GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
July 31, 2001

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

FORM 10-Q

Mark One

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

For Quarter Ended June 16, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

As of June 16, 2001 the Registrant had a total of 38,347,216 shares of common stock - $1 par value outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

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

	16 Weeks Ended	
	June 16, 2001	June 17, 2000
Sales	$3,388,294	$3,199,820
Cost of merchandise sold	(2,427,272)	(2,280,475)
Gross margin	961,022	919,345
Store operating, general and administrative expense	(943,480)	(881,532)
Income from operations	17,542	37,813
Interest expense	(29,060)	(28,936)
Interest income	1,842	1,864
(Loss) income before income taxes	(9,676)	10,741
Benefit (provision) for income taxes	2,537	(5,157)
Net (loss) income	$(7,139)	$5,584
(Loss) earnings per share:		
Net (loss) income per share - basic and diluted	$(0.19)	$0.15
Weighted average number of common shares outstanding	38,347,216	38,347,216
Common stock equivalents	161,433	47,262
Weighted average number of common and common equivalent shares outstanding	38,508,649	38,394,478

See Notes to Quarterly Report

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

	Common Stock	Additional Paid-in Capital	Unamortized Value of Restricted Stock Grant	Retained Earnings	Accumulated Other Comprehensive (Loss)/ Income	Total Stockholders' Equity
FY 2001-16 Week Period						
Balance at beginning of period 38,347,216 shares	$38,347	$456,470	$ -	$375,288	$(72,808)	$797,297
Net loss				(7,139)		(7,139)
Other comprehensive income:						
Foreign currency translation adjustment					6,428	6,428
Balance at end of period	$38,347	$456,470	$ -	$368,149	$(66,380)	$796,586
FY 2000-16 Week Period						
Balance at beginning of period 38,367,216 shares	$38,367	$457,101	$(441)	$411,861	$(60,696)	$846,192
Net income				5,584		5,584
Other comprehensive income:						
Foreign currency translation adjustment					(1,279)	(1,279)
Minimum pension liability adjustment					2,682	2,682
Reversal of restricted stock grants	(20)	(631)	441			(210)
Cash dividends ($.10 per share)				(3,835)		(3,835)
Balance at end of period	$38,347	$456,470	$ -	$413,610	$(59,293)	849,134

Comprehensive (Loss) Income

	16 Weeks Ended	
	June 16, 2001	June 17, 2000
Net (loss) income	$(7,139)	$5,584
Foreign currency translation adjustment	6,428	(1,279)
Minimum pension liability adjustment	-	2,682
Total comprehensive (loss) income	$(711)	$6,987

See Notes to Quarterly Report

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

	June 16, 2001	February 24, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash and short-term investments	$164,131	$131,550
Accounts receivable	180,292	183,382
Inventories	768,629	783,758
Prepaid expenses and other current assets	98,858	103,164
Total current assets	1,211,910	1,201,854
Property:		
Property owned	1,791,996	1,805,255
Property leased under capital leases	84,425	84,758
Property - net	1,876,421	1,890,013
Other assets	201,004	217,936
Total assets	$3,289,335	$3,309,803
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$5,243	$6,195
Current portion of obligations under capital leases	11,544	11,634
Accounts payable	553,207	566,482
Book overdrafts	133,944	108,448
Accrued salaries, wages and benefits	155,758	158,450
Accrued taxes	69,447	62,169
Other accruals	193,928	194,106

Total current liabilities	1,123,071	1,107,484
Long-term debt	896,924	915,321
Long-term obligations under capital leases	103,738	106,797
Other non-current liabilities	369,016	382,904
Total liabilities	2,492,749	2,512,506
Commitments and contingencies		
Stockholders' equity:		
Preferred stock--no par value; authorized - 3,000,000 shares; issued - none	-	-
Common stock--$1 par value; authorized - 80,000,000 shares; issued and outstanding- 38,347,216 shares at June 16, 2001 and February 24,2001, respectively	38,347	38,347
Additional paid-in capital	456,470	456,470
Accumulated other comprehensive loss	(66,380)	(72,808)
Retained earnings	368,149	375,288
Total stockholders' equity	796,586	797,297
Total liabilities and stockholders' equity	$3,289,335	$3,309,803

See Notes to Quarterly Report

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

	16 Weeks Ended	
	June 16, 2001	June 17, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(7,139)	$5,584
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Store/Facilities exit charge (reversal) and asset write-off	-	(3,061)
Environmental charge	-	3,029
Depreciation and amortization	82,205	76,648
Deferred income tax (benefit) provision	(2,537)	3,725
Loss (gain) on disposal of owned property	1,468	(1,735)
Other changes in assets and liabilities:		
Decrease in receivables	3,424	34,438

Decrease (increase) in inventories	16,145	(9,386)
(Increase) decrease in prepaid expenses and other current assets	(7,057)	2,587
Decrease in other assets	7,459	526
(Decrease) in accounts payable	(14,513)	(20,768)
(Decrease) in accrued salaries, wages and benefits	(2,906)	(4,172)
Increase in accrued taxes	7,249	8,672
(Decrease) in other accruals and other liabilities	(13,600)	(25,465)
Other operating activities, net	6,507	(1,296)
Net cash provided by operating activities	76,705	69,326
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property	(80,918)	(141,463)
Proceeds from disposal of property	33,774	15,911
Net cash used in investing activities	(47,144)	(125,552)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in short-term debt	(5,000)	(12,900)
Proceeds under revolving lines of credit	267,088	60,000
Payments on revolving lines of credit	(261,108)	(30,000)
Proceeds from long-term borrowings	460	9,906
Payments on long-term borrowings	(20,789)	(1,093)
Principal payments on capital leases	(3,628)	(3,392)
Increase in book overdrafts	25,401	20,740
Cash dividends	-	(3,835)
Net cash provided by financing activities	2,424	39,426
Effect of exchange rate changes on cash and short-term investments	596	(688)
Net increase (decrease) in cash and short-term investments	32,581	(17,488)
Cash and short-term investments at beginning of period	131,550	124,603
Cash and short-term investments at end of period	$164,131	$107,115

See Notes to Quarterly Report

The Great Atlantic & Pacific Tea Company, Inc.
Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements for the 16 week periods ended June 16, 2001 and June 17, 2000 are unaudited, and in the opinion of Management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items, except for the store and facilities exit costs and the supply chain and business

process initiative as discussed herein and in the Management's Discussion and Analysis section of this report. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries.

This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes incorporated by reference in the 2000 Annual Report on Form 10-K.

Certain reclassifications have been made to the prior periods' financial statements in order to conform to the current period presentation.

2. Income Taxes

The income tax provision/benefit recorded for the first quarter of fiscal years 2001 and 2000 reflects the Company's estimated expected annual tax rates applied to its respective domestic and foreign financial results as well as a one-time adjustment relating to an enacted federal tax rate reduction from the Canadian government. This new legislation which became effective during the first quarter of fiscal 2001 will reduce the Canadian federal corporate income tax rate by a total of 7% from 28% to 21% by January 1, 2004. However, the tax benefit for the first quarter of 2001 was decreased by $1.2 million to reflect the reduction in value of the deferred Canadian tax asset (primarily relating to NOL carryforwards) resulting from the lower rates. Excluding this adjustment of the tax asset, the benefit from income taxes would have been $3.7 million or 38.6% of the loss before income taxes.

Subsequent to the end of the first quarter, the Ontario government enacted corporate income tax rate changes, gradually reducing the rate from 14% to 8% by January 1, 2005. The Company is in the process of quantifying the impact this additional Canadian tax rate reduction will have on the financial statements for the 12 weeks ending September 8, 2001.

3. Wholesale Franchise Business

As of June 16, 2001, the Company served 67 franchised stores. These franchisees are required to purchase inventory exclusively from the Company, which acts as a wholesaler to the franchisees. The Company had sales to these franchised stores of $208 million and $188 million for the first quarters of fiscal 2001 and 2000, respectively. In addition, the Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a fee which primarily represents the reimbursement of costs incurred to provide such services.

The Company holds as assets inventory notes collateralized by the inventory in the stores and equipment lease receivables collateralized by the equipment in the stores. The current portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately $2.7 million and $3.7 million, are included in accounts receivable at June 16, 2001 and February 24, 2001, respectively. The long-term portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately $50.2 million and $55.3 million are included in other assets at June 16, 2001 and February 24, 2001, respectively.

The repayment of the inventory notes and equipment leases are dependent upon positive operating results of the stores. To the extent that the franchisees incur operating losses, the Company establishes an allowance for doubtful

accounts. The Company continually assesses the sufficiency of the allowance on a store by store basis based upon the operating results and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, the Company reserves the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

4. New Accounting Pronouncements Not Yet Adopted

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets. The provisions of this statement are required to be applied by the Company starting with fiscal 2002. This statement is required to be applied to all goodwill and other intangible assets recognized in the Company's financial statements at the date of adoption. At that time, goodwill will no longer be amortized, but will be tested for impairment annually. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this statement would be reported as resulting from a change in accounting principle. The Company is currently assessing the impact this statement will have on the Company's financial statements when it is adopted at the beginning of fiscal 2002.

5. Accounting for Derivative and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be measured at fair value and recognized in the balance sheet as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge, the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge, the change in the fair value will be recognized in the Statements of Consolidated Operations.

In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which delayed the adoption of SFAS 133 for one year, to fiscal years beginning after June 15, 2000.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Financial Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133". This Statement amends the accounting and reporting standards of SFAS 133 for certain derivative instruments, for certain hedging activities and for decisions made by the FASB relating to the Derivatives Implementation Group ("DIG") process. Certain decisions arising from the DIG process that required specific amendments to SFAS 133 were incorporated into this Statement. The Company was required to adopt SFAS 133 as amended in the first quarter of fiscal 2001. Upon adoption, the Company did not have any derivative instruments that resulted in a transition adjustment upon the adoption of this standard on February 25, 2001. However, the DIG is continually interpreting SFAS 133. Contracts that the Company has concluded are not derivatives could potentially be classified as derivatives based on new interpretive guidance.

6. Store and Facilities Exit Costs - Great Renewal - Phase I

In May 1998, the Company initiated an assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company. As a result of this assessment, in fiscal 1998, the Company

recorded a net charge of approximately $224 million related to the closure of 132 stores, two warehouse facilities and a coffee plant in the U.S. and a bakery plant in Canada. Additionally, in fiscal 1999, the Company recorded an additional charge of $16 million which included $5 million of net costs to exit the Atlanta market (closure of 22 stores, a distribution center and administrative office) and $11 million for additional severance costs related to the 132 stores closed in fiscal 1998.

The Company paid $28.4 million of the total net severance charges from the time of the original charges through the June 16, 2001, which resulted from the termination of approximately 3,400 employees. The remaining severance liability primarily relates to future obligations for early withdrawals from multi-employer union pension plans.

The following reconciliation summarizes the activity related to the aforementioned charges since the beginning of fiscal 2000:

(Dollars in thousands)	Store Occupancy	Severance and Benefits	Facilities Occupancy	Total
Reserve Balance at Feb. 26, 2000	$103,453	$7,500	$3,567	$114,520
Addition (1)	5,062	-	-	5,062
Utilization (4)	(25,654)	(4,779)	(463)	(30,896)
Adjustment (3)	-	-	(3,104)	(3,104)
Reserve Balance at Feb. 24, 2001	82,861	2,721	-	85,582
Addition (1)	1,361	-	-	1,361
Utilization (2)	(7,975)	(204)	-	(8,179)
Reserve Balance at June 16, 2001	$76,247	$2,517	$ -	$78,764

(1) The addition of $1.4 million and $5.1 million to store occupancy during the first quarters of fiscal 2001 and 2000, respectively, represent the present value of accrued interest related to lease obligations.

(2) Store occupancy utilization of $8.0 million represents lease and other occupancy payments made during the first quarter of fiscal 2001.

(3) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result, in fiscal 2000, the Company recorded a net reduction in "Store operating, general and administrative expense" of $3.1 million to reverse a portion of the $215 million restructuring charge recorded in fiscal 1998. The reversal is a result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.

(4) Store occupancy utilization of $25.7 million and facilities occupancy of $0.5 million represent lease and other occupancy payments made during fiscal 2000.

Based upon current available information, Management evaluated the reserve

balance of $78.8 million as of June 16, 2001 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

At June 16, 2001, approximately $13.3 million of the reserve is included in "Other accruals" and the remaining amount is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations for the 16 weeks ended June 16, 2001 and June 17, 2000 are the operating results of the one remaining store that was identified for closure as part of this store and facilities exit plan. This store subsequently closed during the second quarter of fiscal 2001. The operating results of this store are as follows:

(In thousands)	16 Weeks Ended	
	June 16, 2001	June 17, 2000
Sales	$181	$214
Operating Loss	$(46)	$(67)

7. Operating Segments

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

The Company currently operates in three reportable segments: United States Retail, Canada Retail and Canada Wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the wholesale segment is comprised of the Company's Canadian operation that serves as the exclusive wholesaler to the Company's franchised stores and serves as wholesaler to certain third party retailers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company measures segment performance based upon operating profit.

Interim information on segments is as follows:

(Dollars in thousands)	16 Weeks Ended	
	June 16, 2001	June 17, 2000
Sales		
U.S. Retail	$2,629,928	$2,485,844
Canada Retail	550,577	525,716
Canada Wholesale	207,789	188,260

Total Company	$3,388,294	$3,199,820
Depreciation and amortization		
U.S. Retail	$71,660	$67,106
Canada Retail	10,545	9,542
Canada Wholesale	-	-
Total Company	$82,205	$76,648
Income from operations		
U.S. Retail	$7,560	$21,204
Canada Retail	2,145	10,315
Canada Wholesale	7,837	6,294
Total Company	$17,542	$37,813
(Loss) income before income taxes		
U.S. Retail	$(17,847)	$(3,206)
Canada Retail	26	7,338
Canada Wholesale	8,145	6,609
Total Company	$(9,676)	$10,741
Capital expenditures		
U.S. Retail	$62,655	$120,678
Canada Retail	18,263	20,785
Canada Wholesale	-	-
Total Company	$80,918	$141,463

	June 16, 2001	February 24, 2001
Total assets		
U.S. Retail	$2,648,537	$2,679,217
Canada Retail	560,909	548,801
Canada Wholesale	79,889	81,785
Total Company	$3,289,335	$3,309,803

8. Supply Chain and Business Process Initiative - Great Renewal - Phase II

On March 13, 2000, the Company announced GR II, an initiative to develop a state-of-the-art supply and business management infrastructure.

During fiscal 2000, an agreement was entered into which provided financing for software purchases and hardware leases up to $71 million in the aggregate primarily relating to GR II. At that time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004, and were to have equal monthly payments of

$1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded which relate to software purchases were to be repaid over the next several months. The monthly payment amount was amended to reflect expected utilization related to hardware leases, and, as such, these payments are expected to change based upon the timing and amount of such funding. As of June 16, 2001, approximately $20 million was available for future financing. The leasing of the hardware under this agreement is being accounted for as an operating lease in accordance with SFAS No. 13, "Accounting for Leases".

9. Sale-Leaseback Transaction

During the fourth quarter of fiscal 2000, the Company sold 12 properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately $68 million. Net proceeds received by the Company related to this transaction amounted to approximately $113 million. Of the 12 properties sold, 11 were sold for a profit resulting in a gain after deducting expenses of approximately $46 million. This gain will be deferred and amortized over the life of the respective leases as a reduction of rental expense. One property in the aforementioned transaction was sold at a loss of approximately $3 million after expenses. Since the fair value of this property was less than its carrying value, the Company recognized this loss in full during fiscal 2000.

During the first quarter of fiscal 2001, the Company sold 4 additional properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately $19 million. Net proceeds received by the Company related to these transactions amounted to approximately $26 million. Of the 4 properties sold, 3 were sold for a profit resulting in a gain after deducting expenses of approximately $10 million. This gain will be deferred and amortized over the life of the respective leases as a reduction of rental expense. One property in the aforementioned transaction was sold at a loss of approximately $4 million after expenses. This loss was anticipated at the end of fiscal 2000, and, accordingly, was recognized in full at that time since the carrying value of such property exceeded its fair value less the cost of disposal.

During the remainder of fiscal 2001, the Company expects to enter into similar transactions with two other owned properties.

The resulting leases of the 16 properties sold in fiscal 2000 and 2001 have terms of 20 years, with options to renew for additional periods, and are being accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases". Future minimum lease payments for these operating leases are as follows:

(Dollars in thousands)	Fiscal
2001	$10,605
2002	15,907
2003	15,907
2004	15,907
2005	15,907
2006 and thereafter	254,610
Total	$328,843

ITEM 2 - Management's Discussion and Analysis of Financial Condition

and Results of Operations

Results of Operations

16 Weeks Ended June 16, 2001 Compared to 16 Weeks Ended June 17, 2000

Sales for the 16 weeks ended June 16, 2001 of $3,388 million increased $188.5 million or 5.89% from sales of $3,200 million for the 16 weeks ended June 17, 2000. The increase in sales is primarily attributable to the opening of 47 new stores in fiscal 2000 and 6 new stores in fiscal 2001, increasing sales by $204 million. Additionally, comparable store sales for the first quarter of fiscal 2001, which include replacement stores, increased $109 million or 3.8% when compared to the first quarter of fiscal 2000 (2.5% in the U.S. and 9.8% in Canada). This increase was partially offset by the closure of 49 stores in fiscal 2000 and 12 stores in fiscal 2001 which decreased sales $93 million and the unfavorable effect of the Canadian exchange rate which decreased sales $25 million.

Average weekly sales per supermarket were approximately $272,800 for the 16 week period ended June 16, 2001 versus $257,300 for the corresponding period of the prior year, an increase of 6.0%. Sales in the U.S. during the first quarter of fiscal 2001 increased by $144.1 million or 5.8% compared to the first quarter of fiscal 2000. Sales in Canada during the first quarter of fiscal 2001 increased $44.4 million or 6.2% compared to the first quarter of fiscal 2000.

Gross margin as a percentage of sales decreased 37 basis points to 28.36% for the 16 week period ended June 16, 2001 from 28.73% for the 16 week period ended June 17, 2000. The gross margin dollar increase of $41.7 million resulted from an increase in sales volume partially offset by decreases in the gross margin rate and the Canadian exchange rate. The U.S. operations gross margin increase of $37.8 million resulted from an increase of $44.0 million due to higher sales volume offset by a decrease of $6.2 million due to a lower gross margin rate. The Canadian operations gross margin increase of $3.8 million resulted from an increase of $18.4 million due to higher sales volume partially offset by a decrease of $6.4 million due to a lower gross margin rate and a decrease of $8.2 million from fluctuations in the Canadian exchange rate.

Store operating, general and administrative expense ("SG&A") was $943.5 million for the 16 weeks ended June 16, 2001 compared to $881.5 million for the corresponding period of the prior year. As a percentage of sales, SG&A increased from 27.55% in the first quarter of fiscal 2000 to 27.85% in the first quarter of fiscal 2001.

Included in cost of merchandise sold and SG&A are costs relating to the Great Renewal - Phase II supply chain and business process initiative ("GR II") of $4.5 million and $27.3 million for the 16 weeks ended June 16, 2001, respectively, and $0 and $17.1 million for the 16 weeks ended June 17, 2000, respectively. The costs included in cost of merchandise sold, which lowered gross margin as a percentage of sales by 14 basis points, were incurred to mark down inventory to be discontinued as a result of detailed category management studies. The costs included in SG&A primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiative. Also included in the first quarter of fiscal 2000 SG&A was $3.0 million of estimated environmental clean up costs for a non-retail property partially offset by a reversal of $3.1 million of charges related to the Great Renewal - Phase I store closure initiative ("GR I") originally recorded in fiscal 1998, resulting primarily from a change in estimate related to the sale of a warehouse sold during the first quarter of fiscal 2000. Excluding the charges described above, as a percentage of sales, SG&A increased slightly from 27.02% for the 16 week period ended June 17, 2000 to 27.04% for the 16 week period ended June 16, 2001.

Interest expense of $29.1 million for the first quarter of fiscal 2001 increased slightly from the prior year quarter amount of $28.9 million.

The loss before income taxes for the 16 week period ended June 16, 2001 was $9.7 million compared to income before income taxes of $10.7 million for the comparable period in the prior year, a decrease of $20.4 million. The loss is attributable principally to the increase in SG&A and lower gross margin.

The benefit from income taxes for the 16 weeks ended June 16, 2001 was $2.5 million compared to a provision for income taxes of $5.2 million. The effective tax rates for the first quarters of fiscal 2001 and 2000 were 26.2% and 48.0%, respectively. This benefit from income taxes for the first quarter of fiscal 2001 and the provision for income taxes for the first quarter of fiscal 2000 reflect the estimated expected annual tax rates applied to its respective domestic and foreign financial results as well as an adjustment relating to a reduction in the Canadian federal corporate income tax rate. This new legislation which was enacted during the first quarter of fiscal 2001 will reduce the Canadian federal corporate income tax rate by a total of 7% from 28% to 21% by January 1, 2004. The tax benefit for the first quarter of 2001 was decreased by $1.2 million to reflect the reduction in value of the deferred Canadian tax asset (primarily relating to NOL carryforwards) resulting from the lower rates. Excluding this adjustment of the tax asset, the benefit from income taxes would have been $3.7 million or 38.6% of the loss before income taxes.

Subsequent to the end of the first quarter, the Ontario government enacted corporate income tax rate changes, gradually reducing the rate from 14% to 8% by January 1, 2005. The Company is in the process of quantifying the impact this additional Canadian tax rate reduction will have on the financial statements for the 12 weeks ending September 8, 2001.

Based on these overall results, the net loss for the 16 weeks ended June 16, 2001 was $7.1 million or $0.19 per share - basic and diluted, as compared to net income of $5.6 million or $0.15 per share - basic and diluted. The decrease in net income of $12.7 million from the first quarter of fiscal 2000 to the first quarter of fiscal 2001 is attributable principally to the increase in SG&A and the lower gross margin rate as well as the change in the Canadian corporate income tax rate.

Liquidity and Capital Resources

The Company had working capital of $88.8 million at June 16, 2001 compared to $94.4 million at fiscal 2000 year end. The Company had cash and short-term investments aggregating $164.1 million at June 16, 2001 compared to $131.6 million as of fiscal 2000 year end, including $34.5 million in short-term investments at June 16, 2001 compared to no short-term investments at February 24, 2001. The decrease in working capital is attributable primarily to increases in book overdrafts and other accruals, and decreases in accounts receivable, inventories and prepaid expenses and other current assets. This is partially offset by increases in short-term investments and deferred tax asset, and decreases in accounts payable and current portion of long-term debt.

The Company has a $426 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003, with a syndicate of lenders, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This agreement is secured primarily by inventory and company-owned real estate. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to $340 million and a Canadian credit agreement amounting to C$131 million (U.S. $86 million at June

16, 2001). As of June 16, 2001, the Company had $196 million of borrowings under the Secured Credit Agreement. Accordingly, as of June 16, 2001, after reducing availability for outstanding letters of credit, the Company had $205 million available under the Secured Credit Agreement. Borrowings under the agreement bear interest at the weighted average rate of 6.78% as of June 16, 2001 based on the variable LIBOR pricing.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. At June 16, 2001, the Company was in compliance with the covenants on the notes and the Secured Credit Agreement.

As described in Note 8 of the Consolidated Financial Statements, during fiscal 2000, an agreement was entered into which provided financing for software purchases and hardware leases up to $71 million in the aggregate primarily relating to GR II. At that time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004, and were to have equal monthly payments of $1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded which relate to software purchases were to be repaid over the next several months. The monthly payment amount was amended to reflect expected utilization related to hardware leases, and, as such, these payments are expected to change based upon the timing and amount of such funding. As of June 16, 2001, approximately $20 million was available for future financing.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to $350 million of debt and/or equity securities as of June 16, 2001 at terms determined by market conditions at the time of sale.

As described in Note 9 of the Consolidated Financial Statements, during the fourth quarter of fiscal 2000, the Company sold 12 properties and simultaneously leased them back from the purchaser. Net proceeds received by the Company related to this transaction amounted to approximately $113 million. Additionally, during the first quarter of fiscal 2001, the Company sold 4 properties and simultaneously leased them back from the purchaser. Net proceeds received by the Company related to these transactions amounted to approximately $26 million. The Company has or expects to enter into similar transactions with two other owned properties in fiscal 2001 with expected gross proceeds of approximately $15 million.

During the first quarter of fiscal 2001, the Company funded its capital expenditures, debt repayments, and GR II expenses through internally generated funds combined with proceeds from disposals of property, bank borrowings, and revolving lines of credit. Capital expenditures totaled $81 million during the first quarter of fiscal 2001, which included 6 new supermarkets, and 9 major remodels or enlargements, and the Company's capital expenditures related to GR II. Capital expenditures are expected to be approximately $200 million for the remainder of the fiscal year which includes approximately 20 new supermarkets, as well as capital expenditures related to GR II.

During the first quarter of fiscal 2001, the Company incurred expenses related to GR II of approximately $32 million before tax benefits. For the remainder of fiscal 2001, the Company plans to incur an additional $70 million approximately, before tax benefits, of GR II expenses.

As part of the ongoing process of reviewing the performance and potential of each of its businesses and individual stores, the Company is particularly focusing on stores opened in the last three years which, as has been previously stated, include a number of stores that have not achieved expectations. As part of this review, stores may be classified as underperforming as defined by the

Company. For each store identified as underperforming, a decision will be made to either fix, sell or close it. As such there is potential for significant additional store disposals or closures during the remainder of fiscal 2001.

On December 5, 2000, the Board of Directors voted to discontinue payment of the quarterly cash dividend on its common stock. As such, the Company does not expect to pay dividends during fiscal 2001.

The Company's existing senior debt rating was B2 with negative implications with Moody's Investors Service and BB with negative implications with Standard & Poor's Ratings Group as of June 16, 2001. Future rating changes could affect the availability and cost of financing to the Company.

The Company believes that its current cash resources, including the funds available under the Secured Credit Agreement, together with cash generated from operations, will be sufficient for the Company's 2001 GR II and other capital expenditure programs and mandatory scheduled debt repayments throughout fiscal 2001.

Market Risk

Market risk represents the risk of loss from adverse market changes that may impact the consolidated financial position, results of operations or cash flows of the Company. Among other possible market risks, the Company is exposed to such risk in the areas of interest rates and foreign currency exchange rates.

Interest rates
The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its $700 million in notes as of June 16, 2001 because they are at fixed interest rates. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, as of June 16, 2001, a 1% change in LIBOR would result in interest expense fluctuating approximately $2.0 million per year.

Foreign Exchange Risk
The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. For the 16 week period ended June 16, 2001, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of $0.3 million. The Company does not believe that a change in the Canadian currency of 10% will have a material effect on the financial position or cash flows of the Company.

Cautionary Note

This report contains certain forward-looking statements about the future performance of the Company which are based on Management's assumptions and beliefs in light of the information currently available to it. The Company assumes no obligation to update the information contained herein. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including, but not limited to: competitive practices and pricing in the food industry generally and particularly in the Company's principal markets; the Company's relationships with its employees and the terms of future collective bargaining agreements; the costs and other effects of legal and administrative cases and proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect the Company's cost of capital and the ability of the Company to access the public debt and equity markets to refinance indebtedness and fund the Company's capital expenditure programs on satisfactory terms; supply or quality control problems with the

Company's vendors and changes in economic conditions which affect the buying patterns of the Company's customers.

PART II. OTHER INFORMATION

ITEM 1 - Legal Proceedings

None

ITEM 2 - Changes in Securities

None

ITEM 3 - Defaults Upon Senior Securities

None

ITEM 4 - Submission of Matters to a Vote of Security Holders

None

ITEM 5 - Other Information

None

ITEM 6 - Exhibits and Reports on Form 8-K

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

Management Employment Agreements - Exhibit 10

(b) Reports on Form 8-K

None

The Great Atlantic & Pacific Tea Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

Date: July 31, 2001 By: /s/ Kenneth A. Uhl

Kenneth A. Uhl, Vice President and
Controller (Chief Accounting Officer)