GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
January 13, 2011

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

FORM 10-Q

Mark One

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

For the quarterly period ended December 4, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

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

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

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

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

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

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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer T Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO T

As of January 7, 2011, the Registrant had a total of 53,852,470 shares of common stock - $1 par value outstanding.

PART I – FINANCIAL INFORMATION

ITEM 1 – Financial Statements

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

	12 Weeks Ended		40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Sales	$ 1,793,805	$ 1,962,692	$ 6,277,014	$ 6,817,996
Cost of merchandise sold	(1,259,568)	(1,372,108)	(4,416,258)	(4,759,185)
Gross margin	534,237	590,584	1,860,756	2,058,811
Store operating, general and administrative expense	(635,586)	(631,175)	(2,087,826)	(2,109,804)
Goodwill, trademark and long-lived asset impairment	(42,036)	(412,560)	(77,684)	(412,560)
Loss from operations	(143,385)	(453,151)	(304,754)	(463,553)
Nonoperating (loss) income	(213)	(15,944)	10,241	(24,898)
Interest expense, net	(40,038)	(45,718)	(147,306)	(148,433)
Loss from continuing operations before income taxes	(183,636)	(514,813)	(441,819)	(636,884)
Benefit from income taxes	2,953	12,375	2,708	13,983
Loss from continuing operations	(180,683)	(502,438)	(439,111)	(622,901)
Discontinued operations:				
Loss from operations of discontinued businesses, net of tax of $0	(18,687)	(57,148)	(36,655)	(82,154)
Gain on disposal of discontinued businesses, net of tax of $0	-	-	79	-
Loss from discontinued operations	(18,687)	(57,148)	(36,576)	(82,154)
Net loss	$ (199,370)	$ (559,586)	$ (475,687)	$ (705,055)
Net loss per share – basic:				
Continuing operations	$ (3.44)	$ (9.43)	$ (8.45)	$ (11.76)
Discontinued operations	(0.34)	(1.07)	(0.68)	(1.55)
Net loss per share – basic	$ (3.78)	$ (10.50)	$ (9.13)	$ (13.31)
Net loss per share – diluted:				
Continuing operations	$ (3.44)	$ (12.85)	(32.09)	$ (22.36)
Discontinued operations	(0.34)	(1.50)	(2.53)	(3.06)
Net loss per share – diluted	$ (3.78)	$ (14.35)	$ (34.62)	$ (25.42)
Weighted average number of common shares outstanding				
Basic	53,852,470	53,420,248	53,688,540	53,139,840
Diluted	53,852,470	37,993,212	14,448,398	26,844,195

See Notes to Consolidated Financial Statements

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

	Common Stock										
	Shares		Amount		Additional Paid-in Capital		Accumulated Deficit		Accumulated Other Comprehensive Loss		Total Stockholders' Deficit
40 Weeks Ended December 4, 2010											
Balance as of 2/27/2010, as previously reported	55,868,129	$	55,868	$	498,144	$	(1,003,812)	$	(79,403)	$	(529,203)
Retrospective adoption of new accounting guidance for own share-lending arrangements	-		-		28,277		(28,277)		-		-
Balance as of 2/27/2010, as adjusted	55,868,129		55,868		526,421		(1,032,089)		(79,403)		(529,203)
Net loss							(475,687)				(475,687)
Beneficial conversion feature accretion on preferred stock					(3,703)						(3,703)
Dividends on preferred stock					(10,631)						(10,631)
Preferred stock financing fees amortization					(1,338)						(1,338)
Other comprehensive income									543		543
Stock options exercised	4,834		5		23						28
Other share based awards	407,451		407		541						948
Balance at end of period	56,280,414	$	56,280	$	511,313	$	(1,507,776)	$	(78,860)	$	(1,019,043)
40 Weeks Ended December 5, 2009											
Balance as of 2/28/2009, as previously reported	57,674,799	$	57,675	$	464,679	$	(127,314)	$	(105,147)	$	289,893
Retrospective adoption of new accounting guidance for own share-lending arrangements	-		-		28,277		(28,277)		-		-
Balance as of 2/28/2009, as adjusted	57,674,799		57,675		492,956		(155,591)		(105,147)		289,893
Net loss							(705,055)				(705,055)
Other comprehensive loss									(188)		(188)
Beneficial conversion feature related to preferred stock					10,246						10,246

Dividends on preferred stock			(1,599)			(1,599)
Preferred stock financing fees amortization			(209)			(209)
Returned shares under Share Lending Agreement	(1,000,000)	(1,000)	1,000			-
Stock options exercised	10,380	10	33			43
Other share based awards	673,934	674	4,009			4,683
Balance at end of period	57,359,113	$ 57,359	$ 506,436	$ (860,646)	$ (105,335)	$ (402,186)

Comprehensive Loss

	12 Weeks Ended		40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Net loss	$ (199,370)	$ (559,586)	$ (475,687)	$ (705,055)
Net unrealized (loss) gain on marketable securities, net of tax	-	(95)	-	543
Pension and other post-retirement benefits, net of tax	163	(1,643)	543	(731)
Other comprehensive income (loss), net of tax	163	(1,738)	543	(188)
Total comprehensive loss	$ (199,207)	$ (561,324)	$ (475,144)	$ (705,243)

See Notes to Consolidated Financial Statements

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

	Dec. 4, 2010	Feb. 27, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 92,411	$ 252,426
Restricted cash	1,730	1,993
Accounts receivable, net of allowance for doubtful accounts of $5,759 and $8,812 at 12/4/2010 and 2/27/2010, respectively	148,340	166,143
Inventories, net	454,621	467,227
Prepaid expenses and other current assets	46,061	43,374
Total current assets	743,163	931,163
Non-current assets:		
Property:		
Property owned, net	1,238,831	1,397,971
Property leased under capital leases, net	65,948	89,599
Property, net	1,304,779	1,487,570
Goodwill	110,412	115,197
Intangible assets, net	126,763	147,713
Other assets	138,470	145,574
Total assets	$ 2,423,587	$ 2,827,217
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 171,467	$ 191
Current portion of obligations under capital leases	13,653	13,702
Current portion of real estate liabilities	1,238	4,220
Accounts payable	196,322	227,779
Book overdrafts	50,922	60,465
Accrued salaries, wages and benefits	126,104	145,170
Accrued taxes	35,619	31,802
Other accruals	305,192	246,516
Total current liabilities	900,517	729,845
Non-current liabilities:		
Long-term debt	816,830	990,359
Long-term obligations under capital leases	124,714	136,880
Long-term real estate liabilities	418,372	329,363
Deferred real estate income	86,518	87,061
Other financial liabilities	3,705	13,946
Other non-current liabilities	954,182	936,209
Total liabilities	3,304,838	3,223,663
Series A redeemable preferred stock – no par value, $1,000 redemption value; authorized – 700,000 shares; issued – 175,000 shares	137,792	132,757
Commitments and contingencies (Refer to Note 19)		

Stockholders' deficit:				
Common stock – $1 par value; authorized – 260,000,000 shares; issued and outstanding – 56,280,414 and 55,868,129 shares at 12/4/2010 and 2/27/2010, respectively		56,280		55,868
Additional paid-in capital		511,313		526,421
Accumulated other comprehensive loss		(78,860)		(79,403)
Accumulated deficit		(1,507,776)		(1,032,089)
Total stockholders' deficit		(1,019,043)		(529,203)
Total liabilities and stockholders' deficit	$	2,423,587	$	2,827,217

See Notes to Consolidated Financial Statements

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

	40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (475,687)	$ (705,055)
Adjustments to reconcile net loss to net cash used in operating activities (see next page)	304,094	762,501
Other changes in assets and liabilities:		
Decrease in receivables	17,803	17,946
Decrease (increase) in inventories	10,467	(19,857)
Increase in prepaid expenses and other current assets	(12,968)	(32,943)
Increase in other assets	(10,203)	(7,546)
(Decrease) increase in accounts payable	(29,201)	23,771
Decrease in accrued salaries, wages and benefits, and taxes	(28,977)	(43,887)
Increase in other accruals	44,128	16,145
Increase (decrease) in other non-current liabilities	1,300	(62,777)
Other operating activities, net	(1,020)	693
Net cash used in operating activities	(180,264)	(51,009)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property	(62,854)	(71,919)
Proceeds from disposal of property	38,186	3,275
Proceeds from flood insurance	6,410	-
Proceeds from sale of joint venture	-	5,914
Decrease in restricted cash	303	222
Proceeds from maturities of marketable securities	-	4,212
Net cash used in investing activities	(17,955)	(58,296)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	800	253,201
Principal payments on long-term borrowings	(201)	(234)
Proceeds under revolving lines of credit	619,500	39,450
Principal payments on revolving lines of credit	(636,384)	(238,333)
Proceeds under line of credit	-	378
Principal payments on line of credit	-	(4,211)
Proceeds from issuance of preferred stock	-	175,000
Proceeds from long-term real estate liabilities	-	270
Principal payments on long-term real estate liabilities	(980)	(918)
Proceeds from sale-leaseback transaction	89,830	3,000
Principal payments on capital leases	(9,140)	(8,457)
(Decrease) increase in book overdrafts	(9,543)	24,692
Deferred financing fees	(5,206)	(26,515)
Dividends paid on preferred stock	(10,500)	(1,594)
Proceeds from stock options exercised	28	43
Net cash provided by financing activities	38,204	215,772

Net (decrease) increase in cash and cash equivalents		(160,015)		106,467
Cash and cash equivalents at beginning of period		252,426		175,375
Cash and cash equivalents at end of period	$	92,411	$	281,842
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for interest	$	103,640	$	92,736
Cash paid during the year for income taxes	$	214	$	3,342

See Notes to Consolidated Financial Statements

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

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

	40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009
Depreciation and amortization	$ 171,841	$ 191,385
Goodwill, trademark and long-lived asset impairment	78,828	417,726
Self insurance reserve	22,590	1,613
Nonoperating (income) loss	(10,241)	24,898
Non-cash interest expense	27,658	35,101
Stock compensation expense	1,246	4,683
Benefit from deferred income taxes	(3,058)	(12,013)
Pension withdrawal costs	-	2,445
Employee benefit related costs	13,728	4,290
LIFO adjustment	2,139	1,185
Asset disposition initiatives in the normal course of business	-	(2,167)
Asset disposition initiatives relating to discontinued operations	(117)	59,932
Non-cash occupancy charges for stores closed in the normal course of business	7,024	38,589
Gain on disposal of owned property, net	(4,031)	(1,228)
Gain on disposal of discontinued operations	(79)	-
Amortization of deferred real estate income	(3,434)	(3,938)
Total non-cash adjustments to net loss	$ 304,094	$ 762,501

See Notes to Consolidated Financial Statements

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

1. Basis of Presentation

The accompanying Consolidated Statements of Operations, Consolidated Statements of Stockholders' Deficit and Comprehensive Loss, and Consolidated Statements of Cash Flows for the 12 and 40 weeks ended December 4, 2010 and December 5, 2009, and the Consolidated Balance Sheets at December 4, 2010 and February 27, 2010 of The Great Atlantic & Pacific Tea Company, Inc. ("we," "our," "us" or "our Company") are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary for a fair statement of financial position and results of operations for such periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Fiscal 2009 Annual Report on Form 10-K. The year-end balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally required in the United States of America. Interim results are not necessarily indicative of results for a full year.

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

Certain reclassifications have been made to prior year amounts to conform to current year presentation. Refer to Note 2 – Impact of New Accounting Pronouncements below for prior period reclassifications made upon our retrospective adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") relating to accounting for share lending agreements entered into in contemplation of a convertible debt issuance.

Bankruptcy Filing

On December 12, 2010, subsequent to our balance sheet date, our Company and all of our U.S. subsidiaries (the "Filing Subsidiaries" and, together with our Company, 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 our previously announced turnaround strategy. Our Company's non-U.S. subsidiaries, which are immaterial on a consolidated basis, were not part of the Bankruptcy Filing and will continue to operate in the ordinary course of business. See Note 21 - Subsequent Events.

The Debtors 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 21 – Subsequent Events; (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; (v) to generate sufficient cash flow from operations; and (vi) to obtain financing sources to meet our future obligations. The uncertainty regarding these matters raises substantial doubt about our ability to continue as a going concern.

Our Company was required to apply the FASB's provisions of Reorganizations effective on December 12, 2010, which is applicable to companies in chapter 11, which generally does not change the manner in which financial statements

are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Bankruptcy Filing petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of operations beginning in the year ending February 26, 2011. 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 8 - Indebtedness and Other Financial Liabilities, currently both the Credit Facility and Secured Senior Notes totaling $370.3 million have priority over the unsecured creditors of our Company; however 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 statements of cash flows. The accompanying consolidated financial statements do not reflect any adjustments relating to the classification of assets or liabilities as a result of adopting the requirements of bankruptcy accounting. In addition, 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.

Significant Accounting Policies

A summary of our significant accounting policies may be found in our Annual Report on Form 10-K for the year ended February 27, 2010. There have been no significant changes in these policies during the 40 weeks ended December 4, 2010.

2. Impact of New Accounting Pronouncements

Newly Adopted Accounting Pronouncements

Share Lending Arrangements. In June 2009, the FASB issued new guidance on accounting for one’s own-share lending arrangements entered into in contemplation of a convertible debt issuance or other financing, which requires share lending arrangements to be measured at fair value and recognized as a debt issuance cost, and amortized using the effective interest method over the life of the financing arrangement as interest cost. The loaned shares are excluded from basic and diluted earnings per share, unless a default occurs.

When a default becomes probable, an expense equal to the fair value of the unreturned loaned shares, net of any probable recoveries, must be recognized. This guidance was effective beginning with our fiscal 2010, with retrospective application required. The fair values of our share lending agreements with the Bank of America and Lehman Brothers International Europe (“Lehman Europe”) were immaterial at inception. Our share lending arrangement with Lehman Europe, who is a party to a 3,206,058 share lending agreement with our Company, is subject to this default provision guidance as a result of their September 15, 2008 bankruptcy filing. In connection with Lehman Europe’s default, during the first quarter of fiscal 2010, we recorded a retrospective adjustment of $28.3 million to our third quarter of fiscal 2008 financial statements by charging “Store operating, general and administrative expense” and crediting “Additional paid-in-capital”, which represents the fair value of the unreturned shares at September 15, 2008. This expense is reflected in our Consolidated Balance Sheets as of February 27, 2010 and December 4, 2010 as an adjustment to opening “Accumulated deficit” and “Additional paid-in capital”. We have been including the loaned shares in our Company’s basic and diluted earnings per share since September 15, 2008. As of January 3, 2011, there were no shares outstanding under our share lending agreements.

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

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

3. Goodwill and Other Intangible Assets

The carrying values of our finite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Our intangible assets that have finite useful lives are amortized over their estimated useful lives. Goodwill and other intangibles with indefinite useful lives that are not subject to amortization are tested for impairment in the fourth quarter of each fiscal year, or more frequently whenever events or changes in circumstances indicate that impairment may have occurred. The latest impairment assessment of goodwill and indefinite lived intangible assets was completed in the fourth quarter of fiscal 2009 for the reporting units within our Gourmet and Other reportable segments and in the first quarter of fiscal 2010 for the reportable units in our Fresh reportable segment. These assessments concluded that there was no impairment.

As we worked through our turnaround plan, we experienced significant impediments to lowering our operating costs, leading to revised projections and triggering a requirement for an interim impairment analysis for our quarter ended December 4, 2010.

Goodwill

We performed the first step of goodwill impairment testing by estimating the fair value of the reporting units using a net present value methodology, which is dependent on significant assumptions related to estimated future discounted cash flows, discount rates and tax rates. Assumptions included a decline in revenues of approximately 10% and 1% in fiscals 2011 and 2012, respectively, with revenues remaining flat for fiscal years thereafter. We assumed that the costs of disruption to our business resulting from the Bankruptcy Filing will be offset in fiscal 2011 by expected improvements in supply, logistics and labor costs expected to be realized through ongoing negotiations with our strategic business partners. We assumed costs for disruptions to our business resulting from the Bankruptcy Filing would cease toward the end of fiscal 2011 with a continuation of improved costs in fiscal 2012. We assumed a perpetual growth rate for cash flow in the terminal year of 1.5%, a market-based weighted average cost of capital of 11.0% to discount cash flows and a blended tax rate of 42.0%. Our analysis showed the goodwill was not impaired. As of December 4, 2010, Goodwill for our Fresh segment was $92.3 million, of which $64.5 million was attributed to A&P and $27.8 million was attributed to Waldbaum's. The fair value of the A&P and The Food Emporium reporting units exceeded their carrying values by an excess of 50%. The fair value of the Waldbaum's, FoodBasics and Beer, Wine & Spirits reporting units exceeded their carrying values by an excess of 25%.

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

The carrying amount of our goodwill was $110.4 million and $115.2 million at December 4, 2010 and February 27, 2010, respectively. Our goodwill allocation by segment at December 4, 2010 and February 27, 2010 was as follows:

	Fresh	Pathmark	Gourmet	Other	Total
Goodwill	$ 120,817	$ 321,840	$ 12,110	$ 5,974	$ 460,741
Accumulated impairment losses	(23,704)	(321,840)	-	-	(345,544)
Goodwill at February 27, 2010	$ 97,113	$ -	$ 12,110	$ 5,974	$ 115,197
Disposition of Assets*	(4,785)	-	-	-	(4,785)
Goodwill at December 4, 2010	$ 92,328	$ -	$ 12,110	$ 5,974	$ 110,412

* Relates to the sale of seven stores in Connecticut. Refer to Note 17 – Disposition of Assets

Intangible Assets, net

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

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization at Dec. 4, 2010	Accumulated Amortization at Feb. 27, 2010
Pathmark trademark	Indefinite	$ 48,200	$ -	$ -
Loyalty card customer relationships	5	19,200	10,842	7,595
In-store advertiser relationships	20	14,720	2,208	1,642
Pharmacy payor relationships	13	75,000	17,307	12,870
Total		$ 157,120	$ 30,357	$ 22,107

As noted above, we determined that there was an interim triggering event requiring us to evaluate the intangible assets of the Pathmark reporting unit for possible impairment.

We evaluated the fair value of the Pathmark trademark using the relief-from-royalty method. As a result of lowered revenue expectations, the carrying value exceeded the indicated fair value of the Pathmark trademark, resulting in an impairment of $12.7 million, which we recorded this quarter within “Goodwill, trademark, and long-lived asset impairment” in our Consolidated Statements of Operations. Our estimates assumed a decline in revenues of approximately 10% and 1% in fiscals 2011 and 2012, respectively, with revenues remaining flat for fiscal years thereafter, and an annual pre-tax royalty savings rate of 20 basis points. If revenues in the future decline in excess of our assumptions, we may be required to record impairment charges. During our fourth quarter of fiscal 2010, we will perform our annual trademark impairment testing as required by the accounting standards.

During the third quarter of fiscal 2010, we also determined that we had a triggering event requiring us to evaluate the recoverability of our amortizable intangible assets for possible impairment. We evaluated the expected undiscounted cash flows of the Pathmark reporting unit compared to the book value of all long-lived assets, including intangible assets other than goodwill, noting no impairment of our amortizable intangible assets. Assumptions included a decline in revenues of approximately 10% and 1% in fiscals 2011 and 2012, respectively, with revenues remaining flat for fiscal years thereafter. We assumed that the costs of disruption to our business resulting from our Bankruptcy Filing will be offset in fiscal 2011 by expected improvements with a continuation of improved costs in fiscal 2012 and

thereafter. We assumed a growth rate for cash flow beginning in 2016 of 1.5%. Additionally, we assumed a terminal sale value for the Pathmark reporting unit at the end of the life of the primary asset. Future impairment charges could be required if our operating results in future periods differ from our current assumptions. The fair value of the Pathmark reporting unit exceeded its carrying values by an excess of 30%.

Amortization expense relating to our intangible assets for the 12 weeks ended December 4, 2010 and December 5, 2009 was $2.5 million during each period. Amortization expense for the 40 weeks ended December 4, 2010 and December 5, 2009 was $8.3 million during each period.

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

2010	$ 2,475
2011	10,725
2012	9,670
2013	6,505
2014	6,505
Thereafter	42,683

4. Fair Value Measurements

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

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

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

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

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at December 4, 2010 and February 27, 2010:

		Fair Value Measurements at December 4, 2010 Using		
	Total Carrying Value at Dec. 4, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,592	$ -	$ 1,592	$ -
Liabilities:				
Series B Warrant	$ 3,705	$ -	$ 3,705	$ -

		Fair Value Measurements at February 27, 2010 Using		
	Total Carrying Value at Feb. 27, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 158,695	$ -	$ 158,695	$ -
Liabilities:				
Series B Warrant	$ 13,946	$ -	$ 13,946	$ -

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the 40 weeks ended December 4, 2010.

Level 3 Valuations
We did not have any financial assets or liabilities classified as Level 3 within the fair value hierarchy at December 4, 2010 and February 27, 2010.

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

Long-Term Debt
The following table provides the carrying values recorded on our balance sheet and the estimated fair values of financial instruments at December 4, 2010 and February 27, 2010:

	At December 4, 2010		At February 27, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current portion of long-term debt	$ 171,467	$ 146,194	$ 191	$ 191
Long-term debt, net of related discount	816,830	619,152	990,359	962,040

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

5. Valuation of Long-Lived Assets

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

Impairments due to closure or conversion in the normal course of business
We review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During the 12 and 40 weeks ended December 4, 2010, we recorded impairment losses on long-lived assets of nil and $1.1 million, respectively, related to stores that were closed or converted in the normal course of business, as compared to $1.5 million and $5.2 million in impairment losses recorded during the 12 and 40 weeks ended December 5, 2009. These amounts were recorded within "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments due to store closures
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. As a result, we recorded an impairment charge of $23.7 million during the prior quarter. The store closures were completed in our Company's third fiscal quarter. During the 12 weeks ended December 4, 2010, we recorded an additional impairment charge of $1.1 million. This amount was recorded within "Goodwill, trademark, and long-lived asset impairment" in our Consolidated Statements of Operations. There were no such closures during the 12 and 40 weeks ended December 5, 2009.

Impairments due to unrecoverable assets
As a result of experiencing cash flow losses at certain stores, we determined that a triggering event had occurred that required us to test the related long-lived assets for potential impairment. We recorded an impairment charge of $28.2 million and $40.2 million during the 12 and 40 weeks ended December 4, 2010, respectively, to partially write down these stores' long-lived assets, which consist of favorable leases, capital leases, and land and buildings, with a carrying amount of $63.0 million to their fair value of $34.8 million for the 12 weeks ended December 4, 2010. The impairment charge of $28.2 million during the 12 weeks ended December 4, 2010 all related to Pathmark. The impairment charge of $40.2 million recorded during the 40 weeks ended December 4, 2010 all related to Pathmark with the exception of $0.9 million which related to SuperFresh. During the 12 weeks ended December 5, 2009, we recorded an impairment charge of $40.8 million related to Pathmark. These amounts were recorded within "Long-lived asset impairment" in our Consolidated Statements of Operations.

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

6. Other Accruals

Other accruals at December 4, 2010 and February 27, 2010 were comprised of the following:

	At Dec. 4, 2010	At Feb. 27, 2010
Self-insurance reserves	$ 73,902	$ 74,221
Deferred taxes	11,078	3,295
Closed store and warehouse reserves	96,663	62,189
Pension withdrawal liabilities	10,461	10,461
GHI Contractual Liability	8,104	8,066
Accrued occupancy related costs for open stores	26,713	26,952
Deferred income	28,066	26,534
Deferred real estate income	2,539	2,775
Accrued audit, legal and other	10,118	8,758
Accrued interest	26,727	12,509
Other postretirement and postemployment benefits	2,674	2,674
Accrued advertising	861	1,911
Dividends payable on preferred stock	3,113	2,982
Other share-based awards	298	-
Other	3,875	3,189
Total	$ 305,192	$ 246,516

7. Other Non-Current Liabilities

Other non-current liabilities at December 4, 2010 and February 27, 2010 were comprised of the following:

	At Dec. 4, 2010	At Feb. 27, 2010
Deferred taxes	$ 526	$ 11,367
Self-insurance Reserves	227,051	208,419
Closed Store and Warehouse Reserves	213,525	187,911
Pension Withdrawal Liabilities	85,153	89,495
GHI Contractual Liability for Employee Benefits	85,923	87,703
Pension Plan Benefits	113,620	109,549
Other Postretirement and Postemployment Benefits	36,577	36,091
Corporate Owned Life Insurance Liability	63,078	60,436
Deferred Rent Liabilities	56,719	57,963
Deferred Income	56,051	68,250
Unfavorable Lease Liabilities	4,411	5,391
Other	11,548	13,634
Total	$ 954,182	$ 936,209

8. Indebtedness and Other Financial Liabilities

Our debt obligations at December 4, 2010 and February 27, 2010 consisted of the following:

	At Dec. 4, 2010	At Feb. 27, 2010
5.125% Convertible Senior Notes, due June 15, 2011	$ 161,192	$ 155,333
Related Party Promissory Note, due August 18, 2011	10,000	10,000
9.125% Senior Notes, due December 15, 2011	12,840	12,840
6.750% Convertible Senior Notes, due December 15, 2012	231,342	223,838
11.375% Senior Secured Notes, due August 4, 2015	254,337	253,668
9.375% Notes, due August 1, 2039	200,000	200,000
Borrowings under Credit Agreement	116,017	132,900
Other	2,569	1,971
	988,297	990,550
Less current portion of long-term debt	(171,467)*	(191)
Long-term debt	$ 816,830	$ 990,359

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

Credit Agreement

On July 23, 2009, we entered into a Second Amendment to Amended and Restated Credit Agreement (the "Second Amendment") amending the Amended and Restated Credit Agreement dated as of December 27, 2007 by and among our Company, its subsidiaries party thereto, Banc of America, N.A., as the administrative agent and collateral agent, the lenders party thereto and the other financial institutions party thereto (as amended by a First Amendment dated as of April 4, 2008 and as further amended by the Second Amendment, the ("Credit Agreement") in connection with our private offering of senior secured notes and the sale of preferred stock. The stated maturity date under the Credit Agreement was December 3, 2012. Subject to borrowing base requirements, the Credit Agreement provided for a term loan of $82.9 million, a tranche A-2 term loan of $50.0 million and a two tranche revolving credit facility of $522.1 million enabling us to borrow funds and issue letters of credit on a revolving basis. The Credit Agreement also provided for an increase in commitments of up to an additional $100.0 million, subject to agreement of new and existing lenders. Our obligations under the Credit Agreement are secured by certain assets of our Company, including, but not limited to, inventory, certain accounts receivable, pharmacy scripts and certain owned real estate. Borrowings under the Credit Agreement bore interest based on LIBOR or Prime interest rate pricing. The terms of this agreement restricted our ability to pay cash dividends on common shares.

At December 4, 2010, there were $116.0 million of loans and $196.2 million in letters of credit outstanding under the Credit Agreement. At December 4, 2010, after reducing availability for borrowing base requirements, we had $115.4 million available under the Credit Agreement. In addition, we have invested cash available to reduce borrowings under this Credit Agreement or to use for future operations of $0.6 million as of December 4, 2010. The remainder of our cash is in-transit or is used in our stores for operations. Our Company's and the subsidiaries obligations under the Credit Agreement were repaid in full with proceeds from the borrowings under the DIP Credit Agreement. See Note 21 – Subsequent Events for additional disclosures regarding the refinancing of the Credit Agreement.

Other Debt Obligations

The 11.375% Senior Secured Notes, due August 4, 2015, are secured by a second priority lien on substantially all collateral pledged on a first priority basis to the lenders under the Credit Agreement (as discussed above), and rank equally in right of payment with all of the Company's existing and future senior indebtedness, and senior to all of the Company's existing and future subordinated indebtedness. All other debt instruments outstanding are unsecured obligations.

Warrants

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

The value of the Series B warrants as of December 4, 2010 and February 27, 2010 was $3.7 million and $13.9 million, respectively, and is included in "Other financial liabilities" on our Consolidated Balance Sheets. Our "Nonoperating income (loss)" for the 12 and 40 weeks ended December 4, 2010 was comprised of a loss of $0.2 million and a gain of $10.2 million, respectively, relating to market value adjustments for Series B warrants. Market value adjustments for Series B warrants recorded during the 12 and 40 weeks ended December 5, 2009, consisted of losses of $15.9 million and $24.9 million, respectively. The following assumptions and estimates were used in the Black-Scholes model used to value the Series B warrants:

	At Dec. 4, 2010	At Feb. 27, 2010
Expected life	4.51 years	5.28 years
Volatility	78.3%	68.6%
Dividend yield range	0%	0%
Risk-free interest rate	1.64%	2.30%

Call Option and Financing Warrants

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

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

9. 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 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.

Holders of Preferred Stock are entitled to an 8.0% dividend, payable quarterly in arrears in cash or in additional shares of Preferred Stock if our Company does not meet the liquidity levels required to pay the dividends. If our Company makes a dividend payment in additional shares of Preferred Stock, the Preferred Stock shall be valued at the liquidation preference of the Preferred Stock and the dividend rate will be 8.0% plus 1.5%.

Upon issuance, the 57,750 shares that were convertible without shareholder approval were recorded within temporary equity and 117,250 shares that originally required shareholder approval in order to become convertible were recorded as a liability. Dividends and deferred financing fees amortization were recorded within "Interest Expense" for the portion of Preferred Stock that was classified as a liability prior to receiving shareholder approval, and within "Additional paid-in capital" for the portion of Preferred Stock that was classified within temporary equity. At December 4, 2010 and February 27, 2010, the entire Preferred Stock issuance was classified within temporary stockholders' equity, as a result of receiving the required shareholder approval authorizing the convertibility of the shares originally classified as a liability on December 15, 2009. During the 12 and 40 weeks ended December 4, 2010, we accrued Preferred Stock dividends of $3.2 million and $10.6 million, respectively, within "Additional paid-in capital," and paid Preferred Stock cash dividends of $3.5 million and $10.5 million, respectively. During the 12 and 40 weeks ended December 5, 2009, we accrued Preferred Stock cash dividends of $3.2 million and $4.8 million, respectively, of which $2.1 million and $3.2 million, respectively, has been recorded within "Interest expense" and the remaining $1.1 million and $1.6 million, respectively, has been recorded within "Additional paid-in capital". In addition, during the 12 and 40 weeks ended December 4, 2010, we recorded deferred financing fees amortization of $0.4 million and $1.3 million, respectively, and accreted $1.1 million and $3.7 million, respectively, relating to the embedded beneficial conversion features within "Additional paid-in capital". During the 12 and 40 weeks ended December 5, 2009, we recorded $0.4 million and $0.6 million, respectively, of deferred financing fees amortization, of which $0.3 million and $0.4 million, respectively, was recorded within "Interest expense" and the remaining $0.1 million and $0.2 million, respectively, has been recorded within "Additional paid-in capital", and we accreted $0.3 million and $0.5 million, relating to the beneficial conversion feature through "Additional paid-in capital".

10. Stock Based Compensation

At December 4, 2010, we had two stock-based compensation plans, the 2008 Long Term Incentive and Share Award Plan and the 2004 Non-Employee Director Compensation Plan. The general terms of each plan are reported in our Fiscal 2009 Annual Report on Form 10-K.

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

	For the 12 Weeks Ended		For the 40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Stock options	$ 911	$ 441	$ 665	$ 1,256
Restricted stock units	26	340	681	791
Performance restricted stock units	223	(328)	(723)	2,082
Common stock granted to Directors	187	187	623	554
Total stock-based compensation expense	$ 1,347	$ 640	$ 1,246	$ 4,683

For the 12 weeks ended December 4, 2010, there were no grants of stock based compensation. A summary of stock-based compensation related grants for the 40 weeks ended December 4, 2010 is as follows:

	Underlying Shares	Weighted-Avg. Grant Date Fair Value
Stock options	6,423,047	$ 1.98
Restricted stock units	390,000	3.35

During the 40 weeks ended December 4, 2010, we also granted common stock to each non-employee member of our Board of Directors valued at $90 thousand. The price of $3.95 was based upon the closing price of stock on the day of the grant following the Annual Meeting of Stockholders.

Stock Options
Stock options granted in fiscal 2010 vest 33% during each of the fiscal years 2011, 2012 and 2013. As of December 4, 2010, approximately $10.0 million, after tax, of total unrecognized compensation expense related to unvested stock option awards, will be recognized over a weighted average period of 2.6 years.

The following weighted-average assumptions were used in the Black-Scholes pricing model for option grants that occurred during the 40 weeks ended December 4, 2010 and December 5, 2009:

	40 Weeks Ended Dec. 4, 2010	40 Weeks Ended Dec. 5, 2009
Expected life	6 years	7 years
Volatility	70.1% - 70.6%	126%
Risk-free interest rate	1.67% - 2.05%	0.05%

During the 12 weeks ended September 11, 2010, our Company issued stock options for 1,846,542 shares of our Company's common stock in excess of the number of shares available for issuance under the 2008 Plan. Shareholder approval is required to authorize an increase in the number of shares available for issuance under the 2008 Plan. Accordingly, the quarterly stock-based compensation relating to these options has been classified in other accruals. Once shareholder approval is obtained, this amount will be reclassified as equity.

Restricted Stock
For restricted stock units granted in 2010, one-fourth of the awards will vest at the end of fiscal 2011 and three-fourths will vest at the end of fiscal 2013, subject to the recipients of such restricted stock units meeting the appropriate eligibility and service conditions. The total fair value of restricted stock units that vested during the 40 weeks ended December 4, 2010 was $1.3 million. As of December 4, 2010, approximately $2.7 million, net of tax, of total unrecognized compensation expense relating to restricted stock units granted during fiscal 2009 and 2010, is expected to be recognized through fiscal 2013.

Performance Restricted Stock Units
We are currently not recognizing stock compensation expense for any of our non-integration related grants due to our determination that the related performance conditions will not be achieved. The total fair value of integration related performance restricted stock units that vested during the 40 weeks ended December 4, 2010 was $0.2 million.

As of December 4, 2010, we expect to recognize approximately $0.5 million of unrecognized fair value compensation expense for performance restricted stock units granted under our fiscal 2007 executive and non-executive Integration Programs, through fiscal 2011, based on estimates of attaining vesting criteria.

11. Retirement Plans and Benefits

Defined Benefit Plans

The components of our net pension cost were as follows:

	For the 12 Weeks Ended		For the 40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Service cost	$ 1,528	$ 1,572	$ 5,093	$ 5,140
Interest cost	6,682	6,837	22,273	22,475
Expected return on plan assets	(6,640)	(5,708)	(22,133)	(19,027)
Curtailment loss	-	72	-	72
Amortization of:				
Net prior service cost	34	68	115	227
Actuarial loss	439	1,092	1,463	3,617
Pension asset loss	-	2,034	-	2,034
Special termination benefits	200	300	600	950
Net pension cost	$ 2,243	$ 6,267	$ 7,411	$ 15,488

Effective June 30, 2010, a portion of our cash-balance pension plan has been frozen to new participants.

As of December 4, 2010, we contributed approximately $5.0 million to our defined benefit plans during fiscal 2010. We do not plan to make significant further contributions during the remainder of fiscal 2010.

Postretirement Plans

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

	For the 12 Weeks Ended		For the 40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Service cost	$ 151	$ 117	$ 503	$ 390
Interest cost	428	449	1,427	1,497
Amortization of:				
Prior service credit	(198)	(311)	(660)	(1,036)
Actuarial gain	(112)	(189)	(374)	(630)
Net postretirement benefits cost	$ 269	$ 66	$ 896	$ 221

Our current estimates are subject to change due to changes in actuarial assumptions and further clarifications provided by additional regulatory guidance expected to be released later this year and in future years. We will perform a comprehensive valuation and will reflect the impact of the Healthcare Reform on our postretirement benefits obligation during the fourth quarter of our fiscal 2010.

GHI Contractual Obligation

As of December 4, 2010 and February 27, 2010, the fair value of our contractual obligation to Grocery Hauler Inc.'s (GHI's) employees was $94.0 million and $95.8 million, respectively, using discount rates of 5.50% and 5.75%, respectively, which were derived from the published zero-coupon AA corporate bond yields. Our contractual obligation relates to pension benefits for GHI's employees and is included within "Other accruals" and "Other non-current liabilities" in our Consolidated Balance Sheets. Additions to our GHI contractual obligation for current service costs

and actuarial gains and losses are recorded within "Cost of merchandise sold" in our Consolidated Statements of Operations at their current value. Accretion of the obligation to present value is recorded within "Interest expense" in our Consolidated Statements of Operations. During the 12 and 40 weeks ended December 4, 2010, we recognized service costs of $0.2 million and $0.6 million, respectively, and interest (income) expense of ($1.7) million and $6.8 million, respectively, representing interest accretion on this obligation, as well as the impact of the lower discount rates used to value this obligation, resulting from declines in the published zero-coupon AA corporate bond yields during each period. During the 12 and 40 weeks ended December 5, 2009, we recognized service costs of $0.2 million and $0.6 million, respectively, and interest expense of $1.2 million and $16.6 million, respectively. During the 40 weeks ended December 4, 2010 and December 5, 2009, benefit payments of $9.2 million and $12.5 million, respectively, were made by the Pathmark Pension Plan.

Multi-employer Union Pension Plans

We participate in various multi-employer pension plans which are administered jointly by management and union representatives. During the fourth quarter of fiscal 2008, we made a standard withdrawal from one of our multi-employer pension plans, to limit our pension benefit obligation to our employees, as we believed that this plan was likely to have funding challenges and would require higher contributions in the future, and recorded standard withdrawal liability of $28.9 million. During the second quarter of fiscal 2010, we received notification that the trustees of the multi-employer pension plan have voted to go into a mass withdrawal. The impact of the mass withdrawal to our Company is not currently estimable, therefore no adjustment has been recorded in our consolidated financial statements. We may have a potential additional withdrawal obligation of up to $50 million payable over a period of up to 25 years in the future. This preliminary estimate is subject to change due to the uncertainty as to the number of participants that will be subject to mass withdrawal and the finalization of asset values and calculations by the multi-employer pension plan.

12. Interest Expense, net

Interest expense is comprised of the following:

	For the 12 weeks ended		For the 40 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
$655 million Credit Agreement	$ 3,161	$ 3,028	$ 10,270	$ 12,406
Related Party Promissory Note, due Aug. 18, 2011	142	147	467	467
11.375% Senior Secured Notes, due Aug. 1, 2015	6,751	6,835	22,709	10,400
9.125% Senior Notes, due December 15, 2011	269	270	898	900
5.125% Convertible Senior Notes, due June 15, 2011	1,941	1,952	6,483	6,505
6.750% Convertible Senior Notes, due December 15, 2012	3,951	3,972	13,196	13,240
9.375% Notes, due August 1, 2039	4,280	4,280	14,375	14,404
Capital Lease Obligations and Real Estate Liabilities	11,286	12,019	38,021	40,066
Dividends on Preferred Stock Liability	-	2,165	-	3,247
Self Insurance and GHI Interest	4,130	3,292	13,001	11,420
GHI Discount Rate Adjustment and COLI Non-cash Interest	(2,090)	943	5,558	15,030
Amortization of Deferred Financing Fees, Discounts and Other	6,218	6,866	22,368	20,491
Total interest expense	40,039	45,769	147,346	148,576

Interest income	(1)	(51)	(40)	(143)
Total	$ 40,038	$ 45,718	$ 147,306	$ 148,433

13. Income Taxes

During the 12 and 40 weeks ended December 4, 2010, our valuation allowance increased by $78.1 million and $186.7 million, respectively, to reflect generation of additional operating losses and impairment of indefinite lived intangible assets. During the 12 and 40 weeks ended December 5, 2009, our valuation allowance increased by $236.5 million and $258.2 million, respectively, to reflect generation of additional operating losses, remeasurement of our uncertain tax positions and impairment of indefinite lived intangible assets, partially offset by an adjustment to the valuation allowance that was released in connection with the original purchase price allocation for Pathmark. In future periods, we will continue to record a valuation allowance against net deferred tax assets that are created by losses until such time as the certainty of future tax benefits can be reasonably assured.

Our Company is subject to U.S. federal income tax, as well as income tax in multiple state and foreign jurisdictions. As of December 4, 2010, with a few exceptions, we remain subject to examination by federal, state and local tax authorities for tax years 2004 through 2008. With a few exceptions, we are no longer subject to federal, state or local examinations by tax authorities for tax years 2003 and prior. At December 4, 2010 and February 27, 2010, we had unrecognized tax benefits of $1.4 million, which were recorded within deferred tax liabilities in “Other accruals”. We do not expect that the amount of our gross unrecognized tax positions will change significantly in the next 12 months. Any future decrease in our Company's gross unrecognized tax positions would require a reevaluation of our Company's valuation allowance maintained on our net deferred tax asset and, therefore, is not expected to affect our effective tax rate. Our Company classifies interest and penalty expense related to unrecognized tax benefits within “Benefit from income taxes” in our Consolidated Statements of Operations. For the 12 and 40 weeks ended December 4, 2010 and December 5, 2009, no amounts were recorded for interest and penalties within “Benefit from income taxes” in our Consolidated Statements of Operations.

The effective tax rate on continuing operations of 1.6% and 0.6% for the 12 and 40 weeks ended December 4, 2010, respectively, and 2.4% and 2.2% for the 12 and 40 weeks ended December 5, 2009, varied from the statutory rate of 35%, primarily due to state and local income taxes, the recording of a deferred tax benefit related to the impairment of indefinite lived intangible assets, the increase in our valuation allowance and the impact of the Pathmark financing.

At December 4, 2010, we had federal Net Operating Loss (“NOL”) carryforwards of $850.8 million, which will expire between fiscal 2023 and 2030, some of which are subject to an annual limitation. The federal NOL carryforwards include $7.4 million related to the excess tax deductions for stock option plans that have yet to reduce income taxes payable. Upon utilization of these carryforwards, the associated tax benefits of approximately $2.6 million will be recorded in “Additional paid-in capital”. In addition, we had state loss carryforwards of $1.0 billion that will expire between fiscal 2010 and fiscal 2030. Our Company’s general business credits consist of federal and state work incentive credits, which expire between fiscal 2010 and fiscal 2030, some of which are subject to an annual limitation.

At December 4, 2010 and February 27, 2010, we had net current deferred tax liabilities of $11.1 million and $3.3 million, respectively, which were included in “Other Accruals” in our Consolidated Balance Sheets and non-current deferred tax liabilities of $0.5 million and $11.4 million, respectively, which were recorded in “Other non-current liabilities” in our Consolidated Balance Sheets.

14. Discontinued Operations

We have had multiple transactions throughout the years which met the criteria for discontinued operations. These events are described based on the year the transaction was initiated.

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

	For the 40 Weeks Ended December 4, 2010				
	Balance at 2/27/2010	Interest Accretion (1)	Adjustments(2)	Utilization(3)	Balance at 12/4/2010
2007 Events					
Occupancy	$ 96,909	$ 5,942	$ 8,462	$ (11,478)	$ 99,835
Pension withdrawal	58,015	2,754	-	(4,447)	56,322
2007 events total	154,924	8,696	8,462	(15,925)	156,157

2005 Event					
Occupancy	58,974	2,484	1,393	(3,359)	59,492
2003 Events					
Occupancy	22,494	1,012	3,183	(1,186)	25,503
Total	$ 236,392	$ 12,192	$ 13,038	$ (20,470)	$ 241,152

(1) The additions to occupancy and severance represent the interest accretion on future occupancy costs and future obligations for early withdrawal from multi-employer union pension plans which were recorded at present value at the time of the original charge. Interest accretion is recorded as a component of "Loss from operations of discontinued businesses" on our Consolidated Statements of Operations.

(2) At each balance sheet date, we assess the adequacy of the balance of the remaining liability to determine if any adjustments are required as a result of changes in circumstances and/or estimates. These adjustments are recorded as a component of "Loss from operations of discontinued business" on our Consolidated Statements of Operations. During the 40 weeks ended December 4, 2010, we recorded adjustments for the 2007, 2005, and 2003 events for additional occupancy related costs of $8.5 million, $1.4 million and $3.2 million, respectively, due to changes in our estimation of such future costs due to the continuing deteriorating economic conditions in the Midwest real estate market. We now expect our occupancy costs to be higher as the current economic conditions affecting the Midwest real estate market are expected to persist for some time and subleased properties in the area have been occurring at heavily discounted rates as compared to the related contractual agreements.

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

Summarized below are the payments made to date from the time of the original charge and expected future payments related to these events:

	2007 Events	2005 Event	2003 Events	Total
Total severance payments made to date	$ 37,534	$ 2,650	$ 22,528	$ 62,712
Expected future pension withdrawal payments	56,322	-	-	56,322
Total severance and pension withdrawal payments expected to be incurred	93,856	2,650	22,528	$ 119,034
Total occupancy payments made to date	92,058	60,570	33,933	186,561
Expected future occupancy payments, excluding interest accretion	99,835	59,492	25,503	184,830
Total occupancy payments expected to be incurred, excluding interest accretion	191,893	120,062	59,436	371,391
Total severance and occupancy payments made to date	129,592	63,220	56,461	249,273
Expected future pension withdrawal and occupancy payments, excluding interest accretion	156,157	59,492	25,503	241,152
Total severance, pension withdrawal and occupancy payments expected to be incurred, excluding interest accretion	$ 285,749	$ 122,712	$ 81,964	$ 490,425

Payments to date were primarily for occupancy related costs such as rent, common area maintenance, real estate taxes, lease termination costs, severance, and benefits. The remaining obligation relates to expected future payments under long term leases and expected future payments for early withdrawal from multi-employer union pension plans. The expected completion dates for the 2007, 2005 and 2003 events are 2028, 2022 and 2022, respectively.

Summarized below are the amounts included in our balance sheet captions on our Company's Consolidated Balance Sheets related to these events:

	At December 4, 2010			
	2007 Events	2005 Event	2003 Events	Total
Other accruals	$ 31,508	$ 15,222	$ 5,048	$ 51,778
Other non-current liabilities	$ 124,649	$ 44,270	$ 20,455	$ 189,374

	At February 27, 2010			
	2007 Events	2005 Event	2003 Events	Total
Other accruals	$ 28,528	$ 10,773	$ 3,490	$ 42,791
Other non-current liabilities	$ 126,396	$ 48,201	$ 19,004	$ 193,601

We evaluated the reserve balances as of December 4, 2010 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities, and adjustments to the reserve balances may be recorded in the future, if necessary.

15. Asset Disposition Initiatives

In addition to the events described in Note 14 – Discontinued Operations, there were restructuring transactions which were not primarily related to our discontinued operations businesses. These events are referred to based on the year the transaction was initiated, as described below.

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. As a result, we recorded a charge for severance and benefits of $1.3 million during the 12 weeks ended September 11, 2010 and impairment of $23.7 million. The store closures were completed in our Company's fiscal third quarter. During the 12 weeks ended December 4, 2010, we recorded an additional impairment charge of $1.1 million. Refer to Note 5 – Valuation of Long-Lived Assets. Our Company also recorded a charge for occupancy costs of $55.0 million associated with vacant leases for 20 of these locations, partially offset by net proceeds of $4.0 million for five locations that were assigned or terminated and balance sheet reclassifications of $2.6 million for prepaid rent and real estate tax accounts.

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

	For the 40 Weeks Ended December 4, 2010				
	Balance at 2/27/2010	Interest Accretion (1)	Adjustments(2)	Utilization(3)	Balance at 12/4/2010
2010 Event					
Continuing Operations					
Occupancy	$ -	$ 306	$ 55,011	$ (313)	$ 55,004
Severance and health benefits	-	-	955	(354)	601
2010 event total	-	306	55,966	(667)	55,605
2005 Event					
Continuing Operations					
Health benefits	687	-	-	(209)	478
2005 event total	687	-	-	(209)	478
2001 Event					
Continuing Operations					
Occupancy	6,324	308	-	(258)	6,374
Discontinued Operations					
Occupancy	10,009	435	-	(1,059)	9,385
2001 event total	16,333	743	-	(1,317)	15,759
1998 Event					
Continuing Operations					
Occupancy	4,098	57	-	(641)	3,514
Pension withdrawals and health benefits	666	-	-	(109)	557
Discontinued Operations					
Occupancy	13	-	-	-	13
1998 event total	4,777	57	-	(750)	4,084
Total	$ 21,797	$ 1,106	$ 55,966	$ (2,943)	$ 75,926

(1) The additions to occupancy represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. These adjustments are recorded to “Store operating, general and administrative expense” for continuing operations and “Loss from operations of discontinued businesses” for discontinued operations on our Consolidated Statements of Operations.

(2) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. These adjustments are recorded to “Store operating, general and administrative expense” for continuing operations and “Loss from operations of discontinued businesses” for discontinued operations on our Consolidated Statements of Operations.

During the 12 weeks ended December 4, 2010, we recorded a $0.4 million adjustment to reduce severance and benefits due to employees previously determined to be severed accepting other positions within our Company.

(3) Occupancy utilization represents payments made during those periods for rent, common area maintenance and real estate taxes. Severance and benefits utilization represents payments made to terminated employees during the period.

Summarized below are the payments made to date from the time of the original charge and expected future payments related to these events:

	2010 Event	2005 Event	2001 Event	1998 Event	Total
Total severance payments made to date	$ 354	$ 49,204	$ 28,205	$ 30,907	$ 108,670
Expected future severance payments	601	478	-	557	1,636
Total severance payments expected to be incurred	$ 955	$ 49,682	$ 28,205	$ 31,464	$ 110,306
Total occupancy payments made to date	$ 313	$ 13,856	$ 67,099	$ 119,833	$ 201,101
Expected future occupancy payments, excluding interest accretion	55,004	-	15,759	3,527	74,290
Total occupancy payments expected to be incurred, excluding interest accretion	$ 55,317	$ 13,856	$ 82,858	$ 123,360	$ 275,391
Total severance and occupancy payments made to date	$ 667	$ 63,060	$ 95,304	$ 150,740	$ 309,771
Expected future severance and occupancy payments, excluding interest accretion	55,605	478	15,759	4,084	75,926
Total severance and occupancy payments expected to be incurred, excluding interest accretion	$ 56,272	$ 63,538	$ 111,063	$ 154,824	$ 385,697

Payments to date were primarily for occupancy related costs such as rent, common area maintenance, real estate taxes, lease termination costs, severance, and benefits. The remaining obligation relates to expected future payments under long-term leases and expected future payments for early withdrawal from multi-employer union pension plans. The expected completion dates for the 2010, 2005, 2001 and 1998 events are 2025, 2015, 2022 and 2020, respectively.

Summarized below are the amounts included in our balance sheet captions on our Company's Consolidated Balance Sheets related to these events:

	December 4, 2010				
	2010 Event	2005 Event	2001 Event	1998 Event	Total
Accrued salaries, wages, and benefits	$ 601	$ -	$ -	$ -	$ 601
Other accruals	$ 20,050	$ 214	$ 3,384	$ 2,782	$ 26,430
Other non-current liabilities	$ 34,954	$ 264	$ 12,375	$ 1,302	$ 48,895

	February 27, 2010				
	2010 Event	2005 Event	2001 Event	1998 Event	Total

Other accruals	$	-	$	336	$	2,992	$	2,235	$	5,563
Other non-current liabilities	$	-	$	351	$	13,341	$	2,542	$	16,234

We evaluated the reserve balances as of December 4, 2010 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities, and adjustments to the reserve balances may be recorded in the future, if necessary.

16. Sale-Leaseback Transactions

During the third quarter of fiscal 2010, we sold six properties for $89.8 million and simultaneously leased them back from the purchaser. However, due to our continuing involvement with these properties, including that all six leases contain fixed-price renewal options that extend beyond the economic useful life of the property, the sales did not qualify for sale-leaseback accounting treatment. The carrying value of these properties of approximately $68.3 million remained on our Consolidated Balance Sheets at December 4, 2010 and no sale was recognized. Instead, the sales price of these properties of $89.8 million was recorded as a long-term real estate liability with a maturity of 20 years, within "Long-term real estate liabilities" on our Consolidated Balance Sheets at December 4, 2010. In addition, all lease payments are being charged to "Interest expense" in our Consolidated Statements of Operations. All properties were sold for a profit resulting in a gain of $19.8 million after expenses which will be deferred until the end of the lease terms when our continuing involvement ceases.

17. Disposition of Assets

On November 2, 2010, our Company sold seven store locations in Northern Connecticut for $24.6 million in cash, which included fixed assets and inventory. As a result of the sale of the seven stores, a gain of approximately $5.7 million was recorded within "Store operating, general and administrative expense" within the Statements of Operations for the 12 and 40 weeks ended December 4, 2010.

18. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average shares outstanding for the reporting period. Diluted earnings (loss) per share reflects all potential dilution, using either the treasury stock method or the "if-converted" method, and assumes that the convertible debt, stock options, restricted stock, performance restricted stock, warrants, preferred stock, and other potentially dilutive financial instruments were converted into common stock on the first day of the period. If the conversion of a potentially dilutive security yields an antidilutive result, such potential dilutive security is excluded from the diluted earnings per share calculation.

The following table contains common share equivalents, which were not included in the historical loss per share calculations as their effect would be antidilutive:

	12 Weeks Ended		40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Stock options	7,625,333	2,416,848	4,202,947	2,480,445
Warrants	7,652,135	686,277	686,277	686,277
Performance restricted stock units	110,668	295,213	166,683	548,608
Restricted stock units	972,587	1,315,132	1,002,303	1,132,044
Financing warrant	11,278,988	11,278,988	11,278,988	11,278,988
Preferred stock	35,000,000	11,590,600	35,000,000	11,590,600
Convertible debt	11,278,988	11,278,988	11,278,988	11,278,988

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

	12 Weeks Ended		40 Weeks Ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Loss from continuing operations	$ (180,683)	$ (502,438)	$ (439,111)	$ (622,901)
Preferred stock dividends	(3,231)	(1,066)	(10,631)	(1,599)
Beneficial conversion feature amortization	(1,111)	(355)	(3,703)	(533)
Loss from continuing operations – basic	(185,025)	(503,859)	(453,445)	(625,033)
Adjustments on Other financial liabilities (1)	-	15,943	(10,241)	24,898
Loss from continuing operations–diluted	$ (185,025)	$ (487,916)	(463,686)	$ (600,135)
Weighted average common shares outstanding	56,280,414	58,193,430	56,116,484	58,021,355
Share lending agreement (2)	(2,427,944)	(4,773,182)	(2,427,944)	(4,881,515)
Common shares outstanding–basic	53,852,470	53,420,248	53,688,540	53,139,840
Effect of dilutive securities:				
Convertible financial liabilities (1)	-	(15,427,036)	(39,240,142)	(26,295,645)
Common shares outstanding–diluted	53,852,470	37,993,212	14,448,398	26,844,195

(1) Our Series B Warrants are classified as a liability because a third party has the right to determine their cash or share settlement. (Refer to Note 8 – Indebtedness and Other Financial Liabilities). These warrants are marked-to-market on our Consolidated Statements of Operations. For example, in periods when the market price of our common stock decreases, our income from continuing operations is increased. For purposes of determining if an application of the treasury stock method produces a dilutive result, we assume proceeds are used to repurchase common stock and we adjust the numerator similar to the adjustments required under the "if-converted" method. We consider the combined impact of the numerator and denominator adjustments, including a denominator adjustment to reduce shares, even when the average market price of our common stock for the period is below the warrant's strike price.

(2) As of December 4, 2010 and December 5, 2009, we had 5,634,002 and 7,134,002, respectively, of loaned shares under our share lending agreements, which were considered issued and outstanding. The obligation of the financial institutions to return the borrowed shares has been accounted for as prepaid forward contract and, accordingly, shares underlying this contract are removed from the computation of basic and diluted earnings per share, unless the borrower defaults on returning the related shares. On September 15, 2008, Lehman Europe, who is a party to a 3,206,058 share lending agreement with our Company filed under chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court and/or commenced equivalent proceedings in jurisdictions outside of the United States (collectively, the "Lehman Bankruptcy"). As such, we have included these loaned shares as issued and outstanding effective September 15, 2008 for purposes of computing our basic and diluted weighted average shares and (loss) income per share. This treatment is consistent with the new accounting guidance relating to accounting for own share lending arrangements in contemplation of convertible debt issuance, which we adopted during the first quarter of fiscal 2010 (Refer to Note 2 – Impact of New Accounting Pronouncements). For the 12 and 40 weeks ended December 4, 2010, weighted average common shares relating to share lending agreements of

2,427,944 were excluded from the computation of earnings per share. For the 12 and 40 weeks ended December 5, 2009, weighted average common shares relating to share lending agreement of 4,773,182 and 4,881,515, respectively, were excluded from the computation of earnings per share.

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19. Commitments and Contingencies

Supply Agreement

On March 7, 2008, we entered into a definitive agreement with C&S Wholesale Grocers, Inc. ("C&S") whereby C&S will provide warehousing, logistics, procurement and purchasing services (the "Services") in support of our Company's entire supply chain. This agreement expires on September 29, 2018. The agreement defines the parties' respective responsibilities for the procurement and purchase of merchandise intended for use or resale at our Company's stores, as well as the parties' respective remuneration for warehousing and procurement/purchasing activities. In consideration for its services, C&S is paid an annual fee and has incentive income opportunities based upon our cost savings and increases in retail sales volume. The agreement also provides that we will purchase virtually our entire warehoused inventory from C&S.

Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on comparable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales which would affect our results adversely.

Lease Related

Lease Assignment. On August 14, 2007, Pathmark entered into a leasehold assignment contract for the sale of its leasehold interests in one of its stores to CPS Operating Company LLC, a Delaware limited liability company ("CPS"). Pursuant to the terms of the agreement, Pathmark was to receive $87.0 million for assigning and transferring to CPS all of Pathmark's interest in the lease and CPS was to have assumed all of the duties and obligations of Pathmark under the lease. CPS deposited $6.0 million in escrow as a deposit against the purchase price for the lease, which is non-refundable to CPS, except as otherwise expressly provided in the agreement. The assignment of the lease was scheduled to close on December 28, 2007. On December 27, 2007, CPS issued a notice terminating the agreement for reason of a purported breach of the agreement, which, if proven, would require the return of the escrow. We are disputing the validity of CPS's notice of termination as we believe CPS's position is without merit. Because we are challenging the validity of CPS's December 27, 2007 notice of termination, we issued our own notice to CPS on December 31, 2007, asserting CPS's breach of the agreement as a result of their failure to close on December 28, 2007. CPS's breach, if proven, would entitle us to keep the escrow. Both parties have taken legal action to obtain the $6.0 million deposit held in escrow. On June 1, 2010, the Appellate Division reversed the trial court's denial of Pathmark's motion for summary judgment and entered judgment in favor of Pathmark with respect to the $6 million escrow, and CPS has appealed this judgment.

Other. In the normal course of business, we have assigned to third parties various leases related to former operating stores (the "Assigned Leases") for which we generally remained secondarily liable. As such, if any of the assignees were to become unable to make payments under the Assigned Leases, we could be required to assume the lease obligation. As of December 4, 2010, 196 Assigned Leases remain in place. Assuming that each respective assignee became unable to make payments under an Assigned Lease, an event we believe to be remote, we estimate our maximum potential obligation with respect to the Assigned Leases to be approximately $561.8 million, which could be partially or totally offset by reassigning or subletting these leases.

Legal Proceedings

LaMarca et al v. The Great Atlantic & Pacific Tea Company, Inc. et al. (“Defendants”)

On June 24, 2004, a class action complaint was filed in the Supreme Court of the State of New York against The Great Atlantic & Pacific Tea Company, Inc., d/b/a A&P, The Food Emporium, and Waldbaum’s alleging violations of the overtime provisions of the New York Labor Law. Three named plaintiffs, Benedetto LaMarca, Dolores Guiddy, and Stephen Tedesco, alleged on behalf of a class that our Company failed to pay overtime wages to full-time hourly employees who were either required or permitted to work more than 40 hours per week.

In April 2006, the plaintiffs filed a motion for class certification. In July 2007, the Court granted the plaintiffs’ motion and certified the class as follows: All full-time hourly employees of Defendants who were employed in Defendants’ supermarket stores located in the State of New York, for any of the period from June 24, 1998 through the date of the commencement of the action, whom Defendants required or permitted to perform work in excess of 40 hours per week without being paid overtime wages. In December 2008, the Court approved the Form of Notice, which included an “opt-out” provision and in January 2009, the Plaintiffs mailed the Notice to potential class members and the opt-out deadline expired in March 2009.

Other

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. We are also subject to certain environmental claims. While the outcome of these claims cannot be predicted with certainty, Management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows.

These matters are expected to be subject to the automatic stay in connection with the Bankruptcy Filing.

20. Reportable Segments

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

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

The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2009 Annual Report. Assets and capital expenditures are not allocated to segments for internal reporting presentations.

Interim information on segments is as follows:

	Sales by Category			
	For the 12 weeks ended		For the 40 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Grocery (1)	$ 1,254,386	$ 1,386,701	$ 4,323,618	$ 4,755,462
Meat (2)	342,308	362,779	1,209,657	1,281,427
Produce (3)	197,111	213,212	743,739	781,107
Total	$ 1,793,805	$ 1,962,692	$ 6,277,014	$ 6,817,996

(1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, wine, beer & spirits, and pharmacy.
(2) The meat category includes meat, deli, bakery and seafood.
(3) The produce category includes produce and floral.

	For the 12 weeks ended		For the 40 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Sales				
Fresh	$ 902,753	$ 973,556	$ 3,158,274	$ 3,403,009
Pathmark(1)	759,946	857,316	2,687,650	2,995,194
Gourmet	63,307	65,484	201,301	206,875
Other	67,799	66,336	229,789	212,918
Total sales	$ 1,793,805	$ 1,962,692	$ 6,277,014	$ 6,817,996
Segment income (loss)				
Fresh	4,891	13,313	28,618	87,322
Pathmark(1)	(20,992)	(16,501)	(73,572)	(33,589)
Gourmet	5,411	6,804	14,294	18,234
Other	595	(116)	1,586	1,541
Total segment (loss) income	(10,095)	3,500	(29,074)	73,508
Corporate (2)	(29,468)	(22,606)	(105,664)	(82,236)
Reconciling items (3)	(103,822)	(434,045)	(170,016)	(454,825)
Loss from continuing operations	(143,385)	(453,151)	(304,754)	(463,553)
Nonoperating (loss) income	(213)	(15,944)	10,241	(24,898)
Interest expense	(40,039)	(45,769)	(147,346)	(148,576)
Interest and dividend income	1	51	40	143
Loss from continuing operations before income taxes	$ (183,636)	$ (514,813)	$ (441,819)	$ (636,884)

(1) Includes results from Fresh stores that have been subsequently converted to Pathmark stores.
(2) Represents a $4.8 million decline in corporate and administrative costs, which was more than offset by a $28.2 million increase in corporate costs attributable to store-related activities, primarily benefits and occupancy costs which are not allocated to segments during the 40 weeks ended December 4, 2010.
(3) Reconciling items, which are not included in segment income, consist of the following:

	For the 12 weeks ended		For the 40 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Long-lived asset impairment	$ (29,336)	$ (40,820)	$ (64,984)	$ (40,820)
Intangible asset impairment	(12,700)	(49,900)	(12,700)	(49,900)
Net restructuring and other	(11,684)	(1,291)	(24,914)	(4,187)
Real estate related activity	(48,114)	(20,583)	(47,881)	(29,812)
Stock-based compensation	(1,346)	(592)	(1,246)	(4,636)
Pension withdrawal costs	-	-	-	(2,445)
LIFO adjustment	(642)	981	(2,139)	(1,185)
Goodwill impairment	-	(321,840)	(16,152)	(321,840)
Total reconciling items	$ (103,822)	$ (434,045)	$ (170,016)	$ (454,825)

The following table presents our segment depreciation and amortization:

	For the 12 weeks ended		For the 40 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009	Dec. 4, 2010	Dec. 5, 2009
Segment depreciation and amortization				
Fresh	$ 16,486	$ 18,997	$ 57,206	$ 64,443
Pathmark (1)	19,077	21,279	65,610	74,762
Gourmet	1,883	2,160	6,585	7,209
Other	1,271	1,126	4,175	3,361
Total segment depreciation and amortization	38,717	43,562	133,576	149,775
Corporate	11,228	12,251	38,265	41,610
Total company depreciation and amortization	$ 49,945	$ 55,813	$ 171,841	$ 191,385

(1) Includes results from Fresh stores that have been subsequently converted to Pathmark stores.

21. Subsequent Events

Bankruptcy Filing

On December 12, 2010, our Company and all of its U.S. subsidiaries (the “Filing Subsidiaries” and, together with our Company, 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. The Bankruptcy Filing was made in response to, among other things, our Company’s deteriorating liquidity and the challenges of successfully implementing additional financing initiatives and of obtaining necessary cost concessions from our Company’s business and labor partners, which 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.

Debtor-in-Possession Credit Agreement

In connection with the Bankruptcy Filing, on December 13, 2010, the Bankruptcy Court entered its interim financing order, among other things, permitting 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 as further amended by that certain First Amendment thereto dated as of 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 substantially all of the obligations of our Company and its applicable subsidiaries under the pre-existing first lien credit facility evidenced by the Credit Agreement (see Note 8 – Indebtedness and Other Financial Liabilities above) and related loan documentation. 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, minimum liquidity covenant and minimum cumulative EBITDA covenant. 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, (c) 40 days after the entry of the interim order of the Bankruptcy Court if the final order has not been entered by the Bankruptcy Court prior to the expiration of such 40-day period and (d) 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. On January 10, 2011, the Bankruptcy Court entered a final order approving the DIP Credit Agreement on a final basis.

The Bankruptcy Filing constituted an event of default with respect to the debt obligations described within Note 8 – Indebtedness and Other Financial Liabilities.

The U.S. Trustee for the Southern District of New York (the "U.S. Trustee") has appointed an official committee of unsecured creditors (the "UCC"). The UCC and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court on all matters affecting the Debtor. There can be no assurance that the UCC will support the Debtor's position on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization, once proposed. Disagreements between the Debtor and the UCC could protract the Bankruptcy Filing, negatively affect the Debtor's ability to operate and delay the Debtor's emergence from the Bankruptcy Filing.

We have incurred and expect to continue to incur significant costs associated with our reorganization and the Bankruptcy Filing. The amount of these expenses is expected to significantly affect our financial position and results of operations, but we cannot accurately predict the effect the Bankruptcy Filing will have on our business at this time.

Delisting of Common Stock and Senior Notes

On December 13, 2010, NYSE Regulation, Inc. (“NYSE Regulation”) announced that it determined that the listing on the New York Stock Exchange (the “NYSE”) of (i) the common stock (ticker symbol: GAP) of our Company and (ii) the 9 3/8% Senior Quarterly Interest Bonds due August 1, 2039 (ticker symbol: GAJ) of our Company, should be suspended immediately. NYSE Regulation determined that our Company is no longer suitable for listing in light of the Bankruptcy Filing. The Bankruptcy Filing is sufficient grounds for the commencement of delisting procedures pursuant to Section 802.01D of the NYSE’s Listed Company Manual. In its announcement regarding the suspension, NYSE Regulation noted the uncertainty as to the timing and outcome of the bankruptcy process as well as the ultimate effect of this process on our Company’s common stockholders.

ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the financial position, operating results, and cash flows of The Great Atlantic & Pacific Tea Company, Inc. It should be read in conjunction with our consolidated 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:

- Overview – a general description of our business and segment structure.
- Operating Results – a discussion of the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.
- Outlook – a discussion of certain trends or business initiatives for the remainder of fiscal 2010 to assist in understanding the business.
- Results of Operations and Liquidity and Capital Resources – a discussion of results for the 12 weeks ended December 4, 2010 compared to the 12 weeks ended December 5, 2009; results for the 40 weeks ended December 4, 2010 compared to the 40 weeks ended December 5, 2009; and current and expected future liquidity.
- Critical Accounting Estimates – a discussion of significant estimates made by our management.

OVERVIEW

The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores and discount food stores in 8 U.S. states and the District of Columbia. Our Company's business consists strictly of our retail operations, which totaled 395 stores as of December 4, 2010.

On December 12, 2010, subsequent to our balance sheet date, our Company and all of our U.S. subsidiaries (the "Filing Subsidiaries" and, together with our Company, 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. See Capital Resources and Liquidity below for further details.

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

OPERATING RESULTS

During the 12 weeks ended December 4, 2010, we continued to experience a shift in consumer spending behavior towards our existing competitors, as well as non-traditional competitors who have increased their food offerings. Our comparable store sales, which include stores that have been in operation for at least one full year and replacement stores, declined 4.9% this quarter and 6.4% year-to-date. As a result, our operating results were significantly below those of the prior year and our expectations.

Highlights of our operating results for our four reportable segments were as follows:

Fresh
(A&P, Waldbaum's and SuperFresh)

In our Fresh segment, we continued to experience a decline in sales compared to the prior year due to decreasing customer count. This decline is attributable to increased competition, particularly in alternative channels due to the expansion of food offerings in wholesale clubs, supercenters, and drug stores. We believe that customers' negative value perception combined with negative in-store experiences contributed to a shift in market share to our competitors. We have noted that the decline in customer count in the third quarter was at a decreasing rate compared to trends in previous quarters.

Pathmark

In our Pathmark and Pathmark Sav-A-Center stores, we continued to experience declining sales attributable to declining customer count versus the prior year.

Gourmet
(The Food Emporium)

Our Gourmet stores located in Manhattan, New York continued to deliver industry-leading results despite a decline in comparable store sales, scheduled cash rent increases and increased utility costs, which contributed to a reduced segment income over prior year.

Other
(Food Basics, Best Cellars and A&P Liquors)

During our third quarter, our Food Basics segment experienced an increase in comparable store sales and related gross margin, 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 and Spirits businesses continued to perform well with a year-over-year increase in segment income attributable primarily to positive comparable stores sales.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Form 10-Q 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 PART II. ITEM 1A – Risk Factors included in this quarterly report on Form 10-Q and our Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2010.

OUTLOOK

During second quarter 2010, our Company announced an operational and revenue-driven turnaround strategy designed to generate sustained profitability and cash flow, drive sales growth, restore competitive margins to the business and strengthen the foundation of our Company for the long term. 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. The Bankruptcy Filing provides our Company the resources to implement our comprehensive financial and operational restructuring. For the remainder of fiscal year 2010, we remain committed with our turnaround strategy while ensuring a smooth transition of our business during the Bankruptcy Filing. However, there can be no assurance regarding these matters. Further deterioration of revenues beyond what is contemplated in our current plans for the remainder of 2010 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 related sales decline that we have been experiencing. There can be no assurance that our operational and revenue-driven 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.

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. Refer to Part II. - Item 1A and the section of our Form
10-K entitled "Risk Factors" for a description of our Risk Factors.

RESULTS OF CONTINUING OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

Our consolidated financial information presents the results related to our operations of discontinued businesses separate from the results of our continuing operations. The discussion and analysis that follows focuses on continuing operations. All amounts are in millions, except share, per share amounts and where otherwise noted.

12 WEEKS ENDED DECEMBER 4, 2010 COMPARED TO THE 12 WEEKS ENDED DECEMBER 5, 2009

OVERALL

The following table summarizes our results of operations for the 12 weeks ended December 4, 2010 compared to the 12 weeks ended December 5, 2009:

	12 Weeks Ended December 4, 2010	12 Weeks Ended December 5, 2009	Favorable (Unfavorable) Dollar Change	% Change
		(in millions, except percentages)		
Sales	$ 1,793.8	$ 1,962.7	$ (168.9)	(8.6)%
Decrease in comparable store sales	(4.9)%	(5.8)%	NA	NA

Loss from continuing operations	$	(180.7)	$	(502.4)	$	321.7	64.0 %
Loss from discontinued operations	$	(18.7)	$	(57.2)	$	38.5	67.3 %
Net loss	$	(199.4)	$	(559.6)	$	360.2	64.4 %
Net loss per share – basic	$	(3.78)	$	(10.50)	$	6.72	64.0 %
Net loss per share – diluted	$	(3.78)	$	(14.35)	$	10.57	73.7 %
Non-GAAP Financial Data:							
Adjusted EBITDA (1)	$	10.4	$	36.7	$	(26.3)	(71.7) %

(1) For an explanation of Adjusted EBITDA and a reconciliation of net loss to Adjusted EBITDA, refer to the discussion under "Non-GAAP Financial Measures - Adjusted EBITDA" that follows.

Average weekly sales per supermarket were approximately $382,800 for the third quarter of fiscal 2010 versus $398,700 for the corresponding period of the prior year, a decrease of 4.0%, primarily due to the overall decline in our sales resulting from decreased customer counts due to increased competition and negative value perception of our stores.

SALES

	For the 12 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009
	(in thousands)	
Fresh	$ 902,753	$ 973,556
Pathmark	759,946	857,316
Gourmet	63,307	65,484
Other	67,799	66,336
Total sales	$ 1,793,805	$ 1,962,692

Sales decreased from $1,962.7 million for the 12 weeks ended December 5, 2009 to $1,793.8 million for the 12 weeks ended December 4, 2010, primarily due to a decrease in comparable stores sales and store closures, partially offset by sales from one new store. The overall decline in comparable store sales was primarily caused by a decrease in customer count. The decrease in sales in our Fresh segment of $70.8 million was primarily related to a decline in the comparable store sales of $70.5 million and store closures of $6.0 million, partially offset by $5.7 million in new stores. The decrease in sales in our Pathmark segment of $97.4 million was primarily due to a decline in comparable store sales. Sales generated by our Gourmet segment declined by $2.2 million, primarily due to a decline in comparable store sales. The sales increase of $1.5 million, or 2.2%, in our Other segment, representing Food Basics and Wine, Beer & Spirits, was primarily driven by increased sales generated by our Food Basics business, and was primarily attributable to increased comparable store sales of $1.9 million.

GROSS MARGIN

Gross margin of $534.2 million decreased 31 basis points as a percentage of sales to 29.78% for the third quarter of fiscal 2010 from gross margin of $590.6 million or 30.09% for the third quarter of fiscal 2009, reflecting lower margins from our Fresh, Pathmark and Gourmet segments, partially offset by improved margin rate from our Other Segment driven by our Food Basics business.

The following table details the dollar impact of items affecting the gross margin dollar decrease from the third quarter of fiscal 2009 to the third quarter of fiscal 2010 (in millions):

	Sales Volume	Gross Margin Rate	Total
Total Company	$ (50.8)	$ (5.5)	$ (56.3)

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

Our Store operating, general and administrative ("SG&A") expense was $635.6 million or 35.43% as a percentage of sales for the third quarter of fiscal 2010, as compared to $631.2 million or 32.16% as a percentage of sales for the third quarter of fiscal 2009.

SG&A expenses for the third quarter of fiscal 2010 included (i) net restructuring and other costs of $57.1 million, or 319 basis points, of which $48.3 million was primarily attributed to the closing of 25 stores during the 12 weeks ended December 4, 2010 (ii) real estate expenses of $3.8 million, or 21 basis points and (iii) stock-based compensation expense of $1.3 million, or 8 basis points.

SG&A expenses for the third quarter of fiscal 2009 included (i) net real estate related costs of $20.6 million, or 105 basis points, (ii) net restructuring and other costs of $0.9 million, or 5 basis points, and (iii) stock compensation expense of $0.6 million, or 3 basis points.

Excluding the items listed above, SG&A as a percentage of sales increased by 101 basis points during the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009, primarily due to lower sales leverage on fixed costs, including increased labor costs of 14 basis points, increased occupancy related costs of 30 basis points. In addition, corporate and banner administrative expenses increased by $11.1 million, or 72 basis points. These increases were partially offset by reductions in various operating expenses and non-allocated corporate overhead.

During the 12 weeks ended December 4, 2010 and December 5, 2009, we recorded impairment losses on long-lived assets due to closure or conversion of stores in the normal course of business of nil and $1.5 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 the potential for impairment of assets that are held and used.

LONG-LIVED ASSET IMPAIRMENT

As a result of experiencing cash flow losses at certain stores, we determined that a triggering event had occurred during the third quarter of fiscal 2010 that required us to test the related long-lived assets for potential impairment. As a result of our testing, we recorded impairment charges relating to Pathmark aggregating $28.2 million, primarily attributable to favorable leases, capital leases, and land and buildings. Refer to Note 5 to our Consolidated Financial Statements – Valuation of Long-Lived Assets for additional information.

In August 2010, we 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. As a result, we recorded an impairment charge of $23.7 million during the prior quarter. The store closures were completed in our Company's third fiscal quarter. During the 12 weeks ended December 4, 2010, we recorded an additional impairment charge of $1.1 million. This amount was recorded within "Goodwill, trademark, and long-lived asset impairment" in our Consolidated Statements of Operations. Refer to Note 15 to our Consolidated Financial Statements – Asset Disposition Initiatives.

As we worked through our turnaround plan, we experienced significant impediments to lowering our operating costs, leading to revised projections and triggering a requirement for an interim impairment analysis for quarter ended December 4, 2010. 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. Refer to Note 3 to our Consolidated Financial Statements – Goodwill and Other Intangible Assets for additional information.

SEGMENT (LOSS) INCOME

	For the 12 weeks ended	
	Dec. 4, 2010	Dec. 5, 2009
	(in thousands)	
Fresh	$ 4,891	$ 13,313
Pathmark	(20,992)	(16,501)
Gourmet	5,411	6,804
Other	595	(116)
Total segment (loss) income	$ (10,095)	$ 3,500

Segment income decreased $13.6 million from income of $3.5 million for the 12 weeks ended December 5, 2009 to a loss of $10.1 million for the 12 weeks ended December 4, 2010. Our Fresh and Pathmark segments experienced segment income declines of $8.4 million and $4.5 million, respectively, primarily attributable to declines in sales and lower gross margins, partially due to higher promotional spending and reductions in everyday prices for these

segments, partially offset by reduced labor, operating and occupancy expenses. Segment income from our Gourmet business declined by $1.4 million, primarily due to a decline in sales and gross margins. Segment income for our Other segment, representing Food Basics and Wine, Beer and Spirits, increased by $0.7 million, as the improved sales and gross margin from our Food Basics business more than offset increased labor and occupancy expenses. Refer to Note 20 – Reportable Segments for further discussion of our reportable operating segments.

ADJUSTED EBITDA

Adjusted EBITDA declined $26.3 million from $36.7 million for the 12 weeks ended December 5, 2009 to $10.4 million for the 12 weeks ended December 4, 2010, primarily due to the $13.6 million decline in operations (refer to the above Segment (Loss) Income discussion).

Our management uses Adjusted EBITDA as a supplemental non-GAAP financial measure. Refer to Non-GAAP Financial Measures-Adjusted EBITDA discussion that follows for further description and reconciliations to the appropriate GAAP financial measures.

NONOPERATING INCOME

During the third quarter of fiscal 2010 and 2009, we recorded unfavorable adjustments of $0.2 million and $15.9 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 of $40.0 million for the third quarter of fiscal 2010 decreased from the prior year expense of $45.7 million, primarily due to a smaller discount rate adjustment used to revalue our GHI contractual obligation resulting in a decrease in this expense of $2.9 million, a decrease of $2.2 million relating to preferred stock issuance costs and interest expense, and a decrease of $0.7 million in interest expense pertaining to capital lease obligations and real estate liabilities. These net decreases were partially offset by an $0.8 million increase in interest expense from self insurance and GHI interest.

INCOME TAXES

The income tax benefit from continuing operations for the third quarter of fiscal 2010 was $3.0 million, compared to the benefit of $12.4 million for the third quarter of fiscal 2009. Consistent with prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rate on continuing operations of 1.6% and 2.4%, for the 12 weeks ended December 4, 2010 and December 5, 2009, respectively, varied from the statutory rate of 35%, primarily due to the recording of state and local income taxes, the recording of a deferred tax benefit related to the impairment of indefinite lived intangible assets, the recording of additional valuation allowance and the impact of the Pathmark financing.

DISCONTINUED OPERATIONS

The loss from operations of discontinued businesses, net of tax, for the third quarter of fiscal 2010 of $18.7 million decreased from a loss of $57.2 million for the third quarter of fiscal 2009, primarily due to a larger change in estimated occupancy reserves in fiscal 2009 compared with fiscal 2010.

40 WEEKS ENDED DECEMBER 4, 2010 COMPARED TO THE 28 WEEKS ENDED DECEMBER 5, 2009

OVERALL

The following table summarizes our results of operations for the 40 weeks ended December 4, 2010 compared to the 40 weeks ended December 5, 2009:

	40 Weeks Ended December 4, 2010	40 Weeks Ended December 5, 2009	Favorable (Unfavorable) Dollar Change	% Change
	(in millions, except percentages)			
Sales	$ 6,277.0	$ 6,818.0	$ (541.0)	(7.9)%
Decrease in comparable store sales	(6.4)%	(4.2)%	NA	NA