. As a result of the repayment, we immediately expensed financing fees of approximately $10.7 million which were previously capitalized in connection with the first lien credit facility. We paid approximately $3.4 million for professional fees during fiscal 2010 related to our Bankruptcy Filing. Professional fees of $11.7 million were accrued. Other financing fees of $3.8 million were paid prior to the Bankruptcy Filing for a proposed financing arrangement that was not executed. U.S. Trustee fees of approximately $0.4 million were incurred.

INCOME TAXES

Benefit from income taxes from continuing operations for fiscal 2010 was $3.8 million and $22.0 million for fiscal 2009. Consistent with the prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rates on continuing operations of (0.6%) for fiscal 2010 varied from the statutory rate of 35%, primarily due to state and local income taxes, an increase in our valuation allowance, and the impact of the Pathmark financing and fiscal 2010 impairments. Approximately $3.1 million of the net income tax benefit resulted from the write-off of the deferred tax liability associated with the Pathmark trademark, an indefinite-lived intangible asset, as a result of its impairment during fiscal 2010.

The effective tax rate on continuing operations of (2.7)% for fiscal 2009 varied from the statutory rate of 35%, primarily due to state and local income taxes, an increase in our valuation allowance the remeasurement of our uncertain tax positions, and the impact of the Pathmark financing and fiscal 2009 impairments. Approximately $16.0 million of the net income tax benefit resulted from the write-off of the deferred tax liability associated with the Pathmark trademark, an indefinite-lived intangible asset, as a result of its impairment during fiscal 2009.

DISCONTINUED OPERATIONS

Income from discontinued operations for fiscal 2010 of $74.8 million increased from a loss from discontinued operations of $95.8 million for fiscal 2009, primarily due to the rejection of property leases and the corresponding adjustment to the reserve balance associated with these leases to the allowable claims for damages, of which $133.3 million was attributed to discontinued operations. Fiscal 2010 income from discontinued operations was partially offset by smaller adjustments in estimated occupancy reserves recorded during fiscal 2010 due to changes in our estimation of such costs resulting from continuing deteriorating conditions in the Midwest real estate market, as well as a $24.9 million increase in our worker’s compensation and general liability reserves relating to discontinued operations, which was associated primarily with a negative development of prior year claims and the related state assessment for such claims.

FISCAL 2009 COMPARED WITH FISCAL 2008

The following table summarizes our results of operations for fiscal 2009 compared to fiscal 2008:

	Fiscal 2009	Fiscal 2008 (1)	Favorable (unfavorable)	% Change
		(in millions, except percentages and per share data)		
Sales	$ 8,813.6	$ 9,516.2	$ (702.6)	(7.4%)
(Decrease) increase in comparable store sales	(4.3 %)	2.0 %	NA	NA
Loss from continuing operations	$ (780.7)	$ (117.9)	$ (662.8)	>(100%)
Loss from discontinued operations	$ (95.8)	$ (53.7)	$ (42.1)	(78.4%)
Net loss	$ (876.5)	$ (171.6)	$ (704.9)	>(100%)
Net loss per share - basic	$ (16.59)	$ (3.36)	$ (13.23)	>(100%)
Net loss per share - diluted	$ (29.34)	$ (5.96)	$ (23.38)	>(100%)

(1) Fiscal 2008 reflects increased interest expense of $3.5 million for our 6.750% convertible senior notes from the amount recorded in our Form 10-K for fiscal 2008 as a result of the retrospective application of the new accounting guidance relating to convertible debt, which we adopted during the first quarter of fiscal 2009. Refer to Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities for more information.

Average weekly sales per supermarket were approximately $411.2 thousand for fiscal 2009 versus $423.8 thousand for the corresponding period of the prior year, a decrease of 3.0% primarily due to the overall decline in our sales resulting from the current economic environment and its negative effect on consumer spending, as well as a lower rate of inflation.

SALES

	Fiscal 2009	Fiscal 2008
Sales	(in thousands)	
Fresh	$ 4,402,044	$ 4,806,467
Pathmark	3,855,251	4,173,017
Gourmet	273,060	281,767
Other	283,213	254,935
Total sales	$ 8,813,568	$ 9,516,186

Sales decreased by $702.6 million, from $9,516.2 million in fiscal 2008 to $8,813.6 million in fiscal 2009, primarily due to a decline in comparable store sales, reflecting decreased volume and the impact of accelerated retail price deflation mainly resulting from increased promotional spending during fiscal 2009. The decrease in sales during fiscal 2009 was also attributable to the absence of sales resulting from store closures and sales generated during the 53rd week included in fiscal 2008, partially offset by sales generated by our new stores.

The sales decline in our Fresh segment of $404.4 million was primarily related to a decline in the comparable store sales of $231.8 million, the absence of sales resulting from store closures of $88.8 million and the absence of the additional sales recorded during the 53rd week in fiscal 2008 of $83.8 million. The decrease in sales in our Pathmark segment of $317.8 million was primarily due to a decline in comparable store sales of $181.6 million, the absence of sales resulting from store closures of $104.5 million, and the absence of sales recorded during the 53rd week in fiscal 2008 of $74.9 million, partially offset by an increase in sales from new stores of $43.2 million. Sales generated by our Gourmet segment decreased by $8.7 million, primarily due to the absence of sales recorded during the 53rd week in fiscal 2008 of $5.5 million and a decline in comparable store sales of $3.2 million. The sales increase of $28.3 million in our Other segment, representing our Discount and our Wine, Beer & Spirits businesses, was primarily driven by increased sales generated by our Discount business, primarily attributable to sales from three new stores of $21.1 million and increased comparable store sales of $10.1 million. Refer to Note 20 to our Consolidated Financial Statements – Segments for further discussion of our reportable segments.

GROSS MARGIN

Gross margin as a percentage of sales decreased 25 basis points from 30.51% in fiscal 2008 to 30.26% for fiscal 2009, reflecting lower margins from our Pathmark segment, partially offset by improved margin rates from our Fresh and Gourmet segments.

The following table details how volume and rate impact the gross margin dollar decrease from fiscal 2008 to fiscal 2009:

	Sales Volume	Rate	Total	
Total Company			$ (214.4)	(21.9)

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

Store operating, general and administrative (“SG&A”) expense was $2,790.2 million or 31.66% as a percentage of sales for fiscal 2009, as compared to $2,978.1 million or 31.30% as a percentage of sales for fiscal 2008.

SG&A expenses for fiscal 2009 included (i) insurance reserve adjustment of $38.3 million, or 44 basis points, (ii) net real estate related costs of $37.1 million, or 42 basis points, (iii) net restructuring and other costs of $16.7 million, or 19 basis points (which includes $14.6 million of severance costs relating to labor rationalization initiatives during fiscal 2009), (iv) stock-based compensation of $5.7 million, or 6 basis points and (v) pension withdrawal costs of $2.4 million, or 3 basis points.

SG&A expenses for fiscal 2008 included (i) net restructuring and other costs of $66.7 million, or 71 basis points, (ii) net real estate related costs of $40.2 million, or 42 basis points, (iii) pension obligation costs of $28.9 million, or 30 basis points, recorded in connection with our withdrawal from the UFCW Local 342 Amalgamated Pension Plan, and (iv) stock-based compensation costs of $5.7 million, or 6 basis points. These expenses were offset by (v) an insurance reserve recovery of $2.7 million, or 3 basis points.

Excluding the items listed above, SG&A as a percentage of sales increased 69 basis points for fiscal 2009 as compared to fiscal 2008, primarily due to lower sales leverage on fixed costs, including increased labor costs of 57 basis points, increased advertising related costs of 13 basis points and increased occupancy expenses of 8 basis points, partially offset by a decrease in corporate and banner administrative expenses of 20 basis points.

During fiscal 2009 and fiscal 2008, we recorded impairment losses on long-lived assets relating to closure or conversion of stores in the normal course of business of $6.5 million and $14.1 million, respectively. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels do not improve, there may be a need to take further actions which may result in additional future impairments on long-lived assets, including impairment of assets that are held and used.

GOODWILL, TRADEMARK AND LONG-LIVED ASSET IMPAIRMENT

As a result of experiencing increasing cash flow losses within certain asset groupings, we determined that triggering events occurred during the third and fourth quarters of fiscal 2009 for testing the related asset groups' long-lived assets for potential impairment. As a result of our testing, we recorded impairment charges aggregating $65.2 million, primarily attributable to favorable leases and other owned property, $40.8 million of which was recorded in the third quarter and $24.4 million of which was recorded in the fourth quarter of fiscal 2009. Refer to Note 4 to our Consolidated Financial Statements – Valuation of Long-Lived Assets for additional information.

During fiscal 2009, we recorded goodwill impairment charges of $345.5 million and impaired our Pathmark trademark by $66.4 million. During the third quarter of fiscal 2009, due to the severity and duration of operating losses within the Pathmark reporting unit, changes in our management's long-term forecasts relating to the Pathmark reporting unit, and the significant impairment of long-lived assets within the Pathmark reporting unit, we concluded that an interim triggering event had occurred for purposes of determining whether any portion of our goodwill and trademark balance recorded within our Pathmark segment has been impaired. As a result, we impaired the entire $321.8 million goodwill balance and $49.9 million of the trademark balance of $127.3 million within our Pathmark reporting unit. During the fourth quarter of fiscal 2009, we performed our annual goodwill impairment testing for our remaining reporting units (other than Pathmark), which resulted in impairing the entire $23.7 million goodwill balance attributable to our South (SuperFresh) reporting unit. In addition, we performed our annual impairment testing of our indefinite-lived intangible asset, and as a result of further lowering our anticipated revenue projections, we concluded that an additional impairment of $16.5 million was required for our Pathmark trademark. Refer to Note 2 to our Consolidated Financial Statements – Goodwill and Other Intangible Assets for additional information.

We believe our estimates used to perform the impairment analysis of our goodwill, trademark and long-lived assets are appropriate given the current market conditions; however, future impairment charges could be required due to changes in the market conditions or other factors relating to our performance.

SEGMENT INCOME

	Fiscal 2009	Fiscal 2008
	(in thousands)	
Segment income		
Fresh	$ 111,582	$ 148,617
Pathmark*	(46,326)	19,012
Gourmet	25,691	24,866
Other	1,472	2,184
Total segment income	$ 92,419	$ 194,679

* Includes results from A&P stores that have been subsequently converted to Pathmark stores.

Segment income decreased $102.3 million from $194.7 million in fiscal 2008 to $92.4 million in fiscal 2009. The decrease in segment income of $37.0 million for our Fresh segment was primarily driven by lower sales and gross margin, partially offset by negotiated cost reductions and reduced labor and occupancy costs. Our Pathmark segment experienced a decline in segment income of $65.3 million, which was attributable to lower sales and gross margins, primarily resulting from higher promotional spending and reductions in everyday prices for this segment, partially offset by reduced productive labor and occupancy costs. Segment income for our Gourmet business improved by $0.8 million, as the decline in sales was more than offset by the improved gross margin rate and reduced productive labor and occupancy costs. Segment income in our Other segment, representing our Discount and our Wine, Beer & Spirits businesses, declined by $0.7 million, as the increase in its sales was more than offset by increased expenses, including productive labor and occupancy costs. Refer to Note 20 to our Consolidated Financial Statements – Segments for further discussion of our reportable operating segments.

NONOPERATING INCOME

During fiscal 2009 and fiscal 2008, we recorded unfavorable fair value adjustments of $9.2 million and favorable fair value adjustments $101.3 million, respectively, relating to our Series B warrants acquired in connection with our purchase of Pathmark. In addition, during fiscal 2008, we recorded $15.6 million of favorable fair value adjustments associated with our Series A warrants that were exercised on May 7, 2008, the conversion features related to our 5.125% convertible senior notes, our 6.750% convertible senior notes, and our financing warrants issued in connection with our convertible senior notes, which were marked to market until stockholder approval authorizing sufficient shares to be available for their issuance was obtained on June 26, 2008. These adjustments are primarily a function of fluctuations in the market price of our Company's common stock.

INTEREST EXPENSE, NET

Interest expense, net increased $35.9 million from $157.0 million in fiscal 2008 to $192.9 million in fiscal 2009, primarily due to $17.6 million of interest expense recorded during fiscal 2009, to reflect the impact of the lower discount rate used to revalue our GHI contractual obligation at February 27, 2010 than at February 28, 2009, which is derived each period from published zero-coupon AA corporate bond yields, as well as interest accretion relating to this obligation. During fiscal 2009, we also recorded $18.3 million of interest expense and bond issue cost amortization relating to our $260 million 11.375% senior secured notes due 2015 that were issued in August 2009 and $3.9 million of interest expense relating to dividends and issuance cost amortization on the portion of our preferred stock issued in August 2009 that was classified as a liability prior to obtaining shareholder approval authorizing its convertibility on December 15, 2009. These increases in interest expense were partially offset by $6.5 million of reduced interest expense relating to bank borrowings resulting from our repayments of a portion of our variable debt using proceeds from the August 2009 offerings of senior notes and preferred stock.

During fiscal 2009 and fiscal 2008, we recorded additional non-cash interest expense of $4.2 million and $3.5 million, respectively, relating to our $255 million aggregate principal amount of the 6.750% Convertible Senior Notes that were issued in December 2007, as a result of our retrospective adoption of the new accounting guidance relating to convertible debt instruments with cash settlement features during fiscal 2009. Refer to Note 9 of our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities for additional information.

INCOME TAXES

Benefit from income taxes from continuing operations for fiscal 2009 was $22.0 million compared to a provision of $2.7 million for fiscal 2008. Consistent with the prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rates on continuing operations of (2.7%) for fiscal 2009 varied from the statutory rate of 35%, primarily due to state and local income taxes, an increase in our valuation allowance, the remeasurement of our uncertain tax positions, and the impact of the Pathmark financing and fiscal 2009 impairments. Approximately $16 million of the net income tax benefit resulted from the write-off of the deferred tax liability associated with the Pathmark trademark, an indefinite-lived intangible asset, as a result of its impairment during fiscal 2009.

The effective tax rate on continuing operations of 2.3% for fiscal 2008 varied from the statutory rate of 35%, primarily due to state and local income taxes, an increase in our valuation allowance and the impact of the Pathmark financing.

DISCONTINUED OPERATIONS

The loss from operations of discontinued businesses for fiscal 2009 of $95.8 million increased from loss from operations of discontinued business of $58.4 million for fiscal 2008, primarily due to higher occupancy related expenses recorded during fiscal 2009 due to changes in our estimation of such costs resulting from continuing deteriorating conditions in the Midwest real estate market, as well as a $13.0 million increase in our worker's compensation and general liability reserves relating to discontinued operations, which was associated with a negative development of prior year claims and the related state assessment for such claims. The $4.7 million gain on disposal of discontinued operations for fiscal 2008 primarily consisted of a $2.6 million gain related to the sale of our Eight O'Clock Coffee business in fiscal 2003 due to the settlement of a contingent note whose value was based upon certain elements of the future performance of the Eight O'Clock Coffee business and was not originally recorded in the gain during fiscal 2003. In addition, during fiscal 2008, we recorded a gain of $1.8 million relating to the sale of land in the Greater New Orleans area.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Net cash used in operating activities	$ (80,970)	$ (41,917)	$ (1,299)
Net cash used in investing activities	(26,064)	(62,966)	(64,530)
Net cash provided by financing activities	207,215	181,934	140,549

Net Cash Used in Operating Activities

Net cash used in operating activities increased by $39.1 million during fiscal 2010 as compared to fiscal 2009. The increase in cash used in operations is primarily the result of declining core operating results as reflected in our $185.2 million increase in net loss adjusted by non-cash charges, which is due to lower comparable store revenues, decreased volume at the stores, and the results of underperforming stores, some of which were closed in the latter part of fiscal 2010. Partially offsetting the impact of lost income was an improvement in working capital items subject to compromise, which are stayed in bankruptcy, of approximately $133.4 million. Additionally, we paid approximately $41.3 million less for closed store obligations in fiscal 2010.

Net cash used in operating activities increased by $40.6 million during fiscal 2009 as compared to fiscal 2008. The increase in cash used in operations is primarily driven by lower sales and the related margin income as reflected in our $72.9 million decrease in net loss adjusted by non-cash charges. Management has been able to partially reduce the impact of lost income through a reduction in non-cash working capital of approximately $6.6 million. We also experienced a reduction in self-insurance payments from 2008 of approximately $12.0 million, primarily due to prior year insurance payments including settlements related to Pathmark that had been delayed during transition of the acquisition.

Net Cash Used in Investing Activities

Net cash used in investing activities decreased by $36.9 million during fiscal 2010 when compared to fiscal 2009. The decrease in cash used in investing activities is primarily due to $15.3 million decrease in property expenditures, $20.8 million increase in proceeds from the sale of property and $6.4 million in proceeds from flood insurance. The decrease is partially offset by the respective absences of $5.6 million in proceeds from maturities of marketable securities that were received during fiscal 2009. During fiscal 2010, property expenditures totaled $71.1 million, which relates to one off-site replacement and one remodel, as compared to $86.4 million during fiscal 2009, reflecting 5 new stores, 6 remodels and 4 store conversions.

Net cash used in investing activities decreased by $1.6 million from fiscal 2008 to fiscal 2009, primarily due to a $29.6 million decrease in property expenditures and $5.9 million received during fiscal 2009 from the sale of a joint venture, partially offset by a $26.0 million decrease in proceeds from disposal of property and a $6.7 million decrease in proceeds from maturities of marketable securities. During fiscal 2009, property expenditures totaled $86.4 million, reflecting 5 new stores, 6 remodels and 4 store conversions, as compared to $116.0 million during fiscal 2008, which included 1 new store, 13 remodels, 16 major remodels, 1 major enlargement and 2 store conversions. Our planned capital expenditures for fiscal 2010 are expected to be between $75 million and $100 million and will focus primarily on improving our existing supermarkets.

Net Cash Provided by Financing Activities

Net cash provided by financing activities increased by $25.3 million during fiscal 2010 when compared to fiscal 2009. The increase in cash provided by financing activities is primarily due to $350.0 million in proceeds under our debtor-in-possession financing and $663.4 million in proceeds under our revolving lines of credit (Refer to Debt Obligations discussion below for additional information). In addition, we also received $89.9 million in proceeds from sale-leaseback transactions, which relates to the six properties sold during fiscal 2010. The increase in net cash provided by financing activities was partially offset by an increase in principal payments of $558.0 million on our revolving lines, the respective absences of the proceeds from issuance of long-term debt of $253.2 million and proceeds from the issuance of preferred stock of $175.0 million during fiscal 2009. Also partially offsetting the increase in net cash provided by financing activities were decreased book overdrafts of $36.7 million.

Net cash provided by financing activities increased $41.4 million from fiscal 2008 to fiscal 2009, primarily due to $253.2 million in proceeds from the issuance of long-term debt and $175.0 million from the issuance of preferred stock in fiscal 2009 (Refer to Debt Obligations discussion below for additional information), as well as the absence of the fiscal 2008 payment of $45.7 million upon our settlement of the Series A warrants. The increase in net cash provided by financing activities was partially offset by net principal payments of $360.8 million on our revolving lines of credit, primarily attributable to using a portion of the proceeds from the fiscal 2009 issuances of long-term debt and preferred stock to repay some of the outstanding borrowings, and payments of $27.6 million relating to the associated deferred financing costs. Also partially offsetting the increase in net cash provided by financing activities were decreased book overdrafts of $24.8 million, and the absence of the fiscal 2008 proceeds from a promissory note of $10.0 million.

Working Capital

At February 26, 2011, we had working capital of $698.0 million, excluding liabilities considered subject to compromise. Considering working capital type items classified as "Liabilities subject to compromise" on our Consolidated Balance Sheets, we had working capital of $177.9 million at February 26, 2011 compared to working capital of $210.9 million at February 27, 2010. We had cash and cash equivalents aggregating $352.6 million at February 26, 2011 compared to $252.4 million at February 27, 2010 primarily due to proceeds from the $350.0 million term loan under the DIP Credit Agreement, partially offset by the repayment of our Credit Agreement with a balance of $140.5 million. The decrease in working capital after considering the impact of "Liabilities subject to compromise" on our Consolidated Balance Sheets was attributable primarily to the following:

- A decline in inventories primarily related to lower sales volume and a reduced number of open locations; and
- An increase in accounts payable and other accruals, largely attributed to amounts stayed in bankruptcy.

Partially offset by the following:

- A decrease in accrued salaries, wages and benefits primarily attributable to payments made for benefits to administrative employees for benefits that were not renewed in fiscal 2010; and
- An increase in receivables, primarily related to slower collections from vendors.

Debt Obligations

Our debt obligations consisted of the following (in thousands):

	At Feb. 26, 2011	At Feb. 27, 2010
Debtor-in-Possession Credit Agreement, due June 14, 2012	$ 350,000	$ -
Related Party Promissory Note, due August 18, 2011	10,000	10,000
5.125% Convertible Senior Notes, due June 15, 2011 (1)	165,000	155,333
9.125% Senior Notes, due December 15, 2011 (1)	12,840	12,840
6.750% Convertible Senior Notes, due December 15, 2012 (1)	255,000	223,838
11.375% Senior Secured Notes, due August 4, 2015	260,000	253,668
9.375% Notes, due August 1, 2039 (1)	200,000	200,000
Borrowings under Credit Agreement	-	132,900
Other	2,544	1,971
	1,255,384	990,550
Less current portion of long-term debt – subject to compromise	(159)	(191)
Less long-term debt - subject to compromise	(905,225)	-
Long-term debt	$ 350,000	$ 990,359

(1) Represents public debt obligations.

Debtor-in-Possession Credit Agreement

On December 12, 2010, our Company and all of its 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”), case number 10-24549. Management's decision to make the Bankruptcy Filing was in response to, among other things, our Company’s deteriorating liquidity and management's conclusion in the third quarter 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 its previously announced turnaround strategy. The Debtors will continue to operate their businesses in the ordinary course of business as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Our Company’s non-U.S. subsidiaries were not part of the Bankruptcy Filing and will continue to operate in the ordinary course of business.

In connection with the Bankruptcy Filing, on December 13, 2010, the Bankruptcy Court entered its interim financing order, among other things, permitting the Debtors to enter into a Superpriority Debtor-in-Possession Credit Agreement (as amended and restated by that certain Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of December 21, 2010 and further amended by that certain First Amendment thereto dated January 10, 2011, 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, the Debtors satisfied all of the conditions to the effectiveness of the DIP Credit Agreement 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 evidenced by the Credit Agreement (refer to Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities). 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.

The DIP Credit Agreement also contains certain financial covenants, including a minimum excess availability covenant of $100.0 million, 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

We are currently in compliance with all covenants. Meeting our EBITDA covenant requires increasing levels of performance throughout the year. Achieving this improving performance will require our Company to successfully implement our business improvement initiatives beginning as early as June 2011 with the benefits reflected in our results shortly thereafter. 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. The Bankruptcy Court entered a final order approving the DIP Credit Agreement on January 11, 2011.

The Bankruptcy Filing constituted an event of default with respect to the debt obligations described within Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities.

We are currently operating pursuant to 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 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities; (ii) to develop a plan of reorganization and obtain confirmation under the Bankruptcy Code; (iii) to reduce debt and other liabilities through the bankruptcy process; (iv) to return to profitability, including necessary near-term cost concessions from our business and labor partners beginning as early as June 2011 with the benefits reflected in our results shortly thereafter; (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.

After our Company's Bankruptcy Filing on December 12, 2010, we repaid our $655.0 million Credit Agreement with a balance of $140.5 million with the proceeds from the $350.0 million term loan under the DIP Credit Agreement. As of February 26, 2011, we held excess cash not utilized in our store operations of $257.4 million. At January 10, 2011, we received court approval to draw down on the $450.0 million revolver which provided, after adjusting for letters of credit and borrowing base collateral requirements, an additional $184.3 million of availability as of February 26, 2011. The $184.3 million of availability is further subject to a current minimum availability covenant of $100.0 million. Based on our investable excess cash balance and this additional availability, we believe we have enough cash to operate for the next 12 months.

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 is convertible into shares of our Company's common stock, par value $1.00 per share (the "Common Stock"), at an initial conversion price of $5.00 per share of Common Stock. The Preferred Stock was convertible upon the one-year anniversary of the issuance of Preferred Stock, or August 5, 2010, provided that prior to receiving shareholder approval, the Preferred Stock was not exercisable into greater than 19.99% of the Common Stock outstanding prior to the issuance of the Preferred Stock. The 57,750 shares that were originally convertible without shareholder approval were recorded within temporary stockholders' equity upon issuance since the shares are (i) redeemable at the option of the holder and (ii) have conditions for redemption which are not solely within the control of the Company. The 117,250 shares that originally required shareholder approval in order to become convertible were initially recorded as a "Preferred stock liability". On December 15, 2009, we obtained shareholder approval authorizing the convertibility of the shares originally recorded within "Preferred stock liability", and reclassified $109.5 million to temporary equity, representing the book value of the liability on December 15, 2009 net of the related debt issuance costs. As of February 26, 2011, the entire Preferred Stock issuance was recorded within temporary stockholders' equity.

The holders of our Convertible Preferred Stock have the right to cast votes together with the holders of our common stock on an as-converted basis. Our Company is required to redeem all of the outstanding Preferred Stock on August 1, 2016 (the "Maturity Date"), at 100.0% of the liquidation preference, plus all accrued and unpaid dividends. Subject to the repurchase rights of the investors, the Preferred Stock is not redeemable prior to the Maturity Date. At any time after December 3, 2012, in the event of any fundamental change, the investors may elect to require our Company to repurchase the Preferred Stock in cash at 101.0% of the liquidation preference amount plus any accrued and unpaid dividends.

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, all dividends have been stayed during the pendency of the bankruptcy case. Dividends and deferred financing fees amortization relating to preferred stock that was classified as a liability prior to receiving shareholder approval, were recorded within "Interest expense."

During fiscal 2010, we accrued Preferred Stock dividends of $11.5 million within "Additional paid-in capital," and paid Preferred Stock dividends of $10.5 million. On November 24, 2010 our Company's Board of Directors authorized a payment-in-kind ("PIK") dividend on our Redeemable 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 Redeemable Preferred Stock is based upon the rate defined by the original terms of the Redeemable Preferred Stock at 9.5% per annum. The PIK dividends of approximately $4.0 million are included in Redeemable Preferred Stock on the Consolidated Balance Sheets. The PIK dividend due on December 15, 2010 was never made by our Company due to the Bankruptcy Filing.

During fiscal 2009, we accrued Preferred Stock dividends of $8.1 million, of which $3.5 million was recorded within "Interest expense" and the remaining $4.6 million was recorded within "Additional paid-in capital," and paid Preferred

Stock dividends of $5.1 million.

As a result of Shareholder authorization, during fiscal 2010, we recorded $2.0 million of deferred financing fees amortization within "Additional paid-in capital". Prior to this Shareholder authorization, during fiscal 2009, we recorded $1.0 million of deferred financing fees amortization, of which $0.4 million was recorded within "Interest expense" and the remaining $0.6 million was recorded within "Additional paid-in capital".

Share Lending Agreements

We had share lending agreements with certain financial institutions, pursuant to which we loaned 8,134,002 shares of our stock of which 6,300,752 shares were sold to the public on December 18, 2007 in a public offering to facilitate hedging transactions relating to the issuance of our 5.125% and 6.750% Senior Convertible Notes. We did not receive any proceeds from the sale of the borrowed shares. We received a nominal lending fee from the financial institutions pursuant to the share lending agreements. Any shares we loan are considered issued and outstanding. Investors that purchase borrowed shares are entitled to the same voting and dividend rights as any other holders of our common stock; however, the financial institutions do not have rights pursuant to the share lending agreements. During fiscal 2010 and fiscal 2009, Bank of America, N.A., who was a party to our share lending agreement, returned 2,427,944 and 2,500,000 shares, respectively. As of February 26, 2011, there were no shares outstanding under our share lending agreement with Bank of America, N.A.

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

Summary of Contractual Obligations and Commitments:

As of February 26, 2011, we had the following contractual obligations and commitments which are based on the contractual payment dates and have not been adjusted as a result of the Bankruptcy filing:

	Payments Due by Period (in millions)				
Contractual Obligations	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	Thereafter
Debtor-in-Possession Term Loan (1)	$ 350.0	$ -	$ 350.0	$ -	$ -
Other Debt (2)	905.5	188.2	255.6	260.7	201.0
Capital Leases (3)	193.3	24.0	42.7	35.4	91.2
Operating Leases (3)	1,428.3	180.8	336.6	283.4	627.5
Long-term Real Estate Liabilities (3)	618.5	41.1	82.8	86.2	408.4
Pension Obligations (4)	185.5	7.2	14.1	14.4	149.8
Postretirement Obligations (5)	99.4	2.1	4.7	5.3	87.3
Occupancy Payments (6)	137.2	18.0	36.9	29.8	52.5
Severance Payments (7)	8.6	8.1	0.5	-	-
Pension Withdrawal Payments (8)	139.0	13.2	37.2	20.0	68.6
Interest (9)	738.4	100.0	119.8	79.5	439.1
Postemployment Obligations (10)	11.2	3.4	2.3	1.5	4.0
Defined Contribution Plans (11)	0.5	0.5	-	-	-
Multi-employer Pension Plans (11)	56.6	56.6	-	-	-
Purchase Commitments (12)					
Equipment Purchases	8.8	8.8	-	-	-
Equipment Rentals	0.4	0.1	0.3	-	-
Suppliers	789.5	468.8	93.5	97.0	130.2
Manufacturers/Vendors	47.5	8.7	13.1	11.8	13.9
Service Contracts	47.0	32.7	14.3	-	-
Marketing Contracts	66.6	66.5	0.1	-	-
Consulting	3.6	3.6	-	-	-
Total (13)	$ 5,835.4	$ 1,232.4	$ 1,404.5	$ 925.0	$ 2,273.5

(1) Refer to Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities for information regarding debtor-in-possession term loan. We expect to settle the debtor-in-possession term loan by several methods, including cash flows from operations.

(2) Amounts represent contractual amounts due and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 9 to our Consolidated Financial Statements – Indebtedness and Other Financial Liabilities for information regarding long-term debt. We expect to settle such long-term debt by several methods, including cash flows from operations.

(3) Amounts represent contractual amounts due and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 11 to our Consolidated Financial Statements - Lease Obligations for information regarding capital leases, operating leases and long-term real estate liabilities.

(4) Amounts represent expected future cash contributions to our non-qualified defined benefit pension plans and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 13 to our Consolidated Financial Statements – Retirement Plans and Benefits for information regarding our defined benefit pension plans.

(5) Amounts represent future benefit payments that were actuarially determined for our postretirement benefit obligation and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 13 to our Consolidated Financial Statements – Retirement Plans and Benefits for information regarding our

postretirement benefits.

(6) Amounts represent our future occupancy payments primarily relating to our asset disposition initiatives (refer to Note 6 to our Consolidated Financial Statements), discontinued operations (refer to Note 5 to our Consolidated Financial Statements) and store closures made during the normal course of business and do not reflect current balance sheet classification as a result of the Bankruptcy Filing.

(7) Amounts primarily represent our severance obligations primarily resulting from store closures and do not reflect current balance sheet classification as a result of the Bankruptcy Filing.

(8) Amount represents our pension withdrawal payments from multiemployer plans and do not reflect current balance sheet classification as a result of the Bankruptcy Filing.

(9) Amounts represent contractual amounts due and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 9 to our Consolidated Financial Statements for information regarding our interest payments. Note that amounts presented exclude estimates on current and future variable interest rate payments as these amounts cannot be estimated as of the balance sheet date due to the variability in our expected borrowings. Included within these amounts are interest rate payments for the debtor-in-possession term loan based upon a LIBOR floor.

(10) Amounts represent our future benefit payments that were actuarially determined for our short and long term disability programs and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Refer to Note 13 to our Consolidated Financial Statements – Retirement Plans and Benefits for information regarding our postemployment obligations.

(11) Amounts represent our best estimate of our immediate funding requirements of defined contribution and multiemployer plans in which we participate and do not reflect current balance sheet classification as a result of the Bankruptcy Filing. Defined contribution plan requirement primarily relates to our Company's 4% employer pension contribution relating to calendar 2010 which will be paid in fiscal 2011. Refer to Note 13 to our Consolidated Financial Statements – Retirement Plans and Benefits for information regarding these obligations.

(12) The purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including open purchase orders. We expect to fund these commitments with cash flows from operations.

(13) The above table detailing our contractual obligations excludes our FIN 48 liability relating to our uncertain tax positions due to the fact that it will be settled with our net operating loss carryforwards and will not require the use of cash. As of February 26, 2011, we had gross unrecognized tax benefits of $0.6 million. We currently do not expect that this amount will significantly change in the next 12 months.

We have not repurchased any of our common stock and our Company's policy is to not pay dividends on common stock. As such, we have not made dividend payments in the previous four years. Additionally, the terms of our DIP Credit Agreement restrict the Company's ability to pay cash dividends on common shares. Holders of our Preferred Stock were entitled to dividend payments; however, all dividends are stayed during the bankruptcy period.

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, legal costs and other data. Legal expenses incurred in connection with workers' compensation and general liability claims are charged to the specific claim to which costs pertain. 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). The total liability for self-insurance reserves recorded at February 26, 2011 and February 27, 2010 was $414.7 million and $292.2 million, respectively. Of this amount, approximately $14.5 million is not classified as Liabilities subject to compromise, as approximately $11.8 million is considered to have arisen subsequent to the Bankruptcy Filing and approximately $2.7 million is an obligation of a non-Debtor entity. Of the $14.5 million obligation that was incurred subsequent to the Bankruptcy Filing and is not classified as Liabilities subject to compromise on our Consolidated Balance Sheets, $2.3 million is estimated to be paid within the next 12 months and the remaining $12.2 million is considered noncurrent. The discount rate used at February 26, 2011 and February 27, 2010 was 4.0%, and was based on the timing of the projected cash flows of future payments to be made for claims. A 1% increase in the discount rate would decrease the required liability by approximately $19.2 million and $9.3 million as of February 26, 2011 and February 27, 2010, respectively. Conversely, a 1% decrease in the discount rate would increase the required liability for the same periods by approximately $21.8 million and $10.3 million, respectively.

During fiscal 2010, our worker's compensation and general liability reserves increased by approximately $122.5 million ($97.6 million for continuing operations and $24.9 million for discontinued operations). Approximately $76.0 million is due to negative development, including the evolving impact of changes in legislation, a change in the estimated ultimate losses related to the New York area permanent partial disability claims and the continued shift in the mix of open claims to the New York area from less costly geographic areas. In addition, certain actuarial assumptions were updated to reflect these changing development factors. Approximately $37.2 million of the increase is related to our estimate of workers compensation state assessments, which are funds provided to the states to support state insurance regulatory bodies. These estimates are determined by actuarial projections of losses. During fiscal 2009, our worker's compensation and general liability reserves increased by approximately $60.8 million ($47.8 million for continuing operations and $13.0 million for discontinued operations), primarily due to a change in estimate of approximately $45.6 million related to the negative development of prior year claims and the change in the mix of claims between our continuing and discontinued operations, and the related state assessment for such claims of approximately $5.6 million. These estimates are determined by actuarial projections of losses. During fiscal 2008, the increase in our worker's compensation and general liability reserves was primarily related to a $24.7 million adjustment for Pathmark's opening balance sheet liabilities for self-insurance reserves based on information we obtained regarding facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized on that date, partially offset by payments made during fiscal 2008. There have been no other significant adjustments to our estimate and while we expect the estimates may change in the future due to the reasons previously stated, we believe our current liability is adequate.

Long-Lived Assets and Finite-Lived Intangibles

We review the carrying values of our long-lived assets and finite-lived intangible 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 over the life of the primary asset within the asset group. If such review indicates impairment, we estimate the fair value of the assets within the group based on a variety of methods; including estimating market rents as a percentage of sales to value lease contracts and observation of market values based on third party information for land and buildings. We measure such impairment of long-lived assets as the difference between the carrying value and the fair value of the assets.

Impairments due to closure or conversion in the normal course of business

During fiscal 2010, fiscal 2009 and fiscal 2008, we reported impairments due to store closures or conversions in the normal course of business of $7.2 million, $6.5 million and $14.1 million, respectively. These charges were recorded within "Store Operating, general and administrative expense" in our Consolidated Statements of Operations. An additional $0.5 million of impairment was incurred during fiscal 2010 and recorded within "discontinued operations" in our Consolidated Statements of Operations.

Impairments due to store closures

Included within “Goodwill, trademark and long-lived asset impairment” in our Consolidated Statements of Operations for fiscal 2010, in August 2010, our Company announced a plan to close 25 stores in five states as we began the implementation and execution phase of our comprehensive turnaround. The affected stores include locations in close proximity to other Company stores, those facing real estate and cost issues, and underperforming non-core stores. These store closures were completed by October 15, 2010. In February 2011, our company filed a motion seeking approval to close 32 stores in six states as we continue to fully implement our comprehensive financial and operational restructuring. These store closures were completed by April 16, 2011. As a result, we recorded a total impairment charge for closed stores of $56.2 million during fiscal 2010.

Impairments due to unrecoverable assets

During fiscal 2010, as a result of experiencing increasing cash flow losses within certain asset groupings, we determined that triggering events occurred that required us to test the related asset groups’ long-lived assets for potential impairment. We estimated the future cash flows for these asset groups based on an internal analysis performed by management. The carrying value was not recoverable from their undiscounted future cash flows. We determined the fair value of these assets and, as a result, we recorded an impairment charge for these asset groups’ long-lived assets, primarily consisting of favorable leases and other owned property of $45.3 million, $44.4 million of which related to Pathmark and $0.9 million of which related to our SuperFresh reporting unit. These charges were recorded within “Goodwill, trademark and long-lived asset impairment” in our Consolidated Statements of Operations for fiscal 2010.

We believe that our estimates are appropriate based upon the current assumptions. The effects of changes in estimates of useful lives were not material to ongoing depreciation and amortization expense. We will continue to monitor our operating results in future periods to determine whether additional impairment testing is warranted for any of our asset groups experiencing operating losses. If current operating levels do not improve, we may have to record impairments of long-lived assets in the future.

Goodwill and Other Indefinite-Lived Intangible Assets

We test goodwill and other indefinite-lived intangibles for impairment in the fourth quarter of each fiscal year, unless events or changes in circumstances indicate that impairment may have occurred in an interim period. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Possible indicators of impairment include, but are not limited to: sustained operating losses or poor operating performance trends, a significant decline in our expected future cash flows for a reporting unit, a decrease in our market capitalization below our book value for a sustained period of time, and an expectation that a reporting unit will be disposed of or sold.

A two-step impairment test is performed for goodwill. The first step of the impairment analysis is performed by comparing the estimated fair value of each reporting unit to the related carrying value. We have seven reporting units, five of which have goodwill and are assessed for impairment: A&P, Waldbaum’s and SuperFresh, which comprise our Fresh reportable segment; Gourmet; and Discount and Wine, Beer & Sprits, which comprise our Other reportable Segment. In determining fair value, we make various assumptions, including our expectations of future cash flows based on projections or forecasts derived from its analysis of business prospects, economic or market trends and any regulatory changes that may occur. We estimate the fair value of the reporting unit using a net present value methodology, which is dependent on significant assumptions related to estimated future discounted cash flows, discount rates and tax rates. Our assumptions for our annual impairment included a decline in revenue of approximately 6% in fiscal 2011, an increase of approximately 1% in fiscal 2012, remaining flat in years thereafter and the impact of closures of certain unprofitable stores. Assumptions also include an estimate for business improvement initiatives for restructuring-related activities in excess of $200 million upon emerging from bankruptcy and a perpetual growth rate for cash flow in the terminal year of approximately 1.5%. We assumed a market-based weighted average cost of capital of 11.0% to discount cash flows and a blended federal and state tax rate of 42.0%. We determined that our fair value exceeded our carrying value in our reporting units with goodwill.

We determined that the fair values of each of the reporting units comprising our Fresh and Gourmet reportable segments, as well as our Discount reporting unit, exceeded the related carrying values, inclusive of goodwill of $92.3 million, $12.1 million, and $4.1 million, respectively, by over 100%. The fair value of our Wine, Beer & Spirits reporting unit exceeded its carrying value, inclusive of $1.8 million of goodwill, in excess of 40%. Thus, a significant decrease in fair value would be required before the goodwill balance at these reporting units would have a carrying value in excess of the fair value. There is significant risk of future impairment if restructuring related activities are not achieved.

Our only other indefinite-lived intangible asset is the Pathmark trademark. Impairment loss is recognized when the estimated fair value of the indefinite-lived intangible asset is less than its carrying value. We evaluated the fair value of the Pathmark trademark using the relief-from-royalty method with assumptions consistent with those used to fair value goodwill.

During the third quarter of fiscal 2010, based on the lower revenues within our Pathmark reporting unit coupled with lower near term profitability projections and lower estimated market royalty rate expectations due to current general economic conditions, we concluded that a triggering event had occurred for an interim impairment test. The carrying value exceeded the indicated fair value of the Pathmark trademark, resulting in an impairment charge of $12.7 million during the third quarter of fiscal 2010. During the fourth quarter of fiscal 2010, we completed our annual impairment test of our Pathmark trademark and concluded there was no Pathmark trademark impairment during the fourth quarter of fiscal 2010. Our estimates assumed a decline in revenues of approximately 6% in fiscal 2011 and an increase of 1% in fiscal 2012, respectively, with revenues remaining flat for fiscal years thereafter, and an annual pre-tax royalty savings rate of 20 basis points. We currently estimate that the fair value of our trademark decreases by approximately $14.0 million for each 5 basis point decrease in the market royalty rate and by approximately $7.0 million for each 10% decline in revenue from our current projections. We believe that our estimates are appropriate based upon our current assumptions. However, we may be required to record impairment charges in future periods if our revenues differ from our current projections.

Closed Store and Closed Warehouse Reserves

For closed stores and warehouses that are under long-term leases, we adjust the charges originally accrued for these events for (i) interest accretion, (ii) settlements on leases or sold properties, and (iii) changes in estimates in future sublease rental assumptions. Net adjustments, all of which have been disclosed in the Notes to the Consolidated Financial Statements, for changes have been cumulatively approximately 7% from the date of inception. Total adjustments for settlements on leases or sold properties and changes in estimates resulted in expenses of $63.1 million for continuing operations and $13.5 million for discontinued operations in fiscal 2010 due to significant declines in values in the real estate market resulting from deepening economic recession; expenses of $36.5 million for continuing operations and $62.8 million for discontinued operations in fiscal 2009, and expense of $26.4 million for continuing operations and income of $29.6 million for discontinued operations in fiscal 2008. Adjustments are predominantly due to fluctuations in the real estate market from the time the original charges are incurred until the properties are actually settled. Also, we have rejected 98 of our leases through the bankruptcy process and reduced the reserve balance associated with these leases by $192.7 million, net to the allowable claim for damages of $130.2 million. This adjustment is not included in the above amounts. The remaining closed store reserve balance of $27.0 million relates to locations for which the leases have not been rejected as of fiscal year end.

As of February 26, 2011, we had recorded liabilities for estimated probable obligations of $157.2 million. Of this amount, $41.3 million relates to stores closed in the normal course of business, $36.7 million relates to stores and warehouses closed as part of the asset disposition initiatives (refer to Note 6 to our Consolidated Financial Statements), and $79.2 million relates to stores closed as part of our discontinued operations (refer to Note 5 to our Consolidated Financial Statements).

Due to the long-term nature of the lease commitments, it is possible that current accruals, which are based on estimates of vacancy costs and sublease income, will change in the future as economic conditions change in the real estate market; however, we are unable to estimate the impact of such changes at this time and the existing obligations are our best estimate of these obligations at this time.

Warrant Liability

We issued warrants, which are recorded as liabilities in our financial statements and marked to market each reporting period using the Black-Scholes option pricing model. The value of these liabilities change as a result of changes in our stock price, volatility, the remaining time until maturity, and the current risk-free interest rate.

Pension and Other 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 the weighted average discount rate at which obligations can be effectively settled, the anticipated rate of future increases in compensation levels, the expected long-term rate of return on plan assets, increases or trends in health care cost, and certain employee related factors, such as turnover, retirement age and mortality.

The discount rate is determined by taking into account the actual pattern of maturity of the benefit obligations. To generate the year-end discount rate, a single rate is developed using a yield curve which is derived from multiple high quality corporate bonds, discounting each future year’s projected cash flow, and determining the equivalent single discount rate. We use independent actuaries to assist us in determining the discount rate assumption and measuring our plans’ obligations.

The rate of compensation increase is determined based upon a scale of merit and promotional increases according to duration plus an economic increase per year.

The expected long-term rate of return for the plan was determined by weighing the expected returns for each asset class by the assets allocated to that class. The expected return for each asset class was based on our actuaries' capital market assumptions for real returns on standard asset classes and a long-term annual inflation rate of 2.0%. We use independent actuaries to assist us in determining our long-term rate of return assumptions. For fiscal 2010, fiscal 2009 and fiscal 2008, we assumed return rates of 7.50%, 7.50% and 6.75%, respectively. Given the target asset allocation of 40-60% equities, 30-40% fixed income and 5-25% other, we consider the assumed return rates to be reasonable estimates of average expected long-term investment returns over the life of the plan. We will continue to examine our portfolio allocations to increase the likelihood of achieving our expected rate of return.

We believe that our current assumptions used to estimate plan obligations and annual expense are appropriate in the current economic environment. However, if economic conditions change, we may need to change some of our assumptions, and the resulting changes may materially affect our pension and other postretirement obligations in the Consolidated Balance Sheets and our future expense in the Consolidated Statements of Operations. Actual results that differ from our Company's assumptions are accumulated and amortized over future periods into the Consolidated Statements of Operations.

The weighted average discount rate, the weighted average rate of compensation increase and the expected long-term rate of return on plan assets used in our determination of our pension expense are as follows:

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Weighted average discount rate	6.25%	7.25%	5.75%
Weighted average rate of compensation increase	3.00%	3.00%	2.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	6.75%

To determine our pension benefit obligation as of February 26, 2011, we used a weighted average discount rate of 5.75% and a weighted average rate of compensation increase of 3.00%.

The following illustrates the annual impact on pension expense of a 100 basis point increase or decrease from the assumptions used to determine the net cost for the fiscal year ending February 26, 2011 (in millions):

	Weighted Average Discount Rate	Expected Return on Plan Assets	Combined (Decrease) Increase in Pension Expense
100 basis point increase	($1,590)	($3,900)	($5,4
100 basis point decrease	3,790	3,900	7,69

The following illustrates the annual impact on benefit obligation of a 100 basis point increase or decrease from the discount rate used to determine the benefit obligation at February 26, 2011 (in millions):

	(Decrease)/Increase in Pension Benefit Obligation
100 basis point increase in discount rate	($51,710)
100 basis point decrease in discount rate	62,200

To determine our postretirement benefit obligation at February 26, 2011, we used a weighted average discount rate of 5.50%. The weighted average discount rate used to determine our postretirement expense for fiscal 2009 was 6.00%. The following illustrates the annual impact on the accumulated postretirement benefit obligation ("APBO") and postretirement benefit expense of a 100 basis point increase or decrease from the healthcare trends used to value them as of and for the year ended February 26, 2011 (in millions):

	Increase/(Decrease) in expense	Increase/(Decrease) in APBO
100 basis point increase in healthcare trends	$0.2	$2.9
100 basis point decrease in healthcare trends	(0.2)	(2.5)

Our obligation to fund pension benefits for certain employees of Grocery Haulers, Inc. ("GHI") who handle transportation and logistics services for our Pathmark stores is accounted for as a contractual obligation at fair value. The discount rate is derived from published zero-coupon AA corporate bond yields. It is determined by considering the actual pattern of maturity of the benefit obligations of approximately fifteen years. We utilized a 5.50% discount rate to value this obligation as of February 26, 2011. Due to their long-term nature, other assumptions used to value this contractual obligation, such as compensation levels, trends in health care costs, and certain related factors, such as turnover, retirement age and mortality, are reevaluated on an annual basis and are consistent with those used to determine the Projected Benefit Obligation for our pension plans. We use independent actuaries to assist us in determining the discount rate assumptions and measuring this obligation.

The sensitivities to changes in the discount rate used to value the GHI contractual obligation as of February 26, 2011 are as follows (in millions):

	Increase/(Decrease) in expense	(Decrease)/Increase in GHI Obligation
100 basis point increase in discount rate	$0.2	($9.6)
100 basis point decrease in discount rate	(0.3)	11.4

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. Physical inventory counts are taken every period for fresh inventory, approximately twice per fiscal year on a staggered basis for the remaining merchandise inventory in stores, and annually for inventory in distribution centers and for supplies. The average shrinkage rate resulting from the physical inventory counts is applied to the ending inventory balance in each store as of the balance sheet date to provide for estimated shrinkage from the date of the last physical inventory count for that location. Total inventory stock loss reserves amounted to approximately $18.7 million and $18.9 million as of February 26, 2011 and February 27, 2010, respectively. Adjustments to the stock loss reserve based on physical inventories were approximately 0.1% of our ending inventory balance as of February 26, 2011.

Income Taxes

As discussed in Note 17 – Income Taxes to the Consolidated Financial Statements, we record a valuation allowance for the entire U.S. net deferred tax asset since it is more likely than not that the net deferred tax asset would not be utilized based on historical cumulative losses. This valuation allowance could be reversed in future periods if we experience improvement in our U.S. operations.

At February 26, 2011 and February 27, 2010, we had unrecognized tax benefits of $0.6 million and $1.4 million, respectively, that, if recognized would not affect the effective tax rate, as they would be offset by an increase in our valuation allowance. We do not expect that the amount of our gross unrecognized tax positions will change significantly in the next 12 months.

We recognize interest and penalties as incurred within "Benefit from (provision for) income taxes" in our Consolidated Statements of Operations. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is more likely than not of being sustained in our Consolidated Financial Statements. Our Company makes estimates of the potential liability based on our assessment of all potential tax exposures. In addition, we use factors such as applicable tax laws and regulations, current information and past experience with similar issues to make these adjustments.

CAUTIONARY NOTE

This discussion 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: the ability of the Debtors to continue as going concerns; the ability of the Debtors to obtain Bankruptcy Court approval with respect to motions in the chapter 11 cases; the ability of the Debtors to prosecute, develop and consummate one or more plans of reorganization with respect to the chapter 11 cases; the effects of the Bankruptcy Filing on the Debtors and the interests of various creditors, equity holders and other constituents; Bankruptcy Court rulings in the chapter 11 cases and the outcome of the cases in general; the length of time the Debtors will operate under the chapter 11 cases; risks associated with third-party motions in the chapter 11 cases, which may interfere with the ability of the Debtors to develop and consummate one or more plans of reorganization once such plans are developed; the potential adverse effects of the chapter 11 proceedings on the Debtors' liquidity or results of operations; the ability to execute Debtors' business and restructuring plan and to timely and effectively implement the turnaround strategy; increased legal costs related to the Bankruptcy Filing and other litigation; the Debtors' ability to maintain contracts that are critical to its operation, to obtain and maintain normal terms with customers, suppliers and service providers and to retain key executives, managers and employees; various operating factors and general economic conditions, competitive practices and pricing in the food industry generally and particularly in our principal geographic markets; our relationships with our employees; the terms of future collective bargaining agreements; the costs and other effects of lawsuits and administrative proceedings; the nature and extent of continued consolidation in the food industry; changes in the capital markets which may affect our cost of capital or the ability to access capital; supply or quality control problems with our vendors; regulatory compliance; and changes in economic conditions, which may affect the buying patterns of our customers. Refer to Risk Factors included in this annual report.

ITEM 7A – Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rates

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations, specifically for our DIP Credit Agreement. Our Company would have potential exposure to changes in interest rates when the adjusted LIBOR resets. During fiscal 2010, a presumed 1% change in the adjusted LIBOR would not have impacted interest expense as the combination of the LIBOR rate of 25 basis points and a 1% increase would remain below the adjusted LIBOR floor of 175 basis points. As of February 26, 2011, we did not have cash flow exposure due to rate changes on any of our other debt securities because they are at fixed interest rates ranging from 2.0% to 11.375%. Accordingly, as of February 26, 2011, we did not have exposure to variable floating interest rates. During fiscal 2009 and fiscal 2008, a presumed 1% change in the variable floating rate would have impacted interest expense by $2.1 million and $3.0 million, respectively.

Foreign Exchange Risk

As of February 26, 2011, we did not have exposure to foreign exchange risk as we did not hold any significant assets denominated in foreign currency.

ITEM 8 - Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of
The Great Atlantic & Pacific Tea Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' deficit and comprehensive loss, and cash flows present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiaries (debtor-in-possession) at February 26, 2011 and February 27, 2010, and the results of their operations and their cash flows for each of the three years in the period ended February 26, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 26, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company is currently operating pursuant to a Chapter 11 bankruptcy filing which, together with the uncertain outcomes of the matters discussed in Note 1 to the consolidated financial statements, raise substantial doubt about the Company’s ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share lending arrangements during fiscal 2010.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Florham Park, New Jersey
May 10, 2011

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

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Sales	$ 8,078,455	$ 8,813,568	$ 9,516,186
Cost of merchandise sold	(5,677,800)	(6,146,808)	(6,613,150)
Gross margin	2,400,655	2,666,760	2,903,036
Store operating, general and administrative expense	(2,737,093)	(2,790,154)	(2,978,099)
Goodwill, trademark and long-lived asset impairment	(114,183)	(477,180)	-
Loss from continuing operations before			
nonoperating income (loss), interest			
expense, net, and reorganization items, net	(450,621)	(600,574)	(75,063)
Nonoperating income (loss)	13,777	(9,181)	116,864
Interest expense, net	(218,369)	(192,889)	(157,000)
Reorganization items, net	(21,985)	-	-
Loss from continuing operations before income taxes	(677,198)	(802,644)	(115,199)
Benefit from (provision for) income taxes	3,798	21,994	(2,683)
Loss from continuing operations	(673,400)	(780,650)	(117,882)
Discontinued operations:			
Loss from operations of discontinued			
businesses, net of tax benefit of $0			
for fiscal 2010, 2009, and 2008	(57,992)		