

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

GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
July 29, 2004

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

FORM 10-Q

Mark One

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

For Quarter Ended June 19, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

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

Maryland

13-1890974

(State or other jurisdiction of
incorporation or organization)

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

2 Paragon Drive
Montvale, New Jersey 07645

(Address of principal executive offices)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act. YES NO

As of July 27, 2004 the Registrant had a total of 38,562,151 shares of common stock - \$1 par value outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

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

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

	16 We

	June 19, 2004

Sales	\$ 3,286,223
Cost of merchandise sold	(2,356,569)

Gross margin	929,654
Store operating, general and administrative expense	(938,274)

Loss from operations	(8,620)
Interest expense	(26,850)
Interest income	841
Minority interest in earnings of consolidated franchisees	(1,376)

Loss from continuing operations before income taxes	(36,005)
(Provision for) benefit from income taxes	(5,458)

Loss from continuing operations	(41,463)
Discontinued operations (Note 5):	
Loss from operations of discontinued businesses, net of tax benefit of \$0 and \$6,460 for the 16 weeks ended June 19, 2004 and June 14, 2003, respectively	(1,383)
Gain on disposal of discontinued operations, net of tax provision of \$29,359 for the 16 weeks ended June 14, 2003	-

(Loss) income from discontinued operations	(1,383)

Cumulative effect of change in accounting principle - FIN 46-R, net of tax	-

Net (loss) income	\$ (42,846)
	=====
Net (loss) income per share - basic and diluted:	
Continuing operations	\$ (1.08)
Discontinued operations	(0.03)
Cumulative effect of change in accounting principle - FIN 46-R	-

Net (loss) income per share - basic and diluted	\$ (1.11)
	=====
Weighted average number of common shares outstanding	38,520,018
Common stock equivalents	370,914

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

Weighted average number of common and common equivalent
shares outstanding

38,890,932
=====

See Notes to Quarterly Report

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

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings
	Shares	Amount		
16 Week Period Ended June 19, 2004 -----				
Balance at beginning of period	38,518,905	\$ 38,519	\$ 459,579	\$ (78,100)
Net loss				(42,846)
Other comprehensive loss				
Stock options exercised	1,625	1	6	
Balance at end of period	38,520,530	\$ 38,520	\$ 459,585	\$ (120,946)

16 Week Period Ended June 14, 2003 As Restated - See Note 3 -----				
Balance at beginning of period, as previously stated	38,515,806	\$ 38,516	\$ 459,411	\$ 61,387
Add adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for inventory (LIFO to FIFO)				17,462
Balance at beginning of period, as adjusted	38,515,806	38,516	459,411	78,849
Net income				11,945
Other comprehensive income				

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

Balance at end of period	38,515,806	\$ 38,516	\$ 459,411	\$ 90,794
	=====	=====	=====	=====

Comprehensive (Loss) Income

	16 Weeks Ended	
	June 19, 2004	(As Restated) See Note 3 June 14, 2003
	-----	-----
Net (loss) income	\$ (42,846)	\$ 11,000
Foreign currency translation adjustment	(6,773)	39,000
Net unrealized gain (loss) on derivatives, net of tax	835	(1,000)
Other comprehensive (loss) income, net of tax	(5,938)	38,000
Total comprehensive (loss) income	\$ (48,784)	\$ 50,000
	=====	=====

Accumulated Other Comprehensive Loss Balances

	Foreign Currency Translation	Net Unrealized (Loss) Gain on Derivatives
	-----	-----
Balance at February 28, 2004, As Restated - See Note 3	\$ (23,892)	\$ (158)
Current period change	(6,773)	835
Balance at June 19, 2004	\$ (30,665)	\$ 677
	=====	=====
Balance at February 22, 2003	\$ (62,496)	\$ 3,015
Current period change, As Restated	39,492	(707)
Balance at June 14, 2003, As Restated	\$ (23,004)	\$ 2,308
	=====	=====

See Notes to Quarterly Report

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

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

	June 19, 2004

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 278,934
Accounts receivable, net of allowance for doubtful accounts of \$13,002 and \$13,620 at June 19, 2004 and February 28, 2004, respectively	146,177
Inventories	712,989
Prepaid expenses and other current assets	36,467

Total current assets	1,174,567

Non-current assets:	
Property:	
Property owned	1,381,984
Property leased under capital leases, net	61,842

Property - net	1,443,826
Other assets	110,274

Total assets	\$ 2,728,667
	=====
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	\$ 2,272
Current portion of obligations under capital leases	13,165
Accounts payable	532,169
Book overdrafts	90,329
Accrued salaries, wages and benefits	167,182
Accrued taxes	76,317
Other accruals	208,133

Total current liabilities	1,089,567

Non-current liabilities:	
Long-term debt	830,297
Long-term obligations under capital leases	71,030
Other non-current liabilities	386,045
Minority interests in consolidated franchisees	7,746

Total liabilities	2,384,685

Commitments and contingencies	

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

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 - 38,520,530 and 38,518,905 shares at June 19, 2004 and February 28, 2004, respectively	38,520
Additional paid-in capital	459,585
Accumulated other comprehensive loss	(33,177)
Accumulated deficit	(120,946)

Total stockholders' equity	343,982

Total liabilities and stockholders' equity	\$ 2,728,667
	=====

See Notes to Quarterly Report

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

	16

	June 19, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss) income	\$ (42,846)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:	
Asset disposition initiative	1,061
Depreciation and amortization	81,122
Deferred income tax provision (benefit)	1,012
Loss on disposal of owned property	397
Gain on sale of discontinued operations	-
Cumulative effect of change in accounting principle - FIN 46-R	-
Other changes in assets and liabilities:	
Decrease in receivables	24,840
Increase in inventories	(22,822)
Increase in prepaid expenses and other current assets	(14,933)
(Increase) decrease in other assets	(433)
Increase in accounts payable	55,635
(Decrease) increase in accrued salaries, wages and benefits, and taxes	(6,813)
Decrease in other accruals	(27,899)
Increase (decrease) in minority interest	727
Decrease in other non-current liabilities	(13,020)
Other operating activities, net	1,060

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

Net cash provided by operating activities	37,088
<hr style="border-top: 1px dashed black;"/>	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(55,491)
Proceeds from disposal of property	6,140
<hr style="border-top: 1px dashed black;"/>	
Net cash (used in) provided by investing activities	(49,351)
<hr style="border-top: 1px dashed black;"/>	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on revolving lines of credit	-
Proceeds from long-term borrowings	7,301
Payments on long-term borrowings	-
Principal payments on capital leases	(4,616)
(Decrease) increase in book overdrafts	(5,717)
Deferred financing fees	(813)
Proceeds from stock option exercise	7
<hr style="border-top: 1px dashed black;"/>	
Net cash used in financing activities	(3,838)
<hr style="border-top: 1px dashed black;"/>	
Initial impact of adoption of FIN 46-R	-
Effect of exchange rate changes on cash and cash equivalents	(1,973)
<hr style="border-top: 1px dashed black;"/>	
Net decrease in cash and cash equivalents	(18,074)
Cash and cash equivalents at beginning of period	297,008
<hr style="border-top: 1px dashed black;"/>	
Cash and cash equivalents at end of period	\$ 278,934
<hr style="border-top: 3px double black;"/>	

See Notes to Quarterly Report

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

1. Basis of Presentation

The accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows of The Great Atlantic & Pacific Tea Company, Inc. ("We," "Our," "Us" or "Our Company") for the 16 weeks ended June 19, 2004 and June 14, 2003, and the Consolidated Balance Sheets at June 19, 2004 and February 28, 2004, are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial position and results of operations for such periods. The accompanying consolidated financial statements also include the impact of adopting Interpretation No. 46 ("FIN 46-R"), "Consolidation of Variable Interest Entities - an interpretation of 'Accounting Research Bulletin No. 51'", EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("EITF 03-10") and the change in our method of valuing certain of our inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method during the first quarter of fiscal 2004. The consolidated financial statements should be read in conjunction with the consolidated financial

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

statements and related notes contained in our Fiscal 2003 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company, all majority-owned subsidiaries, and franchise operations. Significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Impact of New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS 132 R, "Employer's Disclosure about Pensions and Other Postretirement Benefits" ("SFAS 132 R"). SFAS 132 R requires new annual disclosures about the type of plan assets, investments strategy, measurement date, plan obligations, and cash flows as well as the components of the net periodic benefit cost recognized in interim periods. The new annual disclosure requirements apply to fiscal years ending after December 15, 2003, except for the disclosure of expected future benefit payments, which must be disclosed for fiscal years ending after June 15, 2004. Interim period disclosures are generally effective for interim periods beginning after December 15, 2003. We have included the disclosures required by SFAS 132 R, including expected future benefit payments, in our consolidated financial statements for the year ended February 28, 2004. We have also included all newly required interim period disclosures for the quarter ending June 19, 2004 in Note 7 - Retirement Plans and Benefits.

In December 2003, the United States enacted into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FAS 106-2"). We have elected to defer the accounting for the effects of the Act, as permitted by FAS 106-2. Therefore, in accordance with FAS 106-2, our consolidated financial statements and accompanying notes do not reflect the favorable effects of the Act on the plans, the magnitude of which has not yet been determined. Specific authoritative guidance on the accounting for the federal subsidy is pending, and that guidance, when issued, could require our Company to change previously reported information.

Refer to Note 3 - Restatement and Changes in Accounting regarding the impact of adoption of FIN 46-R and EITF 03-10 in our consolidated financial statements.

3. Restatement and Changes in Accounting

FIN 46-R

In December 2003, the FASB issued revised Interpretation No. 46, "Consolidation of Variable Interest Entities - an interpretation of `Accounting Research Bulletin No. 51'". FIN 46-R addresses the consolidation of entities whose equity holders have either (a) not provided sufficient equity at risk to allow the entity to finance its own activities or (b) do not possess certain characteristics of a controlling financial interest. FIN 46-R requires the consolidation of these entities, known as variable interest entities ("VIE's"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that is subject to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns, or

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

both. FIN 46-R applies immediately to variable interests in VIE's created or obtained after January 31, 2003. For variable interests in a VIE created before February 1, 2003, FIN 46-R applies to VIE's no later than the end of the first reporting period ending after March 15, 2004 (the quarter ending June 19, 2004 for our Company).

As of June 19, 2004, we served 66 franchised stores. These franchisees are required to purchase inventory from our Company, which acts as a wholesaler to the franchisees. We had sales to these franchised stores of \$254 million and \$251 million for the first quarter of fiscal years 2004 and 2003, respectively. In addition, we sublease the stores and lease the equipment in the stores to the franchisees. We also provide merchandising, advertising, bookkeeping and other consultative services to the franchisees for which we receive a fee, which primarily represents the reimbursement of costs incurred to provide such services. Based upon the new criteria for consolidation of VIE's, we have determined that all of our franchised stores do not have sufficient equity at risk to allow them to finance their own activities. Thus, these franchisees are VIE's of which, under FIN 46-R, we are deemed the primary beneficiary and accordingly have included them in our consolidated financial statements as of February 23, 2003. As permitted by FIN 46-R, our Company elected to restate prior year's consolidated financial statements for the impact of adopting this interpretation for comparability purposes.

Prior to February 23, 2003, we held 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, had been included in "Accounts receivable" on our Consolidated Balance Sheets, while the long-term portion of the inventory notes and equipment leases had been included in "Other assets" on our Consolidated Balance Sheets. The repayment of these inventory notes and equipment leases had been dependent upon positive operating results of the stores. To the extent that the franchisees incurred operating losses, we had established an allowance for doubtful accounts. We assessed 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, we reserved the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

The cumulative effect adjustment of \$8.0 million primarily represents the difference between consolidating these entities as of February 23, 2003 and the allowance for doubtful accounts that was provided for these franchises at that date.

Also refer to Note 10 - Commitments and Contingencies regarding our pending class action lawsuit relating to our Canadian franchise business.

EITF 03-10

In November 2003, the Emerging Issues Task Force confirmed as a consensus EITF Issue No. 03-10, "Application of EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, by Resellers to Sales Incentives Offered to Consumers by Manufacturers". The provisions of EITF 03-10 became effective for our Company in the first quarter of fiscal 2004. EITF 03-10 provides guidance for the reporting of vendor consideration received by a reseller as it relates to manufacturers' incentives, such as rebates or coupons, tendered by consumers. Vendor incentives should be included in revenues only if defined criteria are met. As such, our Company will continue to record as part of revenues manufacturers' coupons that can be presented at any retailer that accepts coupons. However, in the case of vendor

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

incentives that can only be redeemed at a Company retail store, such consideration would be recorded as a decrease in cost of sales. As permitted by the transition provisions of EITF 03-10, we have reclassified prior year's sales and cost of sales for comparative purposes in this report. Implementation of EITF 03-10 has no effect on gross margin dollars, net income or cash flows, but certain vendor coupons or rebates that had been recorded in sales in the past are currently being recognized as a reduction of cost of sales. The implementation of EITF 03-10 has resulted in decreases in both sales and cost of sales of \$15.3 million in the first quarter of fiscal 2004 and \$14.7 million in the first quarter of fiscal 2003.

Inventory

At February 28, 2004, approximately 6% of our inventories, relating to all merchandise sold in our Waldbaums and Farmer Jack banners, that were acquired during the past two decades, were valued at the lower of cost or market using the LIFO method. During the first quarter of fiscal 2004, we changed our method of valuing these inventories from the LIFO method to the FIFO method. We believe that the new method is preferable because the FIFO method produces an inventory value on our Consolidated Balance Sheets that better approximates current costs. In addition, under FIFO, the flow of costs is generally more consistent with our physical flow of goods. The adoption of the FIFO method will enhance comparability of our financial statements by conforming all of our inventories to the same accounting method. Our Company applied this change by retroactively restating our consolidated financial statements as required by Accounting Principles Board Opinion No. 20, "Accounting Changes," which resulted in an increase to retained earnings as of February 23, 2003 of approximately \$17.5 million.

Overall Impact

The following tables reflect the impact of the adoption of FIN 46-R, including the impact of all elimination entries relating to the consolidation of the franchisees, EITF 03-10, and the change in our method of valuing certain of our inventories from the LIFO method to the FIFO method on our Consolidated Statements of Operations and Consolidated Balance Sheets for the periods presented. Note that the adoption of EITF 03-10 only impacts our Consolidated Statements of Operations. Furthermore, the change in our method of valuing certain of our inventories impacts our Consolidated Balance Sheets and had a \$0 impact on our Consolidated Statement of Operations for the 16 weeks ended June 14, 2003.

	Consolidated A&P for the 16 weeks ended June 19, 2004 prior to changes	Impact of adoption of FIN 46-R	Impact of adoption of EITF 03-10
Sales	\$ 3,258,579	\$ 42,976	\$ (15,300,000)
Cost of merchandise sold	(2,376,163)	4,262	15,300,000

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

Gross margin	882,416	47,238	
Store operating, general and administrative expense	(897,517)	(40,757)	
(Loss) income from operations	(15,101)	6,481	
Interest expense	(26,850)	-	
Interest income	2,294	(1,453)	
Minority interest in earnings of consolidated franchisees	-	(1,376)	
(Loss) income from continuing operations before income taxes	(39,657)	3,652	
Provision for income taxes	(4,414)	(1,044)	
(Loss) income from continuing operations	(44,071)	2,608	
Discontinued operations:			
Loss from operations of discontinued businesses, net of tax	(1,383)	-	
Gain on disposal of discontinued operations, net of tax	-	-	
Loss from discontinued operations	(1,383)	-	
Net (loss) income	\$ (45,454)	\$ 2,608	\$
Depreciation	\$ (79,674)	\$ (1,448)	\$

	Consolidated A&P as previously reported for the 16 weeks ended June 14, 2003	Impact of adoption of FIN 46-R	Impact of adopti EITF 0
Sales	\$ 3,203,830	\$ 39,409	\$ (14
Cost of merchandise sold	(2,324,661)	4,596	14
Gross margin	879,169	44,005	
Store operating, general and administrative expense	(891,628)	(42,156)	

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

(Loss) income from operations	(12,459)	1,849	
Interest expense	(24,884)	-	
Interest income	2,139	(1,359)	
Minority interest in earnings of consolidated franchisees	-	(274)	
(Loss) income from continuing operations before income taxes	(35,204)	216	
Benefit from (provision for) income taxes	14,862	(504)	
Loss from continuing operations	(20,342)	(288)	
Discontinued operations:			
Loss from operations of discontinued businesses, net of tax	(11,459)	-	
Gain on disposal of discontinued operations, net of tax	52,081	-	
Income from discontinued operations	40,622	-	
Cumulative effect of change in accounting principle - FIN 46-R, net of tax	-	(8,047)	
Net income (loss)	\$ 20,280	\$ (8,335)	\$
Depreciation	\$ (84,096)	\$ (1,681)	\$

	Consolidated A&P at June 19, 2004 prior to adoption	Impact of adoption of FIN 46-R
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 254,505	\$ 24,429
Accounts receivable	167,365	(21,188)
Inventories	690,020	22,969
Prepaid expenses and other current assets	36,444	23
Total current assets	1,148,334	26,233
Non-current assets:		
Property:		

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

Property owned	1,362,633	19,351
Property leased under capital leases, net	61,842	-
	-----	-----
Property, net	1,424,475	19,351
Other assets	146,637	(36,363)
	-----	-----
Total assets	\$ 2,719,446	\$ 9,221
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	\$ 2,272	\$ -
Current portion of obligations under capital leases	13,165	-
Accounts payable	532,506	(337)
Book overdrafts	90,329	-
Accrued salaries, wages and benefits	164,716	2,466
Accrued taxes	71,554	4,763
Other accruals	207,166	967
	-----	-----
Total current liabilities	1,081,708	7,859
	-----	-----
Non-current liabilities:		
Long-term debt	830,297	-
Long-term obligations under capital leases	71,030	-
Other non-current liabilities	384,956	1,089
Minority interests	-	7,746
	-----	-----
Total liabilities	2,367,991	16,694
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	-	-
Common stock	38,520	-
Additional paid-in capital	459,585	-
Accumulated other comprehensive income	(32,844)	(333)
Accumulated deficit	(113,806)	(7,140)
	-----	-----
Total stockholders' equity	351,455	(7,473)
	-----	-----
Total liabilities and stockholders' equity	\$ 2,719,446	\$ 9,221
	=====	=====

Consolidated A&P as previously reported at February 28, 2004	Impact of adoption of FIN 46-R	Impact change f LIFO to
-----	-----	-----

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

ASSETS

Current assets:

Cash and cash equivalents	\$ 276,151	\$ 20,857	\$
Accounts receivable	190,737	(18,902)	
Inventories	654,344	22,491	17,2
Prepaid expenses and other current assets	25,080	145	
	-----	-----	-----
Total current assets	1,146,312	24,591	17,2
	-----	-----	-----

Non-current assets:

Property:			
Property owned	1,383,702	22,223	
Property leased under capital leases, net	65,632	-	
	-----	-----	-----
Property, net	1,449,334	22,223	
Other assets	154,904	(39,404)	
	-----	-----	-----
Total assets	\$ 2,750,550	\$ 7,410	\$ 17,2
	=====	=====	=====

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long term debt	\$ 2,271	\$ -	\$
Current portion of obligations under capital leases	15,901	-	
Accounts payable	477,536	3,176	
Book overdrafts	96,273	-	
Accrued salaries, wages and benefits	176,812	330	
Accrued taxes	69,217	5,481	
Other accruals	235,910	328	
	-----	-----	-----
Total current liabilities	1,073,920	9,315	
	-----	-----	-----

Non-current liabilities:

Long-term debt	823,738	-	
Long-term obligations under capital leases	73,980	-	
Other non-current liabilities	393,088	1,273	
Minority interests	-	7,172	
	-----	-----	-----
Total liabilities	2,364,726	17,760	
	-----	-----	-----

Commitments and contingencies

Stockholders' equity:

Preferred stock	-	-	
Common stock	38,519	-	
Additional paid-in capital	459,579	-	
Accumulated other comprehensive income	(26,637)	(602)	
Accumulated deficit	(85,637)	(9,748)	17,2
	-----	-----	-----
Total stockholders' equity	385,824	(10,350)	17,2
	-----	-----	-----

Total liabilities and stockholders' equity	\$ 2,750,550	\$ 7,410	\$ 17,2
	=====	=====	=====

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

4. Income Taxes

The income tax provision recorded for the 16 weeks ended June 19, 2004 and June 14, 2003 reflects our estimated expected annual tax rates applied to our respective domestic and foreign financial results.

SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109") requires that a valuation allowance be created and offset against a net deferred tax asset if, based on existing facts and circumstances, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Based upon our continued assessment of the realization of our U.S. net deferred tax asset and our historic cumulative losses, and in particular, the significant increase in U.S. operating losses during the second quarter of fiscal 2002, we concluded that it was appropriate to establish a full valuation allowance for our U.S. net deferred tax asset. For the 16 weeks ended June 19, 2004, the valuation allowance was increased by \$20.5 million. To the extent that our U.S. operations generate taxable income in future periods, we will reverse the income tax valuation allowance. In future periods, U.S. earnings or losses will not be tax effected until such time as the certainty of future tax benefits can be reasonably assured.

Further, in accordance with SFAS 109, income from discontinued operations can be tax effected under certain circumstances. As a result, we taxed the income from discontinued operations for the first quarter ended June 14, 2003 at our effective tax rate. The tax provision for discontinued operations of \$22.9 million for the first quarter ended June 14, 2003 was completely offset by a tax benefit from continuing operations.

For the first quarter of fiscal 2004, our effective income tax rate provision of 15.1% increased from the effective income tax rate benefit of (41.0%) in the first quarter of fiscal 2003 as follows:

	16 weeks ended			
	June 19, 2004		June 14, 2003	
	Tax	Effective Tax Rate	Tax	Effective Tax Rate
United States	\$(1,380)	3.8%	\$22,024	(62.9%)
Canada	(4,078)	11.3%	(7,666)	21.9%
	-----	-----	-----	-----
	\$(5,458)	15.1%	\$14,358	(41.0%)
	=====	=====	=====	=====

The increase in our effective tax rate was primarily due to the absence of a tax benefit recognized from the loss on continuing operations. As discussed above, \$22.9 million of benefit was recognized in the first quarter of fiscal 2003 as compared to the first quarter of fiscal 2004, where no benefit was recognized. The remaining provisions included in the U.S. of \$1.4 million and \$0.9 million for the first quarters of fiscal 2004 and 2003, respectively, represent state and local taxes. Partially offsetting the increase was the impact of the lower mix of Canadian income from continuing operations as a percentage of our Company's loss from continuing operations in the first quarter of fiscal 2004 as compared to the first quarter of fiscal 2003.

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

We had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheet totaling \$0.3 million and a net non-current deferred tax liability which is included in "Other non-current liabilities" on our Consolidated Balance Sheet totaling \$14.9 million at June 19, 2004, relating to our Canadian operations.

5. Discontinued Operations

In February 2003, we announced the sale of a portion of our non-core assets, including nine of our stores in northern New England and seven stores in Madison, Wisconsin. In March 2003, we entered into an agreement to sell an additional eight stores in northern New England.

Also, during fiscal 2003, we adopted a formal plan to exit the Milwaukee, Wisconsin market, where 23 of our remaining 24 Kohl's stores were located, as well as our Eight O'Clock Coffee business, through the sale and/or disposal of these assets.

Upon the decision to sell these businesses, we applied the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") to these properties held for sale. SFAS 144 requires properties held for sale to be classified as a current asset and valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, we considered, where available, the binding sale agreements related to these properties as an estimate of the assets' fair value. As a result of the adoption of SFAS 144, \$22.1 million in net property was reclassified as held for sale as of February 22, 2003, and included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets. Of this amount, \$12.4 million related to northern New England locations and \$9.7 million related to Kohl's locations. These assets were no longer depreciated after this date.

We have accounted for all of these separate business components as discontinued operations in accordance with SFAS 144. In determining whether a store or group of stores qualifies as discontinued operations treatment, we include only those stores for which (i.) the operations and cash flows will be eliminated from our ongoing operations as a result of the disposal and (ii.) we will not have any significant continuing involvement in the operations of the stores after the disposal. In making this determination, we consider the geographic location of the stores. If the operations and cash flows of stores to be disposed of are replaced by other operations and cash flows of stores in the same geographic district, we would not include the stores as discontinued operations.

Amounts in the financial statements and related notes for all periods shown have been reclassified to reflect the discontinued operations. Summarized below are the operating results for these discontinued businesses, which are included in our Consolidated Statements of Operations, under the caption "Loss from operations of discontinued businesses, net of tax" for the 16 weeks ended June 19, 2004 and June 14, 2003 and the results of disposing these businesses which were included in "Gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for the 16 weeks ended June 14, 2003.

16 Weeks Ended June 19, 2004

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

	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
Income (loss) from operations of discontinued businesses				
Sales	\$ -	\$ -	\$ -	\$ -
Operating expenses	-	24	-	
Income from operations	-	24	-	
Disposal costs:				
Severance and benefits	(326)	-	-	
Non-accruable closing costs	(42)	(222)	(590)	
Interest accretion on present value of future occupancy costs	(3)	(224)	-	
Total disposal costs	(371)	(446)	(590)	(1,407)
Loss from operations of discontinued businesses, before tax	(371)	(422)	(590)	(1,383)
Tax provision	-	-	-	
Loss from operations of discontinued businesses, net of tax	\$ (371)	\$ (422)	\$ (590)	\$ (1,383)

16 Weeks Ended June 14, 2003

	Northern New England	Kohl's	Eight O'Clock Coffee	Tot
Income (loss) from operations of discontinued businesses				
Sales	\$ 32,726	\$ 84,735	\$ 25,172	\$ 142,633
Operating expenses	(35,367)	(87,193)	(18,227)	(140,787)
(Loss) gain from operations	(2,641)	(2,458)	6,945	1,846
Disposal costs:				
Property impairments	-	(15,217)	-	(15,217)
Pension withdrawal liability	-	(4,000)	-	(4,000)
Non-accruable closing costs	565	10	(1,123)	(548)
Total disposal costs	565	(19,207)	(1,123)	(19,765)
(Loss) gain from operations of discontinued businesses, net of tax				

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

discontinued businesses, before tax	(2,076)	(21,665)	5,822	(17,843)
Income tax benefit (provision)	748	7,810	(2,098)	6,460
(Loss) income from operations of discontinued businesses, net of tax	<u>\$ (1,328)</u>	<u>\$ (13,855)</u>	<u>\$ 3,724</u>	<u>\$ (11,131)</u>
Gain (loss) from disposal of discontinued businesses				
Gain on sale of property	\$ 85,983	\$ 8,827	\$ -	\$ 94,810
Gain on sale of inventory	1,645	-	-	1,645
Occupancy related costs	(3,993)	(310)	-	(4,303)
Severance and benefits	(2,670)	(812)	-	(3,482)
Non-accruable inventory costs	-	(1,297)	-	(1,297)
Non-accruable closing costs	(3,170)	(2,763)	-	(5,933)
Gain on disposal of discontinued businesses, before tax	77,795	3,645	-	81,440
Tax provision	(28,045)	(1,314)	-	(29,359)
Gain on disposal of discontinued businesses, net of tax	<u>\$ 49,750</u>	<u>\$ 2,331</u>	<u>\$ -</u>	<u>\$ 52,081</u>

Northern New England

As previously stated, as part of our strategic plan we decided to exit the northern New England market by closing and/or selling 21 stores in that region in order to focus on our core geographic markets. As a result of these sales, we generated proceeds of \$117.5 million, resulting in a gain of \$77.8 million (\$49.8 million after tax). This gain was included in "Gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for the 16 weeks ended June 14, 2003. Included in these amounts were occupancy related costs for locations not sold of \$4.0 million, severance and related costs of \$2.7 million, non-accruable closing costs of \$3.2 million and a gain of \$1.6 million from inventory disposals. During the first quarter of fiscal 2004, we incurred additional costs to wind down our operations in this region subsequent to the sale of these stores of \$0.4 million primarily related to additional severance costs which were included in "Loss from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations.

The following table summarizes the reserve activity during fiscal 2003 and the first quarter of 2004 related to the exit of the northern New England market:

Occupancy	Severance and Benefits	Total
-----	-----	-----

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

Fiscal 2003 charge (1)	\$ 3,993	\$ 2,670	\$ 6,663
Additions (1)	6	-	6
Utilization (2)	(3,547)	(2,612)	(6,159)
	-----	-----	-----
Balance at February 28, 2004	\$ 452	\$ 58	\$ 510
Additions (1)	3	326	329
Utilization (2)	(22)	(383)	(405)
	-----	-----	-----
Balance at June 19, 2004	\$ 433	\$ 1	\$ 434
	=====	=====	=====

- (1) The fiscal 2003 charge to occupancy consists of \$4.0 million related to expected future occupancy costs such as rent, common area maintenance and real estate taxes. The additions to occupancy for both periods presented represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The fiscal 2003 charge to severance and benefits of \$2.7 million related to severance to be paid to employees terminated as a result of our exit from the northern New England market. The first quarter of fiscal 2004 charge to severance and benefits of \$0.3 million related to additional severance required to be paid to employees terminated in accordance with a union contract as a result of our exit from the northern New England market.
- (2) Occupancy utilization represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance and benefits utilization represents payments made to terminated employees during the period.

We paid \$3.6 million of the total occupancy charges from the time of the original charge through June 19, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$3.0 million of the total net severance charges from the time of the original charges through June 19, 2004, which resulted from the termination of approximately 300 employees. The remaining occupancy liability of \$0.4 million relates to expected future payments under long term leases and is expected to be paid out in full by 2007. The remaining severance liability relates to expected future payments for severance and benefits to individual employees and will be fully paid out by mid-2004.

At June 19, 2004 and February 28, 2004, \$0.2 million and \$0.3 million, respectively, of the northern New England exit reserves was included in "Other accruals" and \$0.2 million and \$0.2 million, respectively, was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of \$0.4 million as of June 19, 2004 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

Kohl's Market
Madison

As previously stated, as part of our strategic plan we decided to exit the Kohl's-Madison market by selling 7 stores and closing 1 store in that region in order to focus on our core geographic markets. As a result of this sale, we

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

generated proceeds of \$20.1 million, resulting in a gain of \$3.6 million (\$2.3 million after tax). This gain was included in "Gain on disposal of discontinued operations, net of tax" on our Consolidated Statements of Operations for the 16 weeks ended June 14, 2003. Included in these amounts were occupancy related costs for locations not sold of \$0.3 million, severance and related costs of \$0.8 million, non-accruable closing costs of \$2.8 million and a loss of \$1.3 million from inventory disposals.

Milwaukee

As previously stated, we adopted a formal plan to exit the Kohl's-Milwaukee market, where 23 of our remaining 24 Kohl's stores were located, by closing and/or selling these locations. Upon our initial decision to exit the Kohl's stores located in Milwaukee, Wisconsin, we estimated the assets' fair market value using a probability weighted average approach based upon expected proceeds and recorded impairment losses on the property at the remaining Kohl's locations of \$15.2 million. Further, we participate in various multi-employer union pension plans, which are administered jointly by management and union representatives and in which most full-time and certain part-time union employees who are not covered by our other pension plans participate. The decision to close our Kohl's stores and terminate our participation in these plans triggered our Company's liability for our unfunded vested benefits or other expenses under these jointly administered union/management plans. As a result, we recorded expense for these plans of approximately \$4.0 million for the 16 weeks ended June 14, 2003. These amounts, as well as the tax benefit of \$7.8 million are included in "Loss from operations of discontinued businesses, net of tax" in our Consolidated Statements of Operations for the 16 weeks ended June 14, 2003.

The following table summarizes the reserve activity during fiscal 2003 and the 16 weeks ended June 19, 2004 related to the exit of the Kohl's market:

	Occupancy	Severance and Benefits	Total
	-----	-----	-----
Fiscal 2003 charge (1)	\$ 25,487	\$ 13,062	\$ 38,549
Additions (2)	352	-	352
Utilization (3)	(5,342)	(8,228)	(13,570)
Adjustments (4)	(1,458)	-	(1,458)
	-----	-----	-----
Balance at February 28, 2004	\$ 19,039	\$ 4,834	\$ 23,873
Additions (2)	224	-	224
Utilization (3)	(1,396)	(969)	(2,365)
	-----	-----	-----
Balance at June 19, 2004	\$ 17,867	\$ 3,865	\$ 21,732
	=====	=====	=====

- (1) The fiscal 2003 charge to occupancy consists of \$25.5 million related to future occupancy costs such as rent, common area maintenance and real estate taxes, which was recorded subsequent to the first quarter of fiscal 2003. The fiscal 2003 charge to severance and benefits of

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

\$13.1 million related to severance costs of \$6.6 million and costs for future obligations for early withdrawal from multi-employer union pension plans and a health and welfare plan of \$6.5 million, of which \$4.0 million was recorded in the first quarter of fiscal 2003.

- (2) The fiscal 2003 and the first quarter of fiscal 2004 additions to occupancy of \$0.3 million and \$0.2 million, respectively, relate to interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.
- (3) Occupancy utilization represents vacancy related payments for closed locations such as rent, common area maintenance, real estate taxes and lease termination payments. Severance and benefits utilization represents payments made to terminated employees during the period and payments for pension withdrawal.
- (4) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. During fiscal 2003, we recorded net adjustments of \$1.5 million primarily related to reversals of previously accrued vacancy related costs due to favorable results of terminating and subleasing certain locations of \$4.5 million offset by additional vacancy accruals of \$3.0 million.

We paid \$6.7 million of the total occupancy charges from the time of the original charge through June 19, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$9.2 million of the total severance charges from the time of the original charges through June 19, 2004, which resulted from the termination of approximately 2000 employees. The remaining occupancy liability of \$17.9 million relates to expected future payments under long term leases and is expected to be paid out in full by 2020. The remaining severance liability of \$3.9 million relates to future obligations for early withdrawal from multi-employer union pension plans, and individual severance payments, which will be paid by mid-2006.

At June 19, 2004 and February 28, 2004, \$8.1 million and \$4.8 million, respectively, of the Kohl's exit reserves was included in "Other accruals" and \$13.6 million and \$19.1 million, respectively, was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of \$21.7 million as of June 19, 2004 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

Eight O'Clock Coffee

During the 16 weeks ended June 14, 2003, we were in the process of selling our Eight O'Clock Coffee business. As a result of this decision, we included certain professional services costs amounting to \$1.1 million, the operating profits of this business of \$6.9 million and the tax provision of \$2.1 million in "Loss from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for the 16 weeks ended June 14, 2003.

Additional costs incurred to wind down our operations in this business subsequent to the sale of \$0.6 million were included in "Loss from operations of discontinued businesses, net of tax" on our Consolidated Statements of Operations for 16 weeks ended June 19, 2004.

6. Asset Disposition Initiative

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

Overview

 In fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets (Project Great Renewal). In addition, during the third quarter of fiscal 2001, we announced that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) would be closed and/or sold, and certain administrative streamlining would take place (2001 Asset Disposition). During the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets (Farmer Jack Restructuring).

Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 16 weeks ended June 19, 2004 and June 14, 2003. Present value ("PV") interest represents interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. Non-accruable items represent charges related to the restructuring that are required to be expensed as incurred in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities".

	16 Weeks Ended June 19, 2004				16 Weeks	
	Project Great Renewal	2001 Asset Disposition	Farmer Jack Restructuring	Total	Project Great Renewal	2001 Asset Disposi
Balance Sheet accruals						
PV interest	\$ 630	\$ 781	\$ 222	\$ 1,633	\$ 828	\$
Total accrued to balance sheets	630	781	222	1,633	828	
Non-accruable items recorded on Statements of Operations						
Property writeoffs	-	-	90	90	-	
Inventory markdowns	-	-	291	291	-	
Closing costs	-	-	680	680	-	
Total non-accruable items	-	-	1,061	1,061	-	
Less PV interest	(630)	(781)	(222)	(1,633)	(828)	(
Total amount recorded						

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

on Statements of
Operations and
Statements of Cash
Flows excluding
PV interest

-	-	1,061	1,061	-
=====	=====	=====	=====	=====

Project Great Renewal

In May 1998, we initiated an assessment of our business operations in order to identify the factors that were impacting our performance. As a result of this assessment, in fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores (156 in the United States and 10 in Canada) including the exit of the Richmond, Virginia and Atlanta, Georgia markets. As of June 19, 2004, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative over the last three fiscal years:

	Occupancy			Severance and Benefits			U.S.
	U.S.	Canada	Total	U.S.	Canada	Total	
Balance at							
February 24, 2001	\$ 82,189	\$ 672	\$ 82,861	\$ 2,721	\$ -	\$ 2,721	\$ 84,9
Addition (1)	3,500	318	3,818	-	-	-	3,5
Utilization (2)	(22,887)	(415)	(23,302)	(544)	-	(544)	(23,4
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 23, 2002	\$ 62,802	\$ 575	\$ 63,377	2,177	\$ -	\$ 2,177	64,9
Addition (1)	2,861	298	3,159	-	-	-	2,8
Utilization (2)	(13,230)	(386)	(13,616)	(370)	-	(370)	(13,6
Adjustments (3)	(3,645)	-	(3,645)	639	-	639	(3,0
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 22, 2003	\$ 48,788	\$ 487	\$ 49,275	\$ 2,446	\$ -	\$ 2,446	\$ 51,2
Addition (1)	2,276	372	2,648	-	-	-	2,2
Utilization (2)	(19,592)	(407)	(19,999)	(289)	-	(289)	(19,8
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 28, 2004	\$ 31,472	\$ 452	\$ 31,924	\$ 2,157	\$ -	\$ 2,157	\$ 33,6
Addition (1)	622	8	630	-	-	-	6
Utilization (2)	(1,777)	(40)	(1,817)	(62)	-	(62)	(1,8
	-----	-----	-----	-----	-----	-----	-----
Balance at							

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

June 19, 2004	\$ 30,317	\$ 420	\$ 30,737	\$ 2,095	\$ -	\$ 2,095	\$ 32,4
	=====	=====	=====	=====	=====	=====	=====

- (1) The additions to store occupancy of \$3.8 million, \$3.2 million and \$2.6 million during fiscal 2001, 2002 and 2003, respectively, and \$0.6 million during the 16 weeks ended June 19, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge.
- (2) Occupancy utilization of \$23.3 million, \$13.6 million and \$20.0 million for fiscal 2001, 2002 and 2003, respectively, and \$1.8 million during the 16 weeks ended June 19, 2004 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of \$0.5 million, \$0.4 million and \$0.3 million for fiscal 2001, 2002 and 2003, respectively, and \$0.1 million during the 16 weeks ended June 19, 2004 represents payments to individuals for severance and benefits, as well as payments to pension funds for early withdrawal from multi-employer union pension plans.
- (3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. We have continued to make favorable progress in marketing and subleasing the closed stores. As a result, during fiscal 2002, we recorded a reduction of \$3.6 million in occupancy accruals related to this phase of the initiative. Further, we increased our reserve for future minimum pension liabilities by \$0.6 million to better reflect expected future payouts under certain collective bargaining agreements.

We paid \$94.5 million of the total occupancy charges from the time of the original charges through June 19, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$29.5 million of the total net severance charges from the time of the original charges through June 19, 2004, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of \$30.7 million relates to expected future payments under long term leases and is expected to be paid in full by 2020. The remaining severance liability of \$2.1 million primarily relates to expected future payments for early withdrawals from multi-employer union pension plans and will be fully paid out in 2020.

None of these stores were open during either of the first quarters of fiscal 2003 or 2004. As such, there was no impact on the Statements of Consolidated Operations from the 166 stores included in this phase of the initiative.

At both June 19, 2004 and February 28, 2004, approximately \$6.2 million of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Based upon current available information, we evaluated the reserve balances as of June 19, 2004 of \$32.8 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

2001 Asset Disposition

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from our review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of

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

this review, our Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) should be closed and/or sold, and certain administrative streamlining should take place. As of June 19, 2004, we had closed all stores and facilities related to this phase of the initiative.

The following table summarizes the activity related to this phase of the initiative recorded on the Consolidated Balance Sheets since the announcement of the charge in November 2001:

	Occupancy			Severance and Benefits			U.S.
	U.S.	Canada	Total	U.S.	Canada	Total	
Original charge	\$ 78,488	\$ 1,968	\$ 80,456	\$ 15,688	\$ 7,747	\$ 23,435	\$ 94,1
Addition (1)	1,653	20	1,673	-	-	-	1,6
Utilization (2)	(1,755)	(51)	(1,806)	(1,945)	(946)	(2,891)	(3,7
Adjustments (3)	-	-	-	-	(584)	(584)	
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 23, 2002	\$ 78,386	\$ 1,937	\$ 80,323	13,743	\$ 6,217	\$ 19,960	\$ 92,1
Addition (1)	4,041	49	4,090	2,578	966	3,544	6,6
Utilization (2)	(18,745)	(1,642)	(20,387)	(12,508)	(6,952)	(19,460)	(31,2
Adjustments (3)	(10,180)	-	(10,180)	-	250	250	(10,1
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 22, 2003	\$ 53,502	\$ 344	\$ 53,846	\$ 3,813	\$ 481	\$ 4,294	\$ 57,3
Addition (1)	2,847	3	2,850	-	-	-	2,8
Utilization (2)	(9,987)	(974)	(10,961)	(2,457)	(1,026)	(3,483)	(12,4
Adjustments (3)	(6,778)	1,002	(5,776)	955	603	1,558	(5,8
	-----	-----	-----	-----	-----	-----	-----
Balance at							
February 28, 2004	\$ 39,584	\$ 375	\$ 39,959	\$ 2,311	\$ 58	\$ 2,369	\$ 41,8
Addition (1)	781	-	781	-	-	-	7
Utilization (2)	(1,680)	(7)	(1,687)	(36)	(57)	(93)	(1,7
	-----	-----	-----	-----	-----	-----	-----
Balance at							
June 19, 2004	\$ 38,685	\$ 368	\$ 39,053	\$ 2,275	\$ 1	\$ 2,276	\$ 40,9
	=====	=====	=====	=====	=====	=====	=====

(1) The additions to store occupancy of \$1.7 million, \$4.1 million and \$2.9 million during fiscal 2001, 2002 and 2003, respectively, and \$0.8 million during the 16 weeks ended June 19, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The addition to severance of \$3.5 million during fiscal 2002 related to retention and productivity incentives that were accrued as earned.

(2) Occupancy utilization of \$1.8 million, \$20.4 million and \$11.0 million during fiscal 2001, 2002 and 2003, respectively, and \$1.7 million during the 16 weeks ended June 19, 2004 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of

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

\$2.9 million, \$19.5 million and \$3.5 million during fiscal 2001, 2002 and 2003, respectively, and \$0.1 million during the 16 weeks ended June 19, 2004 represent payments made to terminated employees during the period.

(3) At each balance sheet date, we assess the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. Under Ontario provincial law, employees to be terminated as part of a mass termination are entitled to receive compensation, either worked or paid as severance, for a set period of time after the official notice date. Since such closures took place later than originally expected, less time remained in the aforementioned guarantee period. As a result, during fiscal 2001, we recorded an adjustment to severance and benefits of \$0.6 million related to a reduction in the severance payments required to be made to certain store employees in Canada. Further, during fiscal 2002, we recorded adjustments of \$10.2 million related to reversals of previously accrued occupancy related costs due to the following:

- o Favorable results of assigning leases at certain locations of \$3.6 million;
- o The decision to continue to operate one of the stores previously identified for closure due to changes in the competitive environment in the market in which that store is located of \$3.3 million; and
- o The decision to proceed with development at a site that we had chosen to abandon at the time of the original charge due to changes in the competitive environment in the market in which that site is located of \$3.3 million.

During fiscal 2003, we recorded net adjustments of \$5.8 million related to reversals of previously accrued occupancy costs due to favorable results of subleasing, assigning and terminating leases. We also accrued \$1.6 million for additional severance and benefit costs that were unforeseen at the time of the original charge.

We paid \$34.8 million (\$32.1 million in the U.S. and \$2.7 million in Canada) of the total occupancy charges from the time of the original charges through June 19, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$25.9 million (\$16.9 million in the U.S. and \$9.0 million in Canada) of the total net severance charges from the time of the original charges through June 19, 2004, which resulted from the termination of approximately 1,100 employees. The remaining occupancy liability of \$39.1 million primarily relates to expected future payments under long term leases through 2017. The remaining severance liability of \$2.3 million relates to expected future payments for severance and benefits payments to individual employees and will be fully paid out by 2006.

At June 19, 2004 and February 28, 2004 approximately \$11.8 million and \$11.6 million of the reserve, respectively, was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations for the first quarters of fiscal 2004 and 2003 are the sales and operating results of the 39 stores that were identified for closure as part of this asset disposition. The results of these operations are as follows:

	June 19, 2004	June 14, 2003
	-----	-----
Sales	\$ -	\$ 316

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

	=====	=====
Operating loss	\$ -	\$ (72)
	=====	=====

Based upon current available information, we evaluated the reserve balances as of June 19, 2004 of \$41.3 million for this phase of the asset disposition initiative and have concluded that they are adequate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary.

Farmer Jack Restructuring

As previously stated, during the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets. In addition to the charge of \$37.7 million related to the last phase of this initiative (\$2.2 million in "Cost of merchandise sold" and \$35.5 million in "Store operating, general and administrative expense" in our Consolidated Statement of Operations for fiscal 2003), we recorded costs in the first quarter of fiscal 2004 of \$1.1 million (\$0.3 million in "Cost of merchandise sold" and \$0.8 million in "Store operating, general and administrative expense") as follows:

	16 Weeks Ended June 19, 2004	53 Weeks Ended February 28, 2004
	-----	-----
Occupancy related	\$ -	\$ 20,999
Severance and benefits	-	8,930
Property writeoffs	90	4,129
Nonaccruable closing costs	680	1,449
Inventory markdowns	291	2,244
	-----	-----
Total charges	\$ 1,061	\$ 37,751
	=====	=====

As of June 19, 2004, we had closed all 6 stores and successfully completed the conversions related to this phase of the initiative. The following table summarizes the activity to date related to the charges recorded for the aforementioned initiatives all of which were in the U.S. The table does not include property writeoffs as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles.

	Occupancy	Severance and Benefits	Total
	-----	-----	-----
Original charge (1)	\$ 20,999	\$ 8,930	\$ 29,929
Addition (1)	56	-	56
Utilization (2)	(1,093)	(4,111)	(5,204)
	-----	-----	-----
Balance at February 28, 2004	\$ 19,962	\$ 4,819	\$ 24,781
Addition (1)	222	-	222

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

Utilization (2)	(2,356)	(4,157)	(6,513)
	-----	-----	-----
Balance at			
June 19, 2004	\$ 17,828	\$ 662	\$ 18,490
	=====	=====	=====

- (1) The original charge to occupancy during fiscal 2003 represents charges related to closures and conversions in the Detroit, Michigan market of \$21.0 million. The additions to occupancy during fiscal 2003 and the 16 weeks ended June 19, 2004 represent interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The original charge to severance during fiscal 2003 of \$8.9 million related to individual severings as a result of the store closures, as well as a voluntary termination plan initiated in the Detroit, Michigan market.
- (2) Occupancy utilization of \$1.1 million and \$2.4 million during fiscal 2003 and the 16 weeks ended June 19, 2004, respectively, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of \$4.1 million and \$4.2 million during fiscal 2003 and the 16 weeks ended June 19, 2004, respectively, represent payments made to terminated employees during the period.

We paid \$3.4 million of the total occupancy charges from the time of the original charge through June 19, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid \$8.3 million of the total net severance charges from the time of the original charges through June 19, 2004, which resulted from the termination of approximately 300 employees. The remaining occupancy liability of \$17.8 million relates to expected future payments under long term leases and is expected to be paid out in full by 2014. The remaining severance liability of \$0.7 million relates to expected future payments for severance and benefits to individual employees and will be fully paid out by mid-2005.

Included in the Statements of Consolidated Operations for the first quarters of fiscal 2004 and 2003 are the sales and operating results of the 6 stores that were identified for closure as part of this phase of the initiative. The results of these operations are as follows:

	16 Weeks Ended	
	June 19, 2004	June 14, 2003
	-----	-----
Sales	\$ 2,433	\$ 16,966
	=====	=====
Operating loss	\$ (43)	\$ (2,479)
	=====	=====

At June 19, 2004 and February 28, 2004, approximately \$2.9 million and \$9.0 million, respectively, of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets.

We have evaluated the liability balance of \$18.5 million as of June 19, 2004 based upon current available information and have concluded that it is adequate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

7. Retirement Plans and Benefits

Defined Benefit Plans

We provide retirement benefits to certain non-union and union employees under various defined benefit plans. Our defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. We fund these plans in amounts consistent with the statutory funding requirements. The components of net pension cost were as follows:

	For the 16 Weeks End		
	June 19, 2004		
	U.S.	Canada	U.
Service cost	\$ 1,115	\$ 2,573	\$
Interest cost	2,617	3,848	2
Expected return on plan assets	(3,043)	(4,979)	(6
Amortization of unrecognized net transition asset	(4)	-	
Amortization of unrecognized net prior service cost	29	143	
Amortization of unrecognized net (gain) loss	(40)	565	3
Administrative expenses and other	-	81	
	-----	-----	-----
Net pension cost	\$ 674	\$ 2,231	\$
	=====	=====	=====

Contributions

We previously disclosed in our consolidated financial statements for the year ended February 28, 2004, that we expected to contribute \$2.0 million in cash to our defined benefit plans in fiscal 2004. As of June 19, 2004, these contributions have not been made; however, we continue to expect to contribute this amount during fiscal 2004.

Postretirement Benefits

We provide postretirement health care and life benefits to certain union and non-union employees. We recognize the cost of providing postretirement benefits during employees' active service periods. The components of net postretirement benefits (income) cost are as follows:

For the 16 Weeks End

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

	June 19, 2004		U
	U.S.	Canada	
Service cost	\$ 88	\$ 72	\$
Interest cost	391	197	
Prior service cost	(414)	(156)	
Amortization of gain	(84)	105	
Net postretirement benefits (income) cost	\$ (19)	\$ 218	\$

8. Stock Based Compensation

We apply the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") with pro forma disclosure of compensation expense, net income or loss and earnings per share as if the fair value based method prescribed by SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") had been applied.

Had compensation cost for our stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123 and SFAS 148, our net (loss) income and net (loss) income per share would have been reduced to the pro forma amounts indicated below:

	16 Weeks	
	June 19, 2004	
Net (loss) income, as reported:	\$	(42,846)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,287)
Pro forma net (loss) income	\$	(44,133)
Net (loss) income per share - basic:		
As reported	\$	(1.11)
Pro forma	\$	(1.15)

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

Net income (loss) per share - diluted:	
As reported	\$ (1.11)
Pro forma	\$ (1.15)

The pro forma effect on net income and net income per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants.

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	16 Weeks
	----- June 19, 2004 -----
Expected life	7 years
Volatility	53%
Dividend yield range	0%
Risk-free interest rate range	3.20%-3.38%

9. Operating Segments

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

We currently operate in two reportable segments: United States and Canada. The segments are comprised of retail supermarkets in the United States and Canada. The accounting policies for the segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2003 Annual Report. We measure segment performance based upon income (loss) from operations.

Interim information on segments is as follows:

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

	June 19, 2002
Sales	
United States	\$ 2,235
Canada	1,050
Total Company	\$ 3,286
Depreciation and amortization	
United States	\$ 62
Canada	18
Total Segments	81
Discontinued operations	
Total Company	\$ 81
(Loss) income from operations	
United States	\$ (22)
Canada	14
Total Company	\$ (8)
(Loss) income from continuing operations before income taxes	
United States	\$ (46)
Canada	10
Total Company	\$ (36)
Capital expenditures	
United States	\$ 40
Canada	15
Total Company	\$ 55
Total assets	
United States	\$ 1,970
Canada	757
Total Company	\$ 2,728

10. Commitments and Contingencies

In April 2002, three Canadian Food Basics franchisees commenced a breach of contract action in a Canadian court against The Great Atlantic & Pacific Company of Canada, Limited ("A&P Canada") as representative plaintiffs for a purported

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

class of approximately 70 current and former Canadian Food Basics franchisees. The lawsuit seeks unspecified damages in connection with A&P Canada's alleged

failure to distribute to the franchisees the full amount of vendor allowances and/or rebates to which the franchisees claim they are entitled under the operative franchise agreements. A&P Canada disputes the plaintiff-franchisees' claim and has filed a counterclaim seeking to recover subsidies made by it to the plaintiffs. The lawsuit was certified as a class action in December 2002. A majority of the class members have opted out of the proceeding. A&P Canada's app