GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
October 14, 2008

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

FORM 10-Q

Mark One

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

For the quarterly period ended September 6, 2008

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 [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if smaller reporting company)
Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES [ ] NO [X]

As of October 10, 2008 the Registrant had a total of 57,663,217 shares of common stock - $1 par value outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

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

	12 Weeks Ended		
	Sept. 6, 2008	Sept. 8, 2007	Sept. 6,
Sales	$ 2,182,636	$ 1,274,338	$ 5,1
Cost of merchandise sold	(1,531,093)	(875,701)	(3,5
Gross margin	651,543	398,637	1,5
Store operating, general and administrative expense	(663,066)	(391,247)	(1,5
(Loss) income from operations	(11,523)	7,390	
Loss on sale of Canadian operations	-	(5)	
Gain on sale of shares of Metro, Inc.	-	-	
Nonoperating income	42,895	-	
Interest expense	(33,945)	(14,594)	(
Interest and dividend income	57	3,655	
Equity in earnings of Metro, Inc.	-	-	
(Loss) income from continuing operations before income taxes	(2,516)	(3,554)	
(Provision for) benefit from income taxes	(1,038)	615	
(Loss) income from continuing operations	(3,554)	(2,939)	
Discontinued operations:			
Loss from operations of discontinued businesses, net of tax provision of $0 for the 12 and 28 weeks ended 9/6/08 and 9/8/07, respectively	(13,995)	(86,347)	(
Gain (loss) on disposal of discontinued businesses, net of tax provision of $0 for the 12 and 28 weeks ended 9/6/08 and 9/8/07, respectively	183	(2,036)	
Loss from discontinued operations	(13,812)	(88,383)	(
Net loss	$ (17,366)	$ (91,322)	$ (
Net (loss) income per share - basic:			
Continuing operations	$ (0.07)	$ (0.07)	$
Discontinued operations	(0.28)	(2.11)	
Net loss per share - basic	$ (0.35)	$ (2.18)	$

Net (loss) income per share - diluted:			
Continuing operations	$ (1.50)	$ (0.07)	$
Discontinued operations	(0.25)	(2.11)	
Net loss per share - diluted	$ (1.75)	$ (2.18)	$
Weighted average number of common shares outstanding			
Basic	49,520,525	41,933,470	49,4
Diluted	55,823,900	42,358,715	58,3

See Notes to Quarterly Report

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

	Common Stock		Additional		Ac
	Shares	Amount	Paid-in Capital	Retained Earnings	
28 Week Period Ended September 6, 2008					
Balance at beginning of period	57,100,955	$ 57,101	$ 373,594	$ 16,423	
Net loss				(15,125)	
Other comprehensive loss					
Financing warrants and conversion features related to convertible debt			57,422		
Stock options exercised	106,309	106	2,095		
Other share based awards	455,936	456	6,549		
Balance at end of period	57,663,200	$ 57,663	$ 439,660	$ 1,298	
28 Week Period Ended September 8, 2007					
Balance at February 24, 2007, as previously reported	41,589,195	$ 41,589	$ 212,868	$ 153,325	
Impact of the adoption of change in measurement date under FAS 158				(643)	
Cumulative impact of the adoption of FIN 48				24,421	
Balance at beginning of period,					

as adjusted	41,589,195	41,589	212,868	177,103
Net loss				(156,464)
Other comprehensive income				
Stock options exercised	363,023	363	5,734	
Tax benefit on stock options			1,776	
Other share based awards	6,597	7	5,297	
Balance at end of period	41,958,815	$ 41,959	$ 225,675	$ 20,639

Comprehensive (Loss) Income

	12 Weeks Ended		
	Sept. 6, 2008	Sept. 8, 2007	Sept. 6,
Net loss	$ (17,366)	$ (91,322)	$ (
Foreign currency translation adjustment, net of tax	-	8,513	
Net unrealized (loss) gain on investment securities, net of tax	-	(6,355)	
Net unrealized gain on marketable securities, net of tax	-	-	
Pension and other post-retirement benefits, net of tax	(250)	(381)	
Other comprehensive (loss) income, net of tax	(250)	1,777	
Total comprehensive (loss) income	$ (17,616)	$ (89,545)	$ (

Accumulated Other Comprehensive (Loss) Income Balances

	Foreign Currency Translation	Net Unrealized Gain on Investment Securities	Net Unrealized (Loss) Gain on Marketable Securities
Balance at February 23, 2008	$ -	$ -	$ -
Current period change	-	-	-
Balance at September 6, 2008	$ -	$ -	$ -
Balance at February 24, 2007	$ 9,710	$ -	$ (22)
Current period change	24,558	115,385	22
Balance at September 8, 2007	$ 34,268	$ 115,385	$ -

See Notes to Quarterly Report

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

	September 6, 2008
ASSETS	(Unaudited)
Current assets:	
Cash and cash equivalents	$ 131,041
Restricted cash	2,674
Restricted marketable securities	3,003
Accounts receivable, net of allowance for doubtful accounts of $10,324 and $6,152 at September 6, 2008 and February 23, 2008, respectively	186,193
Inventories	525,872
Prepaid expenses and other current assets	93,615
Total current assets	942,398
Non-current assets:	
Property:	
Property owned, net	1,683,732
Property leased under capital leases, net	140,073
Property - net	1,823,805
Goodwill	447,635
Intangible assets, net	229,106
Other assets	258,013
Total assets	$ 3,700,957
LIABILITIES & STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 11,662
Current portion of obligations under capital leases	11,706
Current portion of other financial liabilities	-
Accounts payable	262,068
Book overdrafts	71,556
Accrued salaries, wages and benefits	143,275
Accrued taxes	48,742
Other accruals	239,078
Total current liabilities	788,087
Non-current liabilities:	
Long-term debt	883,182
Long-term obligations under capital leases	151,883
Long-term real estate liabilities	345,765
Deferred real estate income	78,637
Other financial liabilities	30,138
Other non-current liabilities	954,209

Total liabilities	3,231,901
Commitments and contingencies	
Stockholders' equity:	
Preferred stock--no par value; authorized - 3,000,000 shares; issued - none	-
Common stock--$1 par value; authorized - 160,000,000 shares; issued and outstanding - 57,663,200 and 57,100,955 shares at September 6, 2008 and February 23, 2008, respectively	57,663
Additional paid-in capital	439,660
Accumulated other comprehensive loss	(29,565)
Retained earnings	1,298
Total stockholders' equity	469,056
Total liabilities and stockholders' equity	$ 3,700,957

See Notes to Quarterly Report

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

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	Sept. 6, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (15,12
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Asset disposition initiatives	4,91
Depreciation and amortization	140,82
(Gain) loss on disposal of owned property and write-down of property, net	(44
(Gain) loss on disposal of discontinued operations	(2,82
Other property impairments	1,78
Loss on sale of Canadian operations	
Nonoperating income	(91,49
Other share based awards	7,00
Equity in earnings of Metro, Inc.	
Gain on sale of shares of Metro, Inc.	
Other changes in assets and liabilities:	
(Increase) decrease in receivables	(15,58
(Increase) decrease in inventories	(20,62
Increase in prepaid expenses and other current assets	(18,99
Increase in other assets	(9,01
Increase (decrease) in accounts payable	50,46
Decrease in accrued salaries, wages, benefits and taxes	(23,65
Increase in other accruals	8,13
(Decrease) increase in other non-current liabilities	(51,45
Other operating activities, net	5,26
Net cash (used in) provided by operating activities	(30,82

CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures for property	(59,44
Proceeds from disposal of property	6,13
Disposal related expenditures for sale of Canadian operations	
Decrease (increase) in restricted cash	1,03
Proceeds from the sale of shares of Metro, Inc.	
Proceeds from maturities of restricted marketable securities	7,05
Net cash (used in) provided by investing activities	(45,22
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds under revolving lines of credit	1,378,94
Principal payments on revolving lines of credit	(1,270,95
Proceeds under line of credit	54,80
Principal payments on line of credit	(55,02
Proceeds from promissory note	10,00
Payments on long term borrowings	(16
Settlement of Series A warrants	(45,73
Long term real estate liabilities	2
Principal payments on capital leases	(4,24
Increase (decrease) in book overdrafts	35,12
Deferred financing fees	1,41
Tax benefit on stock options	
Proceeds from exercises of stock options	2,20
Net cash provided by (used in) financing activities	106,38
Effect of exchange rate changes on cash and cash equivalents	(2
Net increase (decrease) in cash and cash equivalents	30,30
Cash and cash equivalents at beginning of period	100,73
Cash and cash equivalents at end of period	$ 131,04
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	$ 67,00
Cash paid during the year for income taxes	$ 1,99

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)
(Unaudited)

1. Basis of Presentation

The accompanying Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008 and September 8, 2007, Consolidated Statements of Stockholders' Equity and Comprehensive Income and Consolidated Statements of Cash Flows for the 28 weeks ended September 6, 2008 and September 8, 2007, and the Consolidated Balance Sheets at September 6, 2008 and February 23, 2008 of The Great Atlantic & Pacific Tea Company, Inc. ("We," "Our," "Us" or "Our Company"), are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary for a fair statement of financial position and results of operations for such periods. The consolidated financial statements should be read in conjunction with the

consolidated financial statements and related notes contained in our Fiscal 2007 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year.

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

As discussed in Note 8 - Discontinued Operations, the criteria necessary to classify the operations for the Midwest and the Greater New Orleans area as discontinued were satisfied during fiscal 2007 and as such, have been reclassified in our Consolidated Statements of Operations for all periods presented.

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. Impact of New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 (our year ending February 28, 2009). In February 2008, the FASB also issued Staff Position No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP FAS 157-1"). FSP FAS 157-1 excludes FASB Statement No. 13, "Accounting for Leases" ("SFAS 13"), as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under Statement 13, from the scope of SFAS 157. FSP FAS 157-1 is effective upon the initial adoption of SFAS 157.

In addition, in February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP FAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in FASB Statement No. 159, "The

Fair Value Option for Financial Assets and Financial Liabilities." FSP FAS 157-2 is effective upon issuance. Our Company adopted SFAS No. 157 as of February 24, 2008, with the exception of the application of the statement to nonrecurring nonfinancial assets and nonfinancial liabilities. Refer to Note 6 - Fair Value Measurements for further discussion.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007 (our

year ending February 28, 2009). The adoption of the provisions of SFAS 159 had no effect on our Company's consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statement with an enhanced understanding of (i.) how and why an entity uses derivative instruments, (ii.) how derivative instruments and the related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (iii.) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for years and interim periods beginning after November 15, 2008 (our year ended February 27, 2010). The effect of adopting SFAS 161 is not expected to have a significant effect on our reported financial position or earnings.

In April 2008, the FASB issued FSP 142-3, "Determining the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP 142-3 is effective for fiscal years beginning after December 15, 2008 (our year ended February 27, 2010). Our Company is currently assessing the impact of FSP 142-3 on our consolidated financial statements.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles ("GAAP") for nongovernmental entities. Prior to the issuance of SFAS 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants ("AICPA") Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SAS 69 has been criticized because it is directed to the auditor rather than the entity. SFAS 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity, not its auditor, that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. It is only effective for nongovernmental entities; therefore, the GAAP hierarchy will remain in SAS 69 for state and local governmental entities and federal governmental entities. We have evaluated the provisions of SFAS 162 and the guidance will not have an impact on our Company's financial condition or results of operations.

In May 2008, the FASB issued Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion ("FSP APB 14-1"). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (our year ended February 27, 2010), and interim periods within those fiscal years; however, early adoption is not permitted. Retrospective application to all periods presented is required except for instruments that

were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. We are currently assessing the impact of adopting FSP APB 14-1 on our financial condition and results of operations.

3. Acquisition of Pathmark Stores, Inc.

On December 3, 2007, our Company completed the acquisition of 100% of Pathmark for $1.4 billion in cash, stock, assumed or retired debt, warrants and options, in a transaction accounted for under SFAS No. 141 "Business Combinations" ("SFAS 141"). Pathmark is a regional supermarket chain with supermarkets in the New York, New Jersey and Philadelphia metropolitan areas.

Consent Agreement

On November 27, 2007, our Company announced that the Federal Trade Commission ("FTC") accepted a proposed consent agreement relating to our acquisition of Pathmark. The terms of the consent agreement required the divestiture of six stores located in the state of New York which were subsequently sold for a gain of $19.4 million in fiscal 2007.

Included in the Consolidated Statements of Operations for the 12 and 28 weeks ended September 8, 2007 are the sales and operating results of the five A&P stores that were divested. The sixth divested store was a Pathmark location and accordingly the results of operations of that store were not included in our results of operations. There were no such results for the 12 and 28 weeks ended September 6, 2008. The results of the five A&P store operations are as follows:

	12 weeks ended Sept. 8, 2007	28 weeks ended Sept. 8, 2007
Sales	$ 25,302	$ 59,359
Income from operations	$ 134	$ 477

Preliminary Purchase Price Allocation

The application of purchase accounting under SFAS 141 requires that the purchase price paid is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the transaction date. The allocation of the purchase price and its impact on the Consolidated Statements of Operations may differ depending on the final fair values assigned to amortizing assets and liabilities and their related actual remaining useful lives. Identified intangible assets, which are included in the consolidated balance sheets, consisted of the following:

At September 6, 2008

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization
Loyalty card customer relationships	7	$ 19,200	$ 2,110
In-store advertiser relationships	20	14,720	566
Pharmacy payor relationships	13	75,000	4,438
Pathmark trade name	Indefinite	127,300	-
Total		$ 236,220	$ 7,114

Amortization of intangible assets for the 12 and 28 weeks ended September 6, 2008 was approximately $2.2 million and $5.0 million, respectively.

The following table summarizes the estimated future amortization expense:

2008	$ 4,268
2009	9,248
2010	9,248
2011	9,248
2012	9,248
Thereafter	60,546

We have determined that the Pathmark trade name has an indefinite life, and accordingly, is not subject to amortization. The allocation of the purchase price to assets which will not be amortized may also impact classification on the balance sheet depending on the final fair values assigned.

Under the purchase method of accounting, the assets and liabilities of Pathmark were recorded at their respective fair values at the date of acquisition. Simultaneously, we recorded a preliminary amount to goodwill of $380.0 million. During the 28 weeks ended September 6, 2008, we increased our preliminary amount of goodwill from $380.0 million to $440.0 million at September 6, 2008. This increase primarily related to a Pathmark transportation agreement which is unfavorable to market based upon information which existed as of the acquisition. As a result, we recorded adjustments of approximately $63.3 million to our preliminary amount of goodwill. These adjustments resulted in a $0.1 million and $2.3 million reduction of operating expense during the 12 and 28 weeks ended September 6, 2008, respectively, relating to prior year.

We have preliminarily valued property, net, intangible assets, and certain other assets and liabilities. As we are finalizing these analyses, changes to the valuation of property may result in adjustments to the fair value of certain identifiable intangible assets acquired, and when finalized, adjustments to goodwill may result.

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The following table summarizes the preliminary estimated fair values of the Pathmark assets acquired and liabilities assumed at the date of acquisition:

Current assets	$ 352.0
Goodwill	440.0
Intangible assets	236.2
Property, net*	1,199.3
Other assets	150.1
Total assets acquired	$ 2,377.6
Current liabilities	(320.8)
Long-term debt	(1.2)
Long-term obligations under capital leases	(130.5)
Long-term financing liabilities	(64.1)
Deferred taxes**	(58.6)
Other non-current liabilities	(389.9)
Total liabilities assumed	$ (965.1)
Net assets acquired	$ 1,412.5

* In fiscal 2007, we acquired net favorable lease rights relating to the acquisition of Pathmark in the amount of $452.6 million which is included in Property, net and other non-current liabilities in our Consolidated Balance Sheet at September 6, 2008. The Company's net favorable lease rights are amortized on a straight-line basis until the end of the lease options but not more than 25 years. The weighted average life remaining of the net favorable lease rights at September 6, 2008 is 18.9 years. Amortization expense related to the net favorable lease rights was $4.7 million and $11.1 million for the 12 and 28 weeks ended September 6, 2008, respectively.

** The estimated fair values reflect recognition of a significant portion of A&P's net deferred tax assets, including net operating loss carry forwards, which existed at the date of acquisition.

The preliminary amount of goodwill and intangibles are approximately $440.0 million and $236.2 million, respectively, resulting from the Pathmark acquisition. The goodwill is not deductible for tax purposes. We are in the process of determining the allocation of goodwill related to the Pathmark acquisition to our reporting units.

4. Earnings Per Share

Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average shares outstanding for the reporting period. Diluted (loss) earnings per share reflects the potential dilution, using the treasury stock method, and assumes that the convertible debt, stock options, restricted stock, warrants, and other potentially dilutive financial instruments were converted into common stock upon issuance, if dilutive.

Weighted average common shares of 1,767,767 and 1,157,173 for the 12 and 28 weeks ended September 6, 2008, respectively, and 78,257 for both the 12 and 28 weeks ended September 8, 2007, respectively, related to options outstanding under our Company's stock award plan were excluded from the computation of diluted earnings per share as the effect would be antidilutive.

Weighted average common shares of 524,843 and 10,000 for the 12 and 28 weeks ended September 6, 2008, respectively, related to restricted stock units outstanding under our Company's stock option plans were excluded from the computation of diluted earnings per share as the effect would be antidilutive.

Weighted average common shares of 686,277 for both the 12 and 28 weeks ended September 6, 2008, related to warrants outstanding under our Company's stock award plan were excluded from the computation of diluted earnings per share as the effect would be antidilutive.

Weighted average common shares of 11,278,988 for both the 12 and 28 weeks ended September 6, 2008, respectively, related to the financing warrants outstanding were excluded from the computation of diluted earnings per share as the effect would be antidilutive.

Weighted average common shares of 8,134,002 for the 12 and 28 weeks ended September 6, 2008 related to the share lending agreement were excluded from the computation of earnings per share. On September 15, 2008, Lehman Brothers Holdings Inc. ("Lehman") and certain of its subsidiaries, including, Lehman Brothers International (Europe) ("Lehman Europe") filed a petition under Chapter 11 of the U.S Bankruptcy Code with the United States Bankruptcy Court. Lehman Europe is party to a 3,206,058 million share lending agreement with our Company. Due to the circumstances of the Lehman bankruptcy, it is likely we will record the loaned shares as issued and outstanding starting on September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

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

	12 Weeks Ended Sept. 6, 2008
Loss from continuing operations	$ (3,554)
Adjustments on Convertible Debt	(31,295)
Adjustments on Convertible Warrants	(48,846)
Loss from continuing operations-diluted	$ (83,695)
Weighted average common shares outstanding	57,654,527
Share lending agreement	(8,134,002)
Common shares outstanding-basic	49,520,525
Effect of dilutive securities:	
Options to purchase common stock	-
Convertible debt	11,278,988
Convertible warrants	(4,975,613)
Common shares outstanding-diluted	55,823,900

	28 Weeks Ended Sept. 6 2008
Income from continuing operations	$ 211
Adjustments on Convertible Debt	(38,777)
Adjustments on Convertible Warrants	(75,964)
Loss from continuing operations-diluted	$ (114,530)
Weighted average common shares outstanding	57,627,273
Share lending agreement	(8,134,002)
Common shares outstanding-basic	49,493,271
Effect of dilutive securities:	
Options to purchase common stock	211,732
Restricted stock units	347,040
Convertible debt	11,278,988
Convertible warrants	(2,972,222)
Common shares outstanding-diluted	58,358,809

5. Cash, Cash Equivalents, Restricted Cash and Available-for-sale Securities

At September 6, 2008 and February 23, 2008, we had $2.7 million and $3.7 million, respectively, in restricted cash which represented monies held in escrow for services which our Company is required to perform in connection with the sale of our real estate properties.

At September 6, 2008 and February 23, 2008, our restricted marketable securities of $12.0 million and $19.4 million, respectively, were held by Bank of America in the Columbia Fund. On December 6, 2007, Bank of America froze the Columbia Fund as a result of the increased risk in subprime asset backed securities. During the 12 and 28 weeks ended September 6, 2008, we received distributions from the Columbia Fund in the amount of $6.1 million and $7.1 million, respectively, at an amount less than 100% of the net asset value of the fund resulting in realized losses of $0.2 million for both the 12 and 28 weeks ended September 6, 2008, respectively.

In addition, we recorded a realized gain of $0.2 million for the 12 weeks ended September 6, 2008 as our realized losses on our redemptions were less than our unrealized losses recorded on these shares previously. For the 28 weeks ended September 6, 2008, we recorded a realized loss of $0.1 million based on the ending net asset value of the Columbia Fund as the decline in net asset value is considered other than temporary at September 6, 2008 and will not be recovered in future distributions from the fund.

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The following is a summary of cash, cash equivalents, restricted cash, and restricted marketable securities as of September 6, 2008 and February 23, 2008:

	At September 6, 2		
	Amortized Costs	Gross Unrealized Gains	Unr L
Classified as:			
Cash	$ 128,659	$ -	$
Cash equivalents:			
Money market funds	2,382	-	
Total cash and cash equivalents	131,041	-	
Restricted cash	2,674	-	
Restricted marketable securities	3,003	-	
Restricted marketable securities included in other assets	9,009	-	
Total cash, cash equivalents, restricted cash and restricted marketable securities	$ 145,727	$ -	$
Securities available-for-sale:			
Maturing within one year	$ 3,003		
Maturing greater than one year	$ 9,009		

	At February 23, 2		
	Amortized Costs	Gross Unrealized Gains	Unr L
Classified as:			
Cash	$ 98,382	$ -	$
Cash equivalents:			
Money market funds	2,351	-	
Total cash and cash equivalents	100,733	-	
Restricted cash	3,713	-	
Restricted marketable securities	6,796	-	
Restricted marketable securities included in other assets	12,622	-	
Total cash, cash equivalents, restricted cash and restricted marketable securities	$ 123,864	$ -	$
Securities available-for-sale:			
Maturing within one year	$ 6,796		
Maturing greater than one year	$ 12,622		

Gross realized losses on sales of investments were $0.2 million for both the 12 and 28 weeks ended September 6, 2008, respectively, and gross realized gains on sales of investments were nil and $78.5 million for the 12 and 28 weeks ended September 8, 2007, respectively.

6. Fair Value Measurements

SFAS 157 defines and establishes a framework for measuring fair value and expands related disclosures. This Statement applies to all assets and liabilities that are being measured and reported on a fair value basis. Our Company adopted SFAS 157 for our financial assets and financial liabilities beginning in fiscal 2008. As discussed in Note 2 - Impact of New Accounting Pronouncements, SFAS 157-2 deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities recorded at fair value on a nonrecurring basis to fiscal years beginning after November 15, 2008 (our year ended February 27, 2010).

SFAS 157 establishes a three-tier fair value hierarchy, which classifies the inputs used in measuring fair value. These tiers include:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Our Company's Level 1 assets and liabilities include cash equivalents that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Company's Level 2 liabilities include warrants whose value is determined using the Black Scholes pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose value is determined using pricing models, discounted cash flows, or similar methodologies, as well as instruments for which the determination of fair value requires significant judgment or estimation. Our Company's Level 3 assets include restricted marketable securities for which there is limited market activity.

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 6, 2008:

		Fair Value Measurements a	
	Total Carrying Value at Sept. 6, 2008	Quoted Prices in Active Markets (Level 1)	Signifi Othe Observa Input (Level

Assets:			
Cash equivalents	$ 2,382	$ 2,382	$
Restricted marketable securities	12,012	-	
Total	$ 14,394	$ 2,382	$
Liabilities:			
Warrant Series B	$ 30,138	$ -	$ 30

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Level 3 Valuation Techniques:

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial assets include our restricted marketable securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. At September 6, 2008, these securities were valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash inflows, as well as assumptions about liquidity.

The table below provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period February 24, 2008 to September 6, 2008:

	Fair Value Measu Significant Unobs (Level
	Restrict Marketab Securiti
Beginning Balance	$ 19,4
Total realized and unrealized losses included in:	
Earnings (1)	(3
Comprehensive income	
Settlements	(7,1
Transfers in and/or out of Level 3	
Ending Balance	$ 12,0
Losses recorded in Earnings attributable to the change in unrealized losses relating to Level 3 assets still held at September 6, 2008	$ (

(1) Amounts are recorded in Store operating, general and administrative expense

in the Consolidated Statements of Operations.

As discussed in Note 5 - Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Securities, on September 6, 2008, we had $12.0 million invested in a short-term fixed income fund held by Bank of America (the "Columbia Fund"). Due to market liquidity conditions, cash redemptions from the Columbia Fund were restricted. As a result of this restriction on cash redemptions, we did not consider the Columbia Fund to be traded in an active market with observable pricing on February 24, 2008 and these amounts were categorized as Level 3.

7. Valuation of Long-Lived Assets

In accordance with SFAS 144, we review the carrying values of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is primarily based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets is recoverable from their respective cash flows. If such review indicates an impairment exists, we measure such impairment on a discounted basis using a probability-weighted approach and a 7 year U.S. Treasury risk-free rate.

During the 12 and 28 weeks ended September 6, 2008, we recorded impairment losses on long-lived assets of $1.0 million and $1.8 million, respectively. During the 12 and 28 weeks ended September 8, 2007 we recorded impairment losses on long-lived assets of $2.9 million and $53.1 million, respectively.

Impairments due to closure or conversion in the normal course of business
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We review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During the 12 and 28 weeks ended September 6, 2008, we recorded impairment losses on property of $1.0 million and $1.8 million, respectively, related to stores that were or will be closed or converted in the normal course of business, as compared to $0.6 million and $1.1 million in impairment losses on property related to stores that were closed or converted in the normal course of business during the 12 and 28 weeks ended September 8, 2007, respectively. These amounts were included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments related to our discontinued operations

During the 12 and 28 weeks ended September 8, 2007, we recorded impairment losses of $2.3 million and $52.0 million, respectively, related to our discontinued operations as a result of our exit of the Greater New Orleans and Midwest markets as discussed in Note 8 - Discontinued Operations. These amounts were included in our Consolidated Statements of Operations under the caption "Gain (loss) on disposal of discontinued operations, net of tax" for the 12 and 28 weeks ended September 8, 2007. There were no such charges for the 12 and 28 weeks ended September 6, 2008.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense.

8. Discontinued Operations

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

transaction was initiated.

2007 Events

On May 30, 2007, our Company announced advanced negotiations for the sale of our non-core stores located within the Greater New Orleans area, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of November 1, 2007. Planned sale transactions for these stores have been completed resulting in a loss on disposal of $16.5 million.

On April 24, 2007, based upon unsatisfactory operating trends and the need to devote resources to our expanding Northeast core business, our Company announced negotiations for the sale of our non-core stores within our Midwest operations, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of July 7, 2007. Planned sale transactions for these stores have been completed resulting in a loss on disposal of $34.3 million.

2005 Event

During the first quarter of fiscal 2005, we announced plans for a major strategic restructuring that would consolidate efforts in the Midwest. Thus, we initiated efforts to close a total of 35 stores in the Midwest. All of which were closed as of February 25, 2006.

2003 Events

During fiscal 2003, we adopted a formal plan to exit the Wisconsin markets through the sale and/or disposal of these assets. In February 2003, we announced the sale of a portion of our non-core assets, including seven stores in Madison, Wisconsin and 23 stores in Milwaukee, Wisconsin. Also in 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.

Summarized below are the operating results for these discontinued businesses, which are included in our Consolidated Statements of Operations, under the captions "Loss from operations of discontinued businesses, net of tax" and "Gain (loss) on disposal of discontinued businesses, net of tax" for the 12 and 28 weeks ended September 6, 2008 and September 8, 2007.

	For the 12 weeks ended		For
	Sept. 6, 2008	Sept. 8, 2007	Sept. 6,
Loss from operations of discontinued businesses			
Sales	$ -	$ 105,192	$
Loss from operations of discontinued businesses, before tax	(13,995)	(86,347)	(
Tax benefit	-	-	
Loss from operations of discontinued operations, net of tax	$ (13,995)	$ (86,347)	$ (
Gain (loss) on disposal of			

discontinued operations			
Property impairments	$ -	$ (2,311)	$
Gain on sale of fixed assets	183	275	
Gain (loss) on disposal of discontinued operations, before tax	183	(2,036)	
Tax benefit	-	-	
Gain (loss) on disposal of discontinued operations, net of tax	$ 183	$ (2,036)	$

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Summarized below is a reconciliation of the liabilities related to restructuring obligations resulting from these activities, pursuant to SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

	For the 28 weeks ended Septemb			
	Balance at 2/23/2008	Interest Accretion (1)	Adjustments(2)	Ut
2007 Events				
Occupancy	$ 62,873	$ 5,078	$ 2,422	$
Severance and pension withdrawal payments	58,520	291	3,730	
2007 events total	121,393	5,369	6,152	
2005 Event				
Occupancy	66,882	1,787	(180)	
2003 Events				
Occupancy	21,579	687	(691)	
Fiscal 2008 total	$ 209,854	$ 7,843	$ 5,281	$

	Fiscal 2007			
	Balance at 2/24/2007	Interest Accretion (1)	Adjustments(2)	Uti
2007 Events				
Occupancy	$ -	$ 2,865	$ 81,234	$
Severance and pension withdrawal				

payments	-	-	81,642	
2007 events total	-	2,865	162,876	
2005 Event				
Occupancy	83,111	3,457	(7,117)	
2003 Events				
Occupancy	22,262	1,269	1,141	
Fiscal 2007 total	$ 105,373	$ 7,591	$ 156,900	$

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

(2) At each balance sheet date, we assess the adequacy of the balance of the remaining liability to determine if any adjustments are required as a result of changes in circumstances and/or estimates. Adjustments are recorded as a component of "Loss from operations of discontinued business" on the Consolidated Statements of Operations.

For the 28 weeks ended September 6, 2008

The charge to occupancy for the 2007 events represents adjustments for additional occupancy related costs for our properties of $2.4 million due to changes in our estimation of such future costs. The charge to severance for the 2007 events represents an adjustment of $3.7 million for future obligations for early withdrawal from multi-employer union

pension plans. We also recorded adjustments for a reduction in occupancy related costs of $0.2 million and $0.7 million for the 2005 event and the 2003 events, respectively, due to changes in our estimation of such future costs.

Fiscal 2007

The charge to occupancy for the 2007 events represents charges related to the closures of 39 stores in fiscal 2007 in conjunction with our decision to close and/or sell stores in the Midwest and the Greater New Orleans area. The charge to severance and benefits of $81.6 million for the 2007 events related to (i.) individual severings and retention incentives that were accrued as earned of $24.6 million as a result of the sale or closing of these facilities and (ii.) future obligations for early withdrawal from multi-employer union pension plans of $57.0 million. During fiscal 2007, we also recorded adjustments for the 2005 event for a reduction in occupancy related costs for our properties of $7.1 million due to (i.) changes in our estimation of such future costs of $6.4 million and (ii.) a new sublease agreement for one property of $0.7 million. We recorded adjustments for the 2003 events for additional occupancy related costs for our properties of $1.1 million due to changes in our estimation of such future costs.

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

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

	2007 Events	2005 Event	
Total severance payments made to date	$ 25,484	$ 2,650	$
Expected future severance and pension withdrawal payments	60,179	-	
Total severance payments expected to be incurred	85,663	2,650	$
Total occupancy payments made to date	37,970	41,691	
Expected future occupancy payments, excluding interest accretion	53,629	62,970	
Total occupancy payments expected to be incurred, excluding interest accretion	91,599	104,661	
Total severance and occupancy payments made to date	63,454	44,341	
Expected future severance, pension withdrawal and occupancy payments, excluding interest accretion	113,808	62,970	
Total severance, pension withdrawal and occupancy payments expected to be incurred, excluding interest accretion	$ 177,262	$ 107,311	$

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

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

	September 6, 2		
	2007 Events	2005 Event	

Accrued salaries, wages and benefits	$	43	$	-	$
Other accruals	$	22,996	$	10,731	$
Other non-current liabilities	$	90,769	$	52,239	$

	February 23, 2				
	2007 Events		2005 Event		
Accrued salaries, wages and benefits	$	1,513	$	-	$
Other accruals	$	24,733	$	10,985	$
Other non-current liabilities	$	95,147	$	55,897	$

We evaluated the reserve balances as of September 6, 2008 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities. Adjustments to the reserve balances may be recorded in the future, if necessary.

9. Asset Disposition Initiatives

In addition to the events described in Note 8 - Discontinued Operations, there were restructuring transactions which were not primarily related to our discontinued operations businesses. These events are referred to based on the year the transaction was initiated, as described below.

Restructuring charges relate principally to employee severance and occupancy costs resulting from the closure of facilities and other workforce reductions attributable to our efforts to reduce costs. The costs of these reductions have been and will be funded through cash from operations. Occupancy costs represent facility consolidation and lease termination costs associated with our decision to consolidate and close duplicative or excess warehouse and office facilities, unproductive and excess facilities and the continued softening of real estate markets, which resulted in lower than expected sublease income.

2005 Event

During fiscal 2005, our Company sold our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. The Asset Purchase Agreement included the assignment of our leases in Central Islip, New York and Baltimore, Maryland, and a warranty deed for our owned facilities in Dunmore, Pennsylvania.

2001 Event

During the third quarter of fiscal 2001, 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.

1998 Event

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.

Summarized below is a reconciliation of the liabilities related to restructuring obligations resulting from these activities, pursuant to SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" and SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

	For the 28 weeks ended Septembe			
	Balance at 2/23/2008	Interest Accretion (1)	Adjustments(2)	Ut
2005 Event				
Continuing Operations				
Occupancy	$ 1,231	$ 26	$ (91)	$
Severance	1,686	-	-	
2005 event total	2,917	26	(91)	
2001 Event				
Continuing Operations				
Occupancy	6,755	193	(306)	
Discontinued Operations				
Occupancy	12,281	378	(166)	
2001 event total	19,036	571	(472)	
1998 Event				
Continuing Operations				
Occupancy	6,958	183	268	
Severance	1,000	-	-	
Discontinued Operations				
Occupancy	1,093	30	(8)	
1998 event total	9,051	213	260	
Fiscal 2008 total	$ 31,004	$ 810	$ (303)	$

	Fiscal 2007			
	Balance at 2/24/2007	Interest Accretion (1)	Adjustments(2)	Ut

2005 Event				
Continuing Operations				
Occupancy	$ 1,453	$ 51	$ 200	$
Severance	876	-	2,366	
Discontinued Operations				
Occupancy	3,997	92	(3,197)	
2005 event total	6,326	143	(631)	
2001 Event				
Continuing Operations				
Occupancy	7,338	401	10	
Discontinued Operations				
Occupancy	13,248	747	-	
2001 event total	20,586	1,148	10	
1998 Event				
Continuing Operations				
Occupancy	9,438	429	(351)	
Severance	1,210	-	-	
Discontinued Operations				
Occupancy	1,598	79	-	
1998 event total	12,246	508	(351)	
Fiscal 2007 total	$ 39,158	$ 1,799	$ (972)	$

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

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

For the 28 weeks ended September 6, 2008

For the 28 weeks ended September 6, 2008, we recorded adjustments for a reduction in occupancy related costs of $0.1 million and $0.5 million for the 2005 event and the 2001 event, respectively, due to changes in our estimation of such future costs. We also recorded an adjustment for additional occupancy related costs of $0.3 million for the 1998 event due to changes in our estimation of such future costs.

Fiscal 2007

During fiscal 2007, adjustments to occupancy costs related to changes in our estimation of such future costs. We recorded additions to severance of $2.4 million for the 2005 event for health and welfare benefits for warehouse retirees of $1.7 million and pension withdrawal costs of $0.7 million.

(3) Occupancy utilization represents payments made during those periods for rent. Severance and benefits utilization represents payments made to terminated employees during the period.

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

	2005 Event	2001 Event	1998 Event	
Total severance payments made to date	$ 48,436	$ 28,205	$ 30,557	$
Expected future severance payments	1,183	-	907	
Total severance payments expected to be incurred	49,619	28,205	31,464	
Total occupancy payments made to date	13,841	60,164	113,769	
Expected future occupancy payments, excluding interest accretion	1,102	17,991	6,700	
Total occupancy payments expected to be incurred, excluding interest accretion	14,943	78,155	120,469	
Total severance and occupancy payments made to date	$ 62,277	$ 88,369	$ 144,326	$
Expected future severance and occupancy payments, excluding interest accretion	2,285	17,991	7,607	
Total severance and occupancy payments expected to be incurred, excluding interest accretion	$ 64,562	$ 106,360	$ 151,933	$

Payments to date were primarily for occupancy related costs such as rent, common area maintenance, real estate taxes, lease termination costs, severance, and benefits. The remaining obligation relates to expected future payments under long-term leases and expected future payments for early withdrawal from multi-employer union pension plans. The expected completion dates for the 2005, 2001 and 1998 events are 2021, 2022 and 2020, respectively.

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

	September 6, 2008			
	2005 Event	2001 Event	1998 Event	
Other accruals	$ 526	$ 2,804	$ 2,785	$
Other non-current liabilities	$ 1,759	$ 15,187	$ 4,822	$

	February 23, 2008			
	2005 Event	2001 Event	1998 Event	
Other accruals	$ 434	$ 2,754	$ 2,827	$
Other non-current liabilities	$ 2,483	$ 16,282	$ 6,224	$

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We evaluated the reserve balances as of September 6, 2008 based on current information and have concluded that they are adequate to cover future costs. We will continue to monitor the status of the vacant and subsidized properties, severance and benefits, and pension withdrawal liabilities. Adjustments to the reserve balances may be recorded in the future, if necessary.

10. Indebtedness and Other Financial Liabilities

Series A and B Warrants

As part of the acquisition of Pathmark on December 3, 2007, we issued 4,657,378 and 6,965,858 roll-over stock warrants in exchange for Pathmark's 2005 Series A and Series B warrants, respectively. The number of warrants issued was computed based on the conversion factor of 0.46296. The Series A warrants were exercisable at $18.36 and expired on June 9, 2008 and the Series B warrants are exercisable at $32.40 and expire on June 9, 2015. These warrants were originally valued using the price of A&P common stock of $30.05 per common share, the quoted market price of A&P common stock on November 30, 2007, the last trading day before the transaction closing date. The Tengelmann stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengelmann's outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengelmann Stockholder Agreement). In addition, Tengelmann has the ability to exercise a "Put Right" whereby it has the ability to require A&P to purchase A&P stock held by Tengelmann to settle these warrants. Based on the rights provided to Tengelmann, A&P does not have sole discretion to determine whether the payment upon exercise of these warrants will be settled in cash or through issuance of an equivalent portion of A&P shares. Therefore, these warrants are recorded as liabilities and marked-to-market each reporting period based on A&P's current stock price.

On May 7, 2008, the 4,657,378 Series A warrants were exercised by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P. We opted to settle the Series A warrants in cash totaling $45.7 million rather than issuing additional common shares.

Included in "Nonoperating Income" on our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008, is a loss of nil and $1.2 million, respectively, for the Series A warrants through the settlement date of May 7, 2008 and a gain of $48.8 million and $76.0 million, respectively, for the Series B warrants market value adjustment. The value of the Series B warrants were $30.1 million as of September 6, 2008 and is included in "Other financial liabilities" on our Consolidated Balance Sheets. The following assumptions and estimates were used in the Black-Scholes model for the Series B warrants:

	For the 28 weeks ended September 6, 2008
Expected life	6.8 years
Volatility	53.0%
Dividend yield	0%
Risk-free interest rate	3.24%

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Public Debt Obligations

On December 18, 2007, we completed a public offering and issued $165 million 5.125% convertible senior notes due 2011 and $255 million 6.75% convertible senior notes due 2012. The 2011 notes are not redeemable at our option at any time. The 2012 notes are redeemable at our option on or after December 15, 2010, at a redemption price of 102.70% and on or after December 15, 2011, at a redemption price of 101.35%. The initial conversion price of the 2011 notes is $36.40 representing a 30.0% premium to the offering price of $28.00 and the initial conversion price of the 2012 notes is $37.80 representing a 35.0% premium to the offering price of $28.00 at maturity, and at our option, the notes are convertible into shares of our stock, cash, or a combination of stock and cash.

Concurrent with this offering, we entered into call options and financing warrant transactions with financial institutions that are affiliates of the underwriters of the notes to effectively increase the conversion price of these notes and to reduce the potential dilution upon future conversion. Conversion prices were effectively increased to $46.20 or a 65% premium and $49.00 or a 75% premium for the 2011 and 2012 notes, respectively. We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC and we may, among other things, terminate the call option and financing warrant transactions with LBOTC and seek to effect similar transactions with a new counterparty. Unless we enter into new call option and warrant transactions, the impact of the LBOTC bankruptcy effectively reduced conversion prices to their stated prices of $36.40 for the 2011 notes and $37.80 for the 2012 notes.

As of December 18, 2007, our Company did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," our Company accounted for the conversion features as freestanding instruments. The notes were recorded with a discount equal to the value of the conversion features at the transaction date and will be accreted to the par

value of the notes over the life of the notes. The value of the conversion features were determined utilizing the Black-Scholes option pricing model and recorded as a long term liability. The portion of the conversion features for which there was not shares available for settlement of conversions were marked to market each balance sheet date. On June 26, 2008, at a special meeting of shareholders, the number of shares of common stock our Company has authority to issue was increased to 160,000,000 based on a majority vote by our shareholders. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of $1.7 million and a gain of $9.4 million, respectively, in "Nonoperating Income" on our Consolidated Statements of Operations for the conversion features of the 5.125% convertible senior notes. During the 12 and 28 weeks ended September 6, 2008, the gain that was recorded in "Nonoperating Income" on our Consolidated Statements of Operations for the conversion features of the 6.75% convertible senior notes was nil and $5.1 million, respectively. Based on an increase in available shares primarily due to the exercise of our Series A warrants during the first quarter of fiscal 2008 and the increase in authorized shares during the second quarter of fiscal 2008, the fair value of the conversion features of the 5.125% and 6.75% convertible senior notes of $13.8 million and $14.7 million as of June 26, 2008, respectively, were reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income. Thus, the fair value of the conversion features for the 5.125% and 6.75% convertible notes are no longer classified as a liability at September 6, 2008. The following assumptions and estimates were used in the Black-Scholes model:

	As of June 26, 2008
Expected life	3.0 years
Volatility	33.4%
Dividend yield	0%
Risk-free interest rate	3.11%

Financing Warrants

Concurrent with the issuance of the convertible senior notes, our Company issued financing warrants in conjunction with the call options recorded as equity in the Consolidated Balance Sheet to effectively increase the conversion price of these notes and reduce the potential dilution upon future conversion. The financing warrants allow holders to purchase common shares at $46.20 with respect to the 5.125% notes and $49.00 with respect to the 6.75% notes. The financing warrants were valued at $36.8 million at the issuance date. At the issuance date, our Company did not have sufficient authorized shares to provide all potential issuances of common stock. Therefore, the financing warrants were accounted for as freestanding derivatives, required to be settled in cash until sufficient shares were available and were recorded as a long-term liability in the Consolidated Balance Sheet. On June 26, 2008, at a special meeting of shareholders, the number of shares of common stock our Company has authority to issue was increased to 160,000,000 based on a majority vote by our shareholders. Thus, the financing warrants were marked to market through June 26, 2008 utilizing the Black-Scholes option pricing model and $28.9 million was reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income as of June 26, 2008. These financing warrants are no longer classified as a liability at September 6, 2008.

During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of $4.2 million and a gain of $2.3 million, respectively, relating to these warrants, which is included in "Nonoperating income" on our Consolidated Statements of Operations. The following assumptions and estimates were used in the Black-Scholes model:

	As of June 26, 2008
Expected life	3.3 years - 4.8 years
Volatility	33.4%
Dividend yield	0%
Risk-free interest rate range	3.11% - 3.54%

On September 15, 2008, Lehman and certain of its subsidiaries, including, Lehman Europe filed a petition under Chapter 11 of the U.S Bankruptcy Code with the United States Bankruptcy Court. Lehman Europe is party to a 3,206,058 million share lending agreement with our Company. Due to the circumstances of the Lehman bankruptcy, it is likely we will record the loaned shares as issued and outstanding starting on September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

11. Interest Expense

Interest expense is comprised of the following:

	For the 12 weeks ended		
	Sept. 6, 2008	Sept. 8, 2007	Sept.
Credit Agreement	$ 3,520	$ 276	$
7.75% Notes, due April 15, 2007	-	-	
9.125% Senior Notes, due December 15, 2011	270	270	
5.125% Convertible Senior Notes, due June 15, 2011	1,946	-	
6.750% Convertible Senior Notes, due December 15, 2012	3,961	-	
9.375% Notes, due August 1, 2039	4,315	4,315	
Capital Lease Obligations and Real Estate Liabilities	10,975	7,974	
Amortization of Deferred Financing Fees and Discounts	4,578	183	
Other	4,380	1,576	
Total	$ 33,945	$ 14,594	$

12. 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 12 Weeks Ende	
	September 6, 2008	Septem 20
Service cost	$ 1,960	$ 1
Interest cost	6,279	2
Expected return on plan assets	(7,496)	(3
Amortization of unrecognized net prior service cost	63	
Amortization of unrecognized net loss	27	
Net pension cost	$ 833	$

	For the 28 Weeks Ende	
	September 6, 2008	Septem 20
Service cost	$ 3,494	$ 2
Interest cost	13,869	6
Expected return on plan assets	(16,562)	(7
Amortization of unrecognized net prior service cost	137	
Amortization of unrecognized net loss	63	
Net pension cost	$ 1,001	$ 2

Contributions

We previously disclosed in our consolidated financial statements for the year ended February 23, 2008, that we expected to contribute $4.5 million in cash to our defined benefit plans in fiscal 2008. As of September 6, 2008, we contributed approximately $3.9 million to our defined benefit plans. We have revised our expected contributions to our defined benefit plans in fiscal 2008 to $7.2 million and plan to contribute approximately $3.3 million to our plans during the remainder of fiscal 2008.

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. We use a December 31 measurement date for our postretirement benefits. The components of net postretirement benefits cost (income) were as follows:

	For the 12 Weeks Ende	
	September 6, 2008	Septem 20
Service cost	$ 234	$
Interest cost	529	
Amortization of gain	-	
Prior service gain	(311)	
Curtailment gain	-	(3
Net postretirement benefits cost (income)	$ 452	$ (3

	For the 28 Weeks Ende	
	September 6, 2008	Septem 20
Service cost	$ 546	$
Interest cost	1,234	
Amortization of gain	-	
Prior service gain	(725)	
Curtailment gain	-	(3
Net postretirement benefits cost (income)	$ 1,055	$ (3

13. Stock Based Compensation

During the 12 and 28 weeks ended September 6, 2008, compensation expense related to share-based incentive plans was $2.1 million and $7.0 million, after tax, respectively, compared to $2.4 million and $5.3 million, after tax, during the 12 and 28 weeks ended September 8, 2007, respectively. Included in share-based compensation expense recorded during the 12 and 28 weeks ended September 6, 2008 was $0.2 million and $0.8 million, respectively, related to expensing of stock options, $1.8 million and $5.9 million, respectively, relating to expensing of restricted stock, and $0.1 million and $0.3 million, respectively, relating to expensing of common stock granted to our Board of Directors at the Annual Meeting of Stockholders. Included in share-based compensation expense recorded during the 12 and 28 weeks ended September 8, 2007 was $0.1 million and $0.3 million, respectively, related to expensing of stock options, $2.2 million and $4.7 million, respectively, relating to expensing of restricted stock, and $0.1 million and $0.3 million, respectively, relating to expensing of common stock granted to our Board of Directors at the Annual Meeting of Stockholders.

At September 6, 2008, we had two stock-based compensation plans, the 1998 Long

Term Incentive and Share Award Plan ("1998 Plan") and the 2004 Non-Employee Director Compensation Plan. The general terms of each plan are reported in our Fiscal 2007 Annual Report on Form 10-K. The 1998 Plan expired on July 14, 2008. On June 26, 2008, at a special meeting of shareholders, our shareholders approved our Company's 2008 Long Term Incentive and Share Award Plan ("2008 Plan".) The 2008 Plan provides for the same types of awards and is otherwise similar to the 1998 Plan and will replace the 1998 Plan.

Stock options

The following is a summary of the stock option activity during the 28 weeks ended September 6, 2008:

	Shares	Weighted Average Exercise Price	We A Re Con Ter
Outstanding at February 23, 2008	1,827,529	$ 24.21	
Granted	128,434	26.07	
Canceled or expired	(150,106)	33.66	
Exercised	(106,309)	20.71	
Outstanding at September 6, 2008	1,699,548	$ 23.74	
Exercisable at September 6, 2008	1,472,735	$ 23.07	
Nonvested at September 6, 2008	226,813	$ 28.06	

Fair values for each stock option grant were estimated using a Black-Scholes valuation model which utilized assumptions as detailed in the following table for expected life based upon historical option exercise patterns, historical volatility for a period equal to the stock option's expected life, and risk-free rate based on the U.S. Treasury constant maturities in effect at the time of grant. Our stock options have a contractual term of 10 years. The following assumptions were in place for grants that occurred during the 28 weeks ended September 6, 2008 and September 8, 2007:

	28 weeks ended Sept. 6, 2008	28 weeks ended Sept. 8, 2007
Expected life	7 years	7 years
Volatility	52%	54% - 55%
Risk-free interest rate	2.96%	4.46% - 4.57%

The weighted average grant date fair value of stock options granted during the 28 weeks ended September 6, 2008 and September 8, 2007 was $14.64 and $19.47, respectively.

As of September 6, 2008, approximately $2.6 million, after tax, of total unrecognized compensation expense related to unvested stock option awards will

be recognized over a weighted average period of 2.9 years.

The total intrinsic value of options exercised during the 28 weeks ended September 6, 2008 and September 8, 2007 was $0.5 million and $5.7 million, respectively.

The amount of cash received from the exercise of stock options during the 28 weeks ended September 6, 2008 was approximately $2.2 million.

Performance Restricted Stock Units

The following is a summary of the performance restricted stock units activity during the 28 weeks ended September 6, 2008:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at February 23, 2008	1,905,427	$ 22.60
Granted	471,731	26.60
Canceled or expired	(83,333)	22.70
Vested	(435,600)	12.47
Nonvested at September 6, 2008	1,858,225	$ 25.98

Performance restricted stock units are granted at the fair market value of the Company's common stock at the date of grant, adjusted by an estimated forfeiture rate.

During the first quarter of fiscal 2008, fifty percent of our performance restricted units granted in fiscal 2005, vested on February 24, 2008 (the first day of our fiscal year) and the remaining fifty percent will vest on the first day of fiscal 2009, in accordance with and subject to all other terms, conditions, limitations, restrictions and eligibility requirements. No units vested under our 2006, 2007, and 2008 grants during the 28 weeks ended September 6, 2008.

During the second quarter of fiscal 2008, an additional 46,949 performance restricted stock units under our non-executive Integration Program were considered granted as one of the performance targets as described in the plan was exceeded based on actual performance. These performance restricted stock units will vest subject to the achievement of certain Company stock price targets over a performance period comprised of the 24 month period following the closing of the Pathmark transaction on December 3, 2007 and other terms, conditions, limitations, restrictions and eligibility requirements as described in the Integration Program.

The total fair value of shares vested during the 28 weeks ended September 6, 2008 was $12.1 million. No shares vested during the 28 weeks ended September 8, 2007.

Performance restricted stock units issued during fiscal 2008 are earned based on

our Company achieving certain operating targets in fiscal 2010 and are 100% vested in fiscal 2010, respectively, upon achievement of those targets.

During the 12 and 28 weeks ended September 6, 2008, our Company granted 46,949 and 471,731 shares, respectively, of performance restricted stock units to selected employees for a total grant date fair value of $1.4 million and $11.1 million, respectively. Approximately $21.1 million of unrecognized fair value compensation expense relating to these performance restricted stock units and those issued in the previous year are expected to be recognized through fiscal 2011 based on estimates of attaining vesting criteria.

14. Income Taxes

The income tax provisions recorded for the 12 and 28 weeks ended September 6, 2008 and September 8, 2007 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") provides that a deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. In addition, SFAS 109 requires that a valuation allowance be recognized 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 net deferred tax asset and our historic cumulative losses, we concluded that it was appropriate to record a valuation allowance in an amount that would reduce our net deferred tax asset to zero. For the 12 and 28 weeks ended September 6, 2008, the valuation allowance increased by $32.9 million and $79.1 million, respectively, to reflect the increase in deferred income tax assets recorded relating to the purchase price allocation adjustment discussed in Note 3 - Acquisition of Pathmark Stores, Inc., as well as generation of additional net operating losses. For the 12 and 28 weeks ended September 8, 2007, the valuation allowance increased by $48.1 million and $41.1 million, respectively. To the extent that our operations generate sufficient taxable income in future periods, we will reverse the income tax valuation allowance. In future periods, we will continue to record a valuation allowance against net deferred tax assets that are created by losses until such time as the certainty of future tax benefits can be reasonably assured.

As of September 6, 2008, there have been no material changes to the Company's uncertain tax positions disclosures as discussed in Note 11 of the Company's Fiscal 2007 Annual Report on Form 10-K. The Company does not anticipate that total unrecognized tax benefits will significantly change in the next 12 months.

For the 12 and 28 weeks ended September 6, 2008 and September 8, 2007, no amounts were recorded for interest and penalties within "Provision for income taxes" in our Consolidated Statements of Operations.

Our Company is subject to U.S. federal income tax, as well as income tax in multiple state and foreign jurisdictions. As of September 6, 2008, we were subject to examination in the U.S. federal tax jurisdiction for the 1997 to 2006 tax years and we were also subject to examination in most state jurisdictions for the 1997 to 2006 tax years.

The effective tax rate on continuing operations of 41.3% for the 12 weeks ended September 6, 2008 varied from the statutory rate of 35% primarily due to the recording of state and local income taxes, recording additional valuation allowance offset by a permanent difference related to nonoperating income from the fair value adjustments related to the conversion features, financing

warrants and Series B warrants.

The effective tax rate on continuing operations of 17.3% for the 12 weeks ended September 8, 2007 varied from the statutory rate of 35% primarily due to state and local income taxes and an increase to our valuation allowance as a result of losses not benefited because of a lack of history of earnings.

The effective tax rate on continuing operations of 92.0% for the 28 weeks ended September 6, 2008 varied from the statutory rate of 35% primarily due to the recording of state and local income taxes, recording additional valuation allowance offset by a permanent difference related to nonoperating income from the fair value adjustments related to the conversion features, financing warrants and Series A and B warrants.

The effective tax rate on continuing operations of 4.2% for the 28 weeks ended September 8, 2007 varied from the statutory rate of 35% primarily due to state and local income taxes and a decrease to our valuation allowance as a result of the utilization of loss carryforwards that were not previously tax benefited.

As of September 6, 2008, we had $480.1 million in federal NOL carryforwards that expire beginning in 2023, some of which are subject to an annual limitation. Management believes such limitations will not have a material impact on the Company's ability to utilize such losses.

At September 6, 2008 and February 23, 2008, we had a net current deferred tax asset which is included in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets of $45.5 million and $64.8 million, respectively, a net non-current deferred tax asset, which is included in "Other Assets" on our Consolidated Balance Sheets of $57.4 million and $38.0 million, respectively, and a non-current tax liability for uncertain tax positions, which is included in "Other non-current liabilities" on our Consolidated Balance Sheets of $156.3 million and $156.3 million, respectively.

On July 30, 2008, The Housing Assistance Act of 2008 ("the Act") was signed into law. The Act contains a provision allowing corporate taxpayers to make an election to treat certain unused research and AMT credit carryforwards as refundable in lieu of claiming bonus and accelerated depreciation for "eligible qualified property." We are currently evaluating the impact of making this election; however, we do not expect that making such election will have a material impact on our consolidated financial statements.

15. 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 President and Chief Executive Officer.

Through the first quarter ended June 14, 2008, we operated under seven reportable segments: North, Central, South, Price Impact, Gourmet, Other and our investment in Metro, Inc. During the second quarter ended September 6, 2008, our chief operating decision maker changed the manner by which results are evaluated, therefore, our reportable segments have been revised to be consistent with the way our chief operating decision maker currently manages our business. Accordingly, we have revised our segment reporting to report five operating segments: Fresh, Price Impact, Gourmet, Other and our investment in Metro, Inc. The Other segment includes our Food Basics and Liquor businesses. Our investment

in Metro, Inc. represents our former economic interest in Metro, Inc. and is required to be reported as an operating segment in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" as our investment was greater than 10% of our Company's combined assets of all operating segments and the investment generated operating income during the 12 and 28 weeks ended September 8, 2007. The criteria necessary to classify the Midwest and Greater New Orleans areas as discontinued were satisfied in fiscal 2007 and these operations have been reclassified as such in our Consolidated Statements of Operations for all periods presented. Refer to Note 8 - Discontinued Operations for further discussion. Prior year information has been restated to conform to current year presentation.

The accounting policies for these segments are the same as those described in the summary of significant accounting policies included in our Fiscal 2007 Annual Report. We measure segment performance based upon segment income (loss). Reconciling amounts between segment income (loss) and income (loss) from

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operations include corporate-level activity not specifically attributed to a segment, which includes 1) the purchase of all merchandise (including the design and production of private label merchandise sold in our retail stores), 2) real estate management and 3) information technology, finance and other corporate administrative personnel, as well as, other reconciling items primarily attributed to nonrecurring activities.

Assets and capital expenditures are not allocated to segments for internal reporting presentations.

Certain segment reclassifications have been made to segment information disclosed previously to conform to how our chief operating decision maker currently manages our business.

Interim information on segments is as follows:

	For the 12 weeks ended September 6,			
	Grocery (1)	Meat (2)	Produce (3)	
Sales by Category	$ 1,502,879	$ 419.488	$ 260,269	$

	For the 12 weeks ended September 8,			
	Grocery (1)	Meat (2)	Produce (3)	
Sales by Category	$ 843,279	$ 256,348	$ 173,690	$

For the 12 weeks e

	September 6, 2008	S
Sales		
Fresh	$ 1,153,389	$
Price Impact	913,197	
Gourmet	56,717	
Other	59,333	
Investment in Metro, Inc.	-	
Total sales	$ 2,182,636	$
Segment income (loss)		
Fresh	$ 28,565	$
Price Impact	(2,447)	
Gourmet	2,475	
Other	641	
Total segment income	29,234	
Corporate	(22,961)	
Reconciling items *	(17,796)	
(Loss) income from operations	(11,523)	
Loss on sale of Canadian operations	-	
Nonoperating income	42,895	
Interest expense	(33,945)	
Interest and dividend income	57	
Loss from continuing operations before income taxes	$ (2,516)	$

	For the 12 weeks e	
	September 6, 2008	S
Segment depreciation and amortization - continuing operations		
Fresh	$ 21,698	$

Price Impact	22,824	
Gourmet	2,387	
Other	853	
Total segment depreciation and amortization	47,762	
Corporate	13,035	
Total company depreciation and amortization	$ 60,797	$

For the 28 weeks ended September 6,

	Grocery (1)	Meat (2)	Produce (3)	O
Sales by Category	$ 3,538,728	$ 969,243	$ 597,330	$

	For the 28 weeks ended September 8,			
	Grocery (1)	Meat (2)	Produce (3)	O
Sales by Category	$ 1,959,614	$ 584,581	$ 403,536	$

(1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, liquor and pharmacy.
(2) The meat category includes meat, deli, bakery and seafood.
(3) The produce category includes produce and floral.
(4) Other includes sales from an information technology services agreement with Metro, Inc.

	For the 28 weeks e	
	September 6, 2008	S
Sales		
Fresh	$ 2,663,216	$
Price Impact	2,167,392	
Gourmet	141,745	
Other	132,948	
Investment in Metro, Inc.	-	
Total sales	$ 5,105,301	$
Segment income (loss)		
Fresh	$ 64,112	$
Price Impact	18,577	
Gourmet	9,890	
Other	1,305	
Total segment income	93,884	
Corporate	(71,424)	
Reconciling items *	(31,892)	
(Loss) income from operations	(9,432)	
Loss on sale of Canadian operations	-	
Gain on sale of Metro, Inc.	-	
Nonoperating income	91,492	
Interest expense	(79,894)	
Interest and dividend income	467	
Equity earnings in Metro, Inc.	-	
Income from continuing operations before income taxes	$ 2,633	$

* Reconciling items which are not included in segment income (loss) include LIFO reserve adjustment, stock awards expense, restructuring events, real-estate related activity, integration costs and other nonrecurring adjustments.

	For the 28 weeks e	
	September 6, 2008	S
Segment depreciation and amortization - continuing operations		
Fresh	$ 51,134	$
Price Impact	52,203	
Gourmet	5,570	
Other	1,981	
Total segment depreciation and amortization - continuing operations	110,888	
Corporate	29,936	
Total depreciation and amortization - continuing operations	140,824	
Discontinued operations	-	
Total depreciation and amortization	$ 140,824	$

16. Related Party Transaction

On September 2, 2008, our Company issued a three year, unsecured promissory note in the amount of $10 million to Erivan Karl Haub. Erivan Haub is the father of Christian W. E. Haub, our Executive Chairman, and is a limited partner, of Tengelmann which owns an interest in our Company's stock. The principal is due in a lump sum payment on August 18, 2011 and will bear interest at a rate of 6% per year, payable in twelve equal payments of $0.15 million over the term of the note.

17. Investment in Metro, Inc.

On March 13, 2007, in connection with our agreement to acquire Pathmark Stores, Inc., our Company sold 6,350,000 shares of our holdings in Metro, Inc. for proceeds of approximately $203.5 million resulting in a net gain of $78.4 million. Of the proceeds received, $190 million was held as restricted cash collateralizing letters of credit under our Letter of Credit Agreement and was designated to be used to fund a portion of our acquisition of Pathmark Stores, Inc.

On November 26, 2007, also in connection with our agreement to acquire Pathmark Stores, Inc., our Company sold the remaining 11,726,645 shares of our holdings in Metro, Inc. for proceeds of approximately $345.3 million, resulting in a net gain of $103.6 million. The proceeds were held to fund a portion of our acquisition of Pathmark Stores, Inc. As a result of these sales, our Company no longer holds Class A subordinate shares of Metro, Inc.

Through March 13, 2007, we recorded our pro-rata equity earnings relating to our equity investment in Metro, Inc. on about a three-month lag period as permitted by APB 18, "The Equity Method of Accounting for Investments in Common Stock." Thus, during the 28 weeks ended September 8, 2007, we recorded $7.9 million in equity earnings relating to our equity investment in Metro, Inc. and included this amount in "Equity in earnings of Metro, Inc." on our Consolidated Statements of Operations. In accordance with SFAS 115, we recorded dividend income of $1.3 million based on Metro, Inc.'s dividend declaration on April 17, 2007 and included this amount in "Interest and dividend income" on our Consolidated Statements of Operations for the 28 weeks ended September 8, 2007.

Metro, Inc.'s summarized financial information, derived from its unaudited second quarter ended March 17, 2007 financial statements, is as follows (in millions):

	12 Weeks Ended March 17, 2007
Income statement:	
Net sales	$ 2,096.5
Cost of sales and operating expenses	$ 1,967.1
Net income	$ 55.0

18. Commitments and Contingencies

Lease Assignment

On August 14, 2007, Pathmark entered into a leasehold assignment contract for the sale of its leasehold interests in one of its stores to CPS Operating Company LLC, a Delaware limited liability company ("CPS"). Pursuant to the terms of the agreement, Pathmark was to receive $87 million for assigning and transferring to CPS all of Pathmark's interest in the lease and CPS was to have assumed all of the duties and obligations of Pathmark under the lease. CPS deposited $6 million in escrow as a deposit against the purchase price for the lease, which is non-refundable to CPS, except as otherwise expressly provided in the agreement. The assignment of the lease was scheduled to close on December 28, 2007. On December 27, 2007, CPS issued a notice terminating the agreement for reason of a purported breach of the agreement, which, if proven, would require the return of the escrow. We are disputing the validity of CPS's notice of termination as we believe CPS's position is without merit. Because we are challenging the validity of CPS's December 27, 2007 notice of termination, we issued our own notice to CPS on December 31, 2007, asserting CPS's breach of the agreement as a result of their failure to close on December 28, 2007. CPS's breach, if proven, would entitle us to keep the escrow. Both parties have taken legal action to obtain the $6 million deposit held in escrow.

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

On June 24, 2004, a class action complaint was filed in the Supreme Court of the State of New York against The Great Atlantic & Pacific Tea Company, Inc., d/b/a

A&P, The Food Emporium, and Waldbaum's alleging violations of the overtime provisions of the New York Labor Law. Three named plaintiffs, Benedetto Lamarca, Dolores Guiddy, and Stephen Tedesco, alleged on behalf of a class that our Company failed to pay overtime wages to full-time hourly employees who were either required or permitted to work more than 40 hours per week.

In April 2006, the plaintiffs filed a motion for class certification. In July 2007, the Court granted the plaintiffs' motion and certified the class as follows: All full-time hourly employees of Defendants who were employed in Defendants' supermarket stores located in the State of New York, for any of the period from June 24, 1998 through the date of the commencement of the action, whom Defendants required or permitted to perform work in excess of 40 hours per week without being paid overtime wages. The Court also ruled that the issue of whether to include an "opt-in" or "opt-out" provision is premature and can be decided after discovery.

As discovery on the prospective plaintiffs comprising the class has yet to be conducted, neither the number of class participants nor the sufficiency of their respective claims can be determined at this time.

Other

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. We are also subject to certain environmental claims. While the outcome of

these claims cannot be predicted with certainty, Management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows.

19. Subsequent Events

As discussed in Footnote 4 - Earnings Per Share, on September 15, 2008, Lehman and certain of its subsidiaries, including, Lehman Europe filed a petition under Chapter 11 of the U.S Bankruptcy Code with the United States Bankruptcy Court. Lehman Europe is party to a 3,206,058 million share lending agreement with our Company. Due to the circumstances of the Lehman bankruptcy, it is likely we will record the loaned shares as issued and outstanding starting on September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC and we may, among other things, terminate the call option and financing warrant transactions with LBOTC and seek to effect similar transactions with a new counterparty. In the event we terminate these transactions, we would have the right to monetary damages from LBOTC in an amount equal to the present value of our cost to replace the transactions with another party for the same period and on the same terms. Unless we enter into new call option and warrant transactions, the impact of the LBOTC bankruptcy effectively reduced conversion prices to their stated prices of $36.40 for the 2011 notes and $37.80 for the 2012 notes.

On September 27, 2008, our Company agreed to sell C&S Wholesale Grocers, Inc. ("C&S") all general merchandise, heath beauty and cosmetics, seasonal grocery and other such merchandise warehoused at our distribution center located in Edison, New Jersey. The purchase price of this inventory was approximately $29.9 million and we agreed to repurchase all of the inventory by the end of our third quarter of fiscal 2008. No gain or loss was recorded on the sale.

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

INTRODUCTION

The following Management's Discussion and Analysis is intended to help the reader understand the financial position, operating results, and cash flows of The Great Atlantic and Pacific Tea Company, Inc. It should be read in conjunction with our financial statements and the accompanying notes ("Notes"). It discusses matters that Management considers relevant to understanding the business environment, financial

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position, results of operations and our Company's liquidity and capital resources. These items are presented as follows:

- Basis of Presentation - a discussion of our Company's results during the 12 and 28 weeks ended September 6, 2008 and September 8, 2007.
- Overview - a general description of our business; the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives.
- Outlook - a discussion of certain trends or business initiatives for the remainder of fiscal 2008 to assist in understanding the business.
- Review of Continuing Operations and Liquidity and Capital Resources -- a discussion of results for the 12 weeks ended September 6, 2008 compared to the 12 weeks ended September 8, 2007; results for the 28 weeks ended September 6, 2008 compared to the 28 weeks ended September 8, 2007; current and expected future liquidity; and the impact of various market risks on our Company.
- Critical Accounting Estimates -- a discussion of significant estimates made by Management.
- Market Risk - a discussion of the impact of market changes on our consolidated financial statements.

BASIS OF PRESENTATION

The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. for the 12 and 28 weeks ended September 6, 2008 and September 8, 2007 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary for a fair statement of financial position and results of operations for such periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our revised Fiscal 2007 Annual Report to Stockholders on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of our Company and all subsidiaries.

OVERVIEW

The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores and discount food stores in 8 U.S. states and the District of Columbia. Our Company's business consists strictly of our retail operations, which totaled 445 stores as of September 6, 2008.

During the second quarter ended September 6, 2008, our chief operating decision maker changed the manner by which results are evaluated, therefore, our reportable segments have been revised to be consistent with the way our chief operating decision maker currently manages our business. Accordingly, we have revised our segment reporting to report five operating segments: Fresh, Price Impact, Gourmet, Other and our investment in Metro, Inc. The Other segment includes our Food Basics and Liquor businesses. Our investment in Metro, Inc. represents our former economic interest in Metro, Inc. The criteria necessary to classify the Midwest and Greater New Orleans area as discontinued were satisfied in fiscal 2007 and these operations have been reclassified as such in our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008 and September 8, 2007.

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RECENT ANNOUNCEMENTS

On March 7, 2008, our Company entered into a definitive agreement with C&S Wholesale Grocers, Inc. ("C&S") whereby C&S will provide warehousing, logistics, procurement and purchasing services (the "Services") in support of the Company's entire supply chain. This agreement replaces and supersedes three (3) separate wholesale supply agreements under which the parties have been operating. The term of the agreement is ten and one-half (10-1/2) years, which includes a six-month "ramp-up" period during which the parties will transition to the new contractual terms and conditions. The agreement provides that the actual costs of performing the services shall be reimbursed to C&S on an "open-book" or "cost-plus" basis, whereby the parties will negotiate annual budgets that will be reconciled against actual costs on a periodic basis. The parties will also annually negotiate services specifications and performance standards that will govern warehouse operations. The agreement defines the parties' respective responsibilities for the procurement and purchase of merchandise intended for use or resale at the Company's stores, as well as the parties' respective remuneration for warehousing and procurement/purchasing activities. In consideration for the services it provides under the agreement, C&S will be paid an annual fee and will have incentive income opportunities based upon A&P's cost savings and increases in retail sales volume.

On May 7, 2008, the 4,657,378 Series A warrants, scheduled to expire on June 9, 2008, were exercised by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P. Our Company opted to settle the Series A warrants in cash totaling $45.7 million rather than issuing additional common shares.

OPERATING RESULTS

The second quarter of fiscal 2008 produced mixed results. Although revenues and retail fundamentals such as market share and comparable store sales were quite favorable in all formats, overall earnings were below management expectations driven by issues in our Price Impact format. As evidenced in the segment reporting results, the Fresh, Gourmet and Discount formats showed very strong growth, both in sales and segment income. Price Impact results were mixed with

very strong sales momentum, contrasted with a sharp decline in segment income. During the second quarter of fiscal 2008, we grew market share in each of our three major metropolitan markets, New York, Philadelphia and Baltimore.

We made significant progress toward our synergy goals with the annualized run rate of synergies approximating $120 million at the end of the second quarter of fiscal 2008. We realized approximately $25 million of synergies during the second quarter of fiscal 2008, comprised of reduced administrative costs ($16 million), reduced merchandise costs ($5 million), as well as reductions in store operating and marketing and advertising costs ($4 million).

We maintained all necessary liquidity during the second quarter of fiscal 2008 with availability of $167.5 million under our Credit Agreement as of September 6, 2008.

Fresh Format
(A&P, Waddbaum's and Super Fresh)

We advanced our Fresh format in the second quarter of fiscal 2008 with segment income improving by almost 30%, driven by an improvement in private label, fresh mix, and pricing strategies. Several new projects were completed during the quarter including the Branford and Greenwich, CT. locations. We now have 256 stores operating under our Fresh format, approximately 57% of our total operating stores.

Price Impact
(Pathmark and Pathmark Sav-A-Center)

Price Impact stores experienced significant comparable store sales and improved market share. However, Pathmark earnings were below management's expectation as we experienced issues which negatively impacted our gross margin rate. More specifically, we experienced the following:

- Inflationary cost increases - Supplier cost inflation continued to increase significantly. The transition challenges of assuming the Pathmark business initially masked the impact of these increases to that business. Toward the end of the second quarter of fiscal 2008, we changed our strategy and processes for passing on these increases and have realized margin improvement since then.

- Change in ordering processes - Prior to the close of the acquisition, Pathmark had initiated certain changes in store level processes resulting in declines in certain vendor funding and creating out-of-stock issues, most significantly during the second quarter of fiscal 2008. We modified these processes effective after the end of the second quarter and have since experienced significantly improved results.

On a positive note, our first Price Impact renovations have been completed and we commenced our Philadelphia initiative converting our first Super Fresh store to Pathmark Sav-A-Center. Several other Pathmark renovations in this market have also been completed and the total Philadelphia conversion/refresh strategy should be accomplished by year end.

Gourmet
(The Food Emporium)

Gourmet stores located in Manhattan continues with significant growth in sales and segment income. We have completed a full merchandise mix revamp, driving

innovation and quality new merchandise lines. The newly merchandised stores combined with the local economic downturn experienced by Manhattan residents is causing a shift in resident buying patterns toward grocery shopping instead of restaurant dining.

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

Our Discount business operating under the Food Basics banner is realizing growth in both sales and segment income. We have refined the concept and have taken severely underperforming stores with negative cash flows and consistently moved them to profitability. The current economic environment is helping to drive this format, as it realizes continued year over year double digit comparable store sales growth. We are currently in the planning stages for more store conversions to this format as well as new sites in urban markets.

Additionally we have opened our first A&P Best Cellars stand alone liquor store in Westwood, N.J. with more in-store renovations to come. We have also grown our portfolio of Starbucks in-store locations.

OUTLOOK

Cost inflation advanced to the highest level in recent history. In addition, the economic environment is experiencing instability in the financial markets and tightened credit markets. This environment will result in a continuing shift in consumer buying patterns towards more highly promoted and temporarily price

reduced items and away from regular retail and higher margin goods. We believe this will be partially mitigated by a shift to higher margin private label merchandise.

In light of the deteriorating economic environment, we have shifted more of our capital dollars towards the Discount and Price Impact conversions, refreshes and new store initiatives. We are proceeding with a very conservative capital spending plan and are managing our liquidity very closely. Going forward we intend to leverage our various strategic formats in response to economic impacts and local market demographics in the most cost efficient and least capital intensive fashion possible.

Based on our performance during the early part of the third quarter of fiscal 2008, we believe most of the Pathmark related issues have been successfully addressed which should positively impact results. Further, we believe we are very well positioned with our diverse and strategically targeted retail formats to react and compete effectively in most economic environments.

Various factors could have a negative effect on our Company's financial position and results of operations. These include, among others, the following:

- Our retail food business and the grocery retailing industry continues to experience aggressive competition from mass merchandisers, warehouse clubs, drug stores, convenience stores, discount merchandisers, dollar stores, restaurants, other retail chains, nontraditional competitors and emerging alternative formats in the markets where we have retail operations. Competition with these outlets is based on price, store location, advertising and promotion, product mix, quality and service. Some of these competitors may have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do, and we may be

unable to compete successfully in the future. Price-based competition has also, from time to time, adversely affected our operating margins. Competitors' greater financial strengths enable them to participate in aggressive pricing strategies selling inventory below costs to drive overall increased sales. Our continued success is dependent upon our ability to effectively compete in this industry and to reduce operating expenses, including managing health care and pension costs contained in our collective bargaining agreements. The competitive practices and pricing in the food industry generally and particularly in our principal markets may cause us to reduce our prices in order to gain or maintain our market share of sales, thus reducing margins.

o Our in-store pharmacy business is also subject to intense competition. In particular, an adverse trend for drug retailing has been significant growth in mail-order and internet-based prescription processors. Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products. In addition, the conversion of various prescription drugs to over-the-counter medications, the withdrawal of certain drugs from the market and changes in third party reimbursement levels for prescription drugs, including changes in Medicare Part D or state Medicaid programs, may have a material adverse effect on our business. Failure to properly adhere to Federal, State and local government rules and regulations, applicable Medicare and Medicaid regulations could result in the imposition of civil as well as criminal penalties.

o The retail food and food distribution industries, and the operation of our businesses, specifically in the New York -- New Jersey and Philadelphia regions, are sensitive to a number of economic conditions and other factors such as (i.) food price deflation or inflation, (ii.) softness in local and national economies, (iii.) increases in commodity prices, (iv.) the availability of favorable credit and trade terms, (v.) changes in business plans, operations, results and prospects, (vi.) potential delays in the development, construction or start-up of planned projects, and (vii.) other economic conditions that may

affect consumer buying habits. Any one or more of these economic conditions can affect our retail sales, the demand for products we distribute to our retail customers, our operating costs and other aspects of our business.

o Acts of war, threats of terror, acts of terror or other criminal activity directed at the grocery or drug store industry, the transportation industry, or computer or communications systems, could increase security costs, adversely affect our operations, or impact consumer behavior and spending as well as customer orders. Other events that give rise to actual or potential food contamination, drug contamination, or food-borne illness could have an adverse effect on our operating results.

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

o Our operations subject us to various laws and regulations relating to the protection of the environment, including those governing the management and

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

- Our capital expenditures could differ from our estimate if development and remodel costs vary from those budgeted, or if performance varies significantly from expectations or if we are unsuccessful in acquiring suitable sites for new stores.

- Our ability to achieve our profit goals will be affected by (i.) our success in executing category management and purchasing programs that we have underway, which are designed to improve our gross margins and reduce product costs while making our product selection more attractive to consumers, (ii.) our ability to achieve productivity improvements and reduce shrink in our stores, (iii.) our success in generating efficiencies in our supporting activities, and (iv.) our ability to eliminate or maintain a minimum level of supply and/or quality control problems with our vendors.

- The majority of our employees are members of labor unions. While we believe that our relationships with union leaderships and our employees are satisfactory, we operate under collective bargaining agreements which periodically must be renegotiated. In the coming year, we have several contracts expiring and under negotiation. In each of these negotiations, rising health care and pension costs will be an important issue, as will the nature and structure of work rules. We are hopeful, but cannot be certain, that we can reach satisfactory agreements without work stoppages in these markets. However, the actual terms of the renegotiated collective bargaining agreements, our future relationships with our

employees and/or a prolonged work stoppage affecting a substantial number of stores could have a material effect on our results.

- The amount of contributions made to our pension and multi-employer plans will be affected by the performance of investments made by the plans and the extent to which trustees of the plans reduce the costs of future service benefits.

- Our Company is currently required to acquire a majority of our saleable inventory from one supplier, C&S Wholesale Grocers, Inc. Although there are a limited number of distributors that can supply our stores, we believe that other suppliers could provide similar product on reasonable terms. However, a change in suppliers could cause a delay in distribution and a possible loss of sales, which would affect operating results adversely.

- We have estimated our exposure to claims, administrative proceedings and

litigation and believe we have made adequate provisions for them, where appropriate. Unexpected outcomes in both the costs and effects of these matters could result in an adverse effect on our earnings.

o The success of the merger with Pathmark will depend, in part, on the combined company's ability to realize the anticipated benefits from combining the businesses of A&P and Pathmark, including, anticipated annual integration synergies within two years, through cost reductions in overhead, greater efficiencies, increased utilization of support facilities and the adoption of mutual best practices between the two companies. These integration matters could have a material adverse effect on our business.

o Following the closing of the acquisition of Pathmark, Tengelmann, A&P's former majority stockholder, owned beneficially and of record a substantial percentage of our common stock on a fully diluted basis. As a result of this equity ownership and our stockholder agreement with Tengelmann, Tengelmann has the power to significantly influence the results of stockholder votes and the election of our board of directors, as well as transactions involving a potential change of control of our Company. Tengelmann may support strategies and directions for our Company which are in its best interests but which are opposed to other stockholder interests.

o Our substantial indebtedness could impair our financial condition and our ability to fulfill our debt obligations. Our indebtedness could make it more difficult for us to satisfy our obligations, which could in turn result in an event of default on our obligations, require us to dedicate a substantial portion of our cash flow from operations to debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes, impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes, diminish our ability to withstand a downturn in our business, the industry in which we operate or the economy generally, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and place us at a competitive disadvantage compared to certain competitors that have proportionately less debt. Our New Credit Agreement ("Credit Agreement") contains restrictive covenants customary for facilities of that type which limit our ability to incur additional debt, pay dividends, grant additional liens, make investments and take other actions. These restrictions may limit our flexibility to undertake future financings and take other actions. If we are unable to meet our debt service obligations, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all. In addition, our Credit Agreement bears interest at a variable rate. If market interest rates increase, such variable-rate debt will

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have higher debt service requirements, which could adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

o We are the primary obligor for a significant number of closed stores and warehouses under long-term leases. Our ability to sublet or assign these leases depends on the economic conditions of the real estate markets in which these leases are located. We have estimated our obligation under these leases, net of expected subleases and we have reserved for them,

where appropriate. Unexpected changes in the marketplace or with individual sublessors could result in an adverse effect on our cash flow and earnings.

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

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

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

o Our articles of incorporation permit our board of directors to issue preferred shares without first obtaining stockholder approval. If we issued preferred shares, these additional securities may have dividend or liquidation preferences senior to our common stock. If we issue convertible preferred shares, a subsequent conversion may dilute the current common stockholders' interest. Issuance of such preferred stock could adversely affect the price of our common stock.

o Lehman Brothers Holdings Inc. ("Lehman") and certain of its subsidiaries, including, Lehman Brothers International (Europe) ("Lehman Europe") filed a petition under Chapter 11 of the U.S Bankruptcy Code with the United States Bankruptcy Court. Lehman Europe is party to a 3,206,058 million share lending agreement with our Company. Due to the circumstances of the Lehman bankruptcy, it is likely we will record the loaned shares as issued and outstanding starting on September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

o We understand that on or about October 3, 2008, Lehman Brothers OTC

Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC and we may, among other things, terminate the call option and financing warrant transactions with LBOTC and seek to effect similar transactions with a new counterparty. In the event we terminate these transactions, we would have the right to monetary damages from LBOTC in an amount equal to the present value of our cost to replace the transactions with another party for the same period and on the same terms. Unless we enter into new call option and warrant transactions, the impact of the LBOTC bankruptcy effectively reduced conversion prices to their stated prices of $36.40 for the 2011 notes and $37.80 for the 2012 notes.

o Current economic conditions have been, and continue to be volatile, and in recent weeks the volatility has reached unprecedented levels. As a result of concern about the stability of the markets and the strength of counterparties, many financial institutions have reduced and, in some cases, ceased to provide funding to borrowers. Based on information available to us, we have no indication that the financial institutions syndicated under our Credit Agreement would be unable to fulfill their commitments as of our filing date. Continued turbulence in the global credit markets and U.S. economy may adversely affect our results of operations, financial condition and liquidity.

Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly from those included in or contemplated or implied by forward-looking statements made by us or our representatives.

RESULTS OF CONTINUING OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

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

12 WEEKS ENDED SEPTEMBER 6, 2008 COMPARED TO THE 12 WEEKS ENDED SEPTEMBER 8, 2007

OVERALL

Sales for the second quarter of fiscal 2008 were $2,182.6 million compared to $1,274.3 million for the second quarter of fiscal 2007 due primarily to the acquisition of Pathmark; comparable store sales, which include stores that have been in operation for two full fiscal years and replacement stores, increased 2.8%. Loss from continuing operations increased from $2.9 million for the second quarter of fiscal 2007 to $3.6 million for the second quarter of fiscal 2008. Loss from discontinued operations of $88.4 million for the second quarter of fiscal 2007 decreased to a loss from discontinued operations of $13.8 million for the

second quarter of fiscal 2008 due to the absence of the sale and closure of stores in the Midwest and the sale of our stores in the Greater New Orleans area. Net loss per share - basic for the second quarter of fiscal 2008 was $0.35 and net loss per share - diluted for the second quarter of fiscal 2008 was $1.75, compared to net loss per share - basic & diluted of $2.18 for the second quarter of fiscal 2007.

	12 Weeks Ended Sept. 6, 2008	12 Weeks Ended Sept. 8, 2007	Favorable / (Unfavorable)	% Change
Sales	$ 2,182.6	$ 1,274.3	$ 908.3	71.3%
Increase in comparable store sales	2.8%	3.2%	NA	NA
Loss from continuing operations	(3.6)	(2.9)	(0.7)	(24.1%)
Loss from discontinued operations	(13.8)	(88.4)	74.6	84.4
Net loss	(17.4)	(91.3)	73.9	80.9%
Net loss per share - basic	(0.35)	(2.18)	1.83	83.9%
Net loss per share - diluted	(1.75)	(2.18)	0.45	20.6%

Average weekly sales per supermarket were approximately $428,000 for the second quarter of fiscal 2008 versus $353,700 for the corresponding period of the prior year, an increase of 21.0% primarily due to the acquisition of Pathmark's larger supermarkets in the fourth quarter of fiscal 2007.

SALES

	For the 12 weeks ended	
	Sept. 6, 2008	Sept. 8, 2007
Fresh	$ 1,153,389	$ 1,168,101
Price Impact	913,197	-
Gourmet	56,717	51,534
Other	59,333	53,682
Investment in Metro, Inc.	-	1,021
Total sales	$ 2,182,636	$ 1,274,338

Sales increased from $1,274.3 million for the 12 weeks ended September 8, 2007 to $2,182.6 million for the 12 weeks ended September 6, 2008 primarily due to the acquisition of Pathmark in the fourth quarter of fiscal 2007 contributing $913.2 million in sales as well as an increase in comparable stores sales of $38.4 million, offset by the absence of sales from store closures of $48.4 million. The decrease in sales in our Fresh segment of $14.7 million is primarily due to the absence of sales from store closures of $46.0, offset by an increase in comparable store sales of $26.9 million and an increase in sales related to the opening of new stores of $4.4 million. The increase in sales in our Gourmet segment of $5.2 million is primarily due to comparable store sales increases. The sales increase of $5.7 million, or 10.5%, in our Other segment, representing Discount and Liquor, is primarily due to an increase in comparable store sales driven by our remodel program and our acquisition of Best Cellars,

offset partially by store closures. The decrease in sales of $1.0 million, or 100%, in our Metro segment is due to the expiration of our information technology agreement with Metro, Inc. during fiscal 2007.

GROSS MARGIN

Gross margin of $651.5 million decreased 143 basis points as a percentage of sales to 29.85% for the second quarter of fiscal 2008 from gross margin of $398.6 million or 31.28% for the second quarter of fiscal 2007 driven primarily by the inclusion of Pathmark in the second quarter of fiscal 2008 (136 basis points) and the expiration of our information technology agreement with Metro, Inc. (8 basis points.) Excluding

the impact of the Pathmark acquisition, we achieved gross margin of $396.3 million or 31.22% as a percentage of sales in the second quarter of fiscal 2008, which represents an increase of 1 basis point from the second quarter of fiscal 2007, after excluding the margin related to our information technology agreement with Metro, Inc.

The following table details the dollar impact of several items affecting the gross margin dollar increase (decrease) from the second quarter of fiscal 2007 to the second quarter of fiscal 2008:

	Sales Volume	Gross Margin Rate	Total
Total Company	$ 284.1	$ (31.2)	$ 252.9

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

Store operating, general and administrative expense ("SG&A") was $663.1 million or 30.38% as a percentage of sales for the second quarter of fiscal 2008 compared to $391.2 million or 30.70% as a percentage of sales for the second quarter of fiscal 2007.

Included in SG&A for the second quarter of fiscal 2008 were certain charges as follows:

- occupancy related costs of $0.2 million (1 basis point) due to changes in our estimates of future costs for stores closed as part of our asset disposition initiatives as discussed in Note 9 - Asset Disposition Initiatives;
- restructuring costs of $0.4 million (2 basis points);
- net real estate activity of $5.4 million (25 basis points) during the second quarter of fiscal 2008; and
- Pathmark acquisition related costs of $10.6 million (48 basis points).

Included in SG&A for the second quarter of fiscal 2007 were certain charges as follows:

- costs relating to a voluntary retirement buyout program of $0.6 million (4 basis points);
- net real estate activity of $0.7 million (5 basis points); and
- Pathmark acquisition related costs of $1.9 million (15 basis points).

Partially offset by:

- reversal of costs relating to the consolidation of our operating offices in line with our smaller operations of $0.9 million (7 basis points);
- gain on the sale of our owned warehouse in Edison, New Jersey of $14.2 million (112 basis points) that was closed and not sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. as discussed in Note 9 - Asset Disposition Initiatives; and
- reversal of occupancy related costs of $0.8 million (7 basis points) due to changes in our estimates of future costs for stores closed as part of our asset disposition initiatives as discussed in Note 9 - Asset Disposition Initiatives.

Excluding the items listed above, SG&A as a percentage of sales decreased by 208 basis points during the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 primarily due to the acquisition of Pathmark which contributed higher sales productivity.

During the 12 weeks ended September 6, 2008 and September 8, 2007, we recorded impairment losses on long-lived assets due to expected closure, closure or conversion in the normal course of business of $1.0 million and $0.6 million, respectively.

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

SEGMENT INCOME

	For the 12 weeks ended	
	Sept. 6, 2008	Sept. 8, 2007
Fresh	$ 28,565	$ 22,201
Price Impact	(2,447)	-
Gourmet	2,475	710
Other	641	(313)
Total segment income	$ 29,234	$ 22,598

Segment income increased $6.6 million from $22.6 million for the 12 weeks ended September 8, 2007 to $29.2 million for the 12 weeks ended September 6, 2008. Second quarter of fiscal 2008 results include segment loss of $2.4 million from the Pathmark business acquired in the fourth quarter of fiscal 2007. Our Fresh segment experienced an increase in segment income of $6.4 million from decreased costs, mainly in labor and administration. Segment income from our Gourmet business improved by $1.8 million primarily as a result of an improved gross margin rate partially offset by additional operating and administrative costs. The increase in segment income of $1.0 million in our Other segment,

representing Discount and Liquor, is primarily due to improving sales and margin rates in both businesses and our acquisition of Best Cellars. Refer to Note 15 - Operating Segments for further discussion of our reportable operating segments.

INTEREST EXPENSE

Interest expense of $33.9 million for the second quarter of 2008 increased from the prior year amount of $14.6 million due primarily to the higher level of indebtedness related to our acquisition of Pathmark, including the issuance of $165 million 5.125% convertible senior notes due 2011 and $255 million 6.75% convertible senior notes due 2012 resulting in an increase in interest expense of $8.7 million ($2.8 million of which were non-cash costs), increased borrowings on our Line of Credit and Credit Agreement resulting in interest expense of $5.6 million and an increase in interest expense related to Pathmark of $3.9 million primarily due to interest on capital leases.

NONOPERATING INCOME

During the second quarter of fiscal 2008, we recorded $42.9 million in fair value adjustments for (i.) our Series B warrants acquired in connection with our purchase of Pathmark, (ii.) our conversion feature of the 5.125% convertible senior notes and (iii.) our financing warrants recorded in connection with the issuance of our convertible senior notes. There were no such gains during the second quarter of fiscal 2007.

INCOME TAXES

The provision for income taxes from continuing operations for the second quarter of fiscal 2008 was $1.0 million compared to a benefit from income taxes from continuing operations of $0.6 million for the second

quarter of fiscal 2007. Consistent with the prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rate on continuing operations of 41.3% for the 12 weeks ended September 6, 2008 varied from the statutory rate of 35% primarily due to the recording of state and local income taxes, recording additional valuation allowance offset by a permanent difference related to nonoperating income from the fair value adjustments related to the conversion features, financing warrants and Series B warrants.

The effective tax rate on continuing operations of 17.3% for the 12 weeks ended September 8, 2007 varied from the statutory rate of 35% primarily due to state and local income taxes and an increase to our valuation allowance as a result of losses not benefited because of a lack of history of earnings.

DISCONTINUED OPERATIONS

Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete. However, our Company continues to pay occupancy costs for operating leases on closed locations.

On April 24, 2007, based upon unsatisfactory operating trends and the need to devote resources to our expanding Northeast core business, our Company announced negotiations for the sale of our non-core stores within our Midwest operations, including inventory related to these stores. Our Company ceased sales operations in all stores as of July 7, 2007. Planned sale transactions for these stores have been completed.

On May 30, 2007, our Company announced advanced negotiation for the sale of our non-core stores located within the Greater New Orleans area, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of November 1, 2007. Planned sale transactions for these stores have been completed.

The loss from operations of discontinued businesses, net of tax, for the second quarter of fiscal 2008 of $14.0 million decreased from a loss from operations of discontinued businesses, net of tax, of $86.3 million for the second quarter of fiscal 2007 primarily due to a decrease in vacancy related costs that were recorded in the second quarter of fiscal 2007 due to the closure of stores in the Midwest. The gain on disposal of discontinued operations of $0.2 million for the 12 weeks ended September 6, 2008 increased from the loss on disposal of discontinued operations in the prior year of $2.0 million primarily due to the absence of impairment losses recorded on the property, plant and equipment in the Greater New Orleans area and Midwest as we recorded the assets' fair market value based upon proceeds received and expected proceeds less costs to sell.

28 WEEKS ENDED SEPTEMBER 6, 2008 COMPARED TO THE 28 WEEKS ENDED SEPTEMBER 8, 2007

OVERALL

Sales for the 28 weeks ended September 6, 2008 were $5,105.3 million compared to $2,953.5 million for the 28 weeks ended September 8, 2007 due primarily to the acquisition of Pathmark; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, increased 3.0%. Income from continuing operations of $0.2 million for the 28 weeks ended September 6,

2008 decreased from income from continuing operations of $58.5 million for the 28 weeks ended September 8, 2007 primarily due to the absence of the gain on sale of shares of Metro, Inc. of $78.4 million. Loss from discontinued operations of $214.9 million for the 28 weeks ended September 8, 2007 decreased to a loss from discontinued operations of $15.3 million for the 28 weeks ended September 6, 2008 due to the absence of the sale and closure of stores in the Midwest and the sale of our stores in the Greater New Orleans area. Net loss per share - basic for the 28 weeks ended September 6, 2008 was $0.31 compared to a net loss per share - basic of $3.74 for the 28 weeks ended September 8, 2007. Net loss per share - diluted for the 28 weeks ended September 6, 2008 was $2.22 compared to a net loss per share - diluted of $3.70 for the 28 weeks ended September 8, 2007.

	28 Weeks Ended Sept. 6, 2008	28 Weeks Ended Sept. 8, 2007	Favorable / (Unfavorable)	% Chan

Sales	$ 5,105.3	$ 2,953.5	$ 2,151.8	72.9
Increase in comparable store sales	3.0%	1.9%	NA	NA
Income from continuing operations	0.2	58.5	(58.3)	(99.7
Loss from discontinued operations	(15.3)	(214.9)	199.6	92.9
Net loss	(15.1)	(156.4)	141.3	90.3
Net loss per share - basic	(0.31)	(3.74)	3.43	91.7
Net loss per share - diluted	(2.22)	(3.70)	1.48	40.0

Average weekly sales per supermarket were approximately $429,100 for the 28 weeks ended September 6, 2008 versus $350,800 for the corresponding period of the prior year, an increase of 22.3% primarily due to the acquisition of Pathmark's larger supermarkets in the fourth quarter of fiscal 2007.

SALES

	For the 28 weeks ended	
	Sept. 6, 2008	Sept. 8, 2007
Fresh	$ 2,663,216	$ 2,696,766
Price Impact	2,167,392	-
Gourmet	141,745	129,474
Other	132,948	121,491
Investment in Metro, Inc.	-	5,776
Total sales	$ 5,105,301	$ 2,953,507

Sales increased from $2,953.5 million for the 28 weeks ended September 8, 2007 to $5,105.3 million for the 28 weeks ended September 6, 2008 primarily due to the acquisition of Pathmark in the fourth quarter of fiscal 2007 contributing $2,167.4 million in sales as well as an increase in comparable stores sales of $89.9 million, offset by the absence of sales from store closures of $116.6 million. The decrease in sales in our Fresh segment of $33.6 million is primarily due to the absence of sales from store closures of $111.0, offset by an increase in comparable store sales of $65.7 million and an increase in sales related to the opening of new stores of $11.7 million. The increase in sales in our Gourmet segment of $12.3 million is primarily due to comparable store sales increases. The sales increase of $11.4 million, or 9.4%, in our Other segment, representing Discount and Liquor, is primarily due to an increase in comparable store sales driven by our

remodel program and our acquisition of Best Cellars, offset partially by store closures. The decrease in sales of $5.8 million, or 100%, in our Metro segment is due to the expiration of our information technology agreement with Metro, Inc. during fiscal 2007.

GROSS MARGIN

Gross margin of $1,535.1 million decreased 113 basis points to 30.07% as a percentage of sales for the 28 weeks ended September 6, 2008 from $921.6

million or 31.20% as a percentage of sales for the 28 weeks ended September 8, 2007 driven primarily by the inclusion of Pathmark in the 28 weeks ended September 6, 2008 (116 basis points) and the expiration of our information technology agreement with Metro, Inc. (20 basis points.) Excluding the impact of the Pathmark acquisition, we achieved gross margin of $917.8 million or 31.24% as a percentage of sales for the 28 weeks ended September 6, 2008, which represents an increase of 23 basis points from the 28 weeks ended September 8, 2007, after excluding the margin related to our information technology agreement with Metro, Inc.

The following table details the dollar impact of several items affecting the gross margin dollar increase (decrease) from the 28 weeks ended September 8, 2007 to the 28 weeks ended September 6, 2008:

	Sales Volume	Gross Margin Rate	Total
Total Company	$ 671.4	$ (57.9)	$ 613.5

STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE

SG&A expense was $1,544.6 million or 30.25% as a percentage of sales for the 28 weeks ended September 6, 2008 as compared to $920.6 million or 31.17% as a percentage of sales for the 28 weeks ended September 8, 2007.

Included in SG&A for the 28 weeks ended September 6, 2008 were certain charges as follows:

- restructuring costs of $0.4 million (1 basis point);
- net real estate activity of $6.5 million (13 basis points) during the second quarter of fiscal 2008; and
- Pathmark acquisition related costs of $24.6 million (48 basis points).

Included in SG&A for the 28 weeks ended September 8, 2007 were certain charges as follows:

- costs relating to a voluntary retirement buyout program of $0.5 million (2 basis points);
- net real estate activity of $3.0 million (10 basis points); and
- Pathmark acquisition related costs of $2.4 million (8 basis points).

Partially offset by:

- reversal of costs relating to the consolidation of our operating offices in line with our smaller operations of $0.9 million (3 basis points);
- gain on the sale of our owned warehouse in Edison, New Jersey of $13.4 million (45 basis points) that was closed and not sold as part of the sale of our U.S. distribution operations and some warehouse facilities and related assets to C&S Wholesale Grocers, Inc. as discussed in Note 9 - Asset Disposition Initiatives; and

- reversal of occupancy related costs of $1.4 million (5 basis points) due to changes in our estimates of future costs for stores closed as part of our asset disposition initiatives as discussed in Note 9 - Asset Disposition Initiatives.

Excluding the items listed above, SG&A as a percentage of sales decreased by 187 basis points during the 28 weeks ended September 6, 2008 as compared to the 28 weeks ended September 8, 2007 primarily due to the acquisition of Pathmark which contributed higher sales productivity.

During the 28 weeks ended September 6, 2008 and September 8, 2007, we recorded impairment losses on long-lived assets for impairments due to expected closure, closure or conversion of stores in the normal course of business of $1.8 million and $1.1 million, respectively.

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

SEGMENT INCOME

	For the 28 weeks ended	
	Sept. 6, 2008	Sept. 8, 2007
Fresh	$ 64,112	$ 51,676
Price Impact	18,577	-
Gourmet	9,890	5,586
Other	1,305	(1,614)
Total segment income	$ 93,884	$ 55,648

Segment income increased $38.3 million from $55.6 million for the 28 weeks ended September 8, 2007 to $93.9 million for the 28 weeks ended September 6, 2008. Second quarter of fiscal 2008 results include segment income of $18.6 million from the Pathmark business acquired in the fourth quarter of fiscal 2007. Our Fresh segment experienced an increase in segment income of $12.4 million from decreased costs, mainly in labor and administration. Segment income from our Gourmet business improved by $4.3 million primarily as a result of an improved gross margin rate partially offset by additional operating and administrative costs. The increase in segment income of $2.9 million in our Other segment, representing Discount and Liquor, is primarily due to improving sales and margin rates in both businesses and our acquisition of Best Cellars. Refer to Note 15 - Operating Segments for further discussion of our reportable operating segments.

INTEREST EXPENSE

Interest expense of $79.9 million for the 28 weeks ended September 6, 2008 increased from the prior year amount of $34.3 million due primarily to the higher level of indebtedness related to our acquisition of Pathmark, including the issuance of $165 million 5.125% convertible senior notes due 2011 and $255 million 6.75% convertible senior notes due 2012 resulting in an increase in interest expense of $20.3 million ($6.5 million of which were non-cash costs), increased borrowings on our Line of Credit and Credit Agreement resulting in an increase in interest expense of $11.3 million and an increase in interest expense related to Pathmark of $11.3 million primarily due to interest on capital leases.

NONOPERATING INCOME

During the 28 weeks ended September 6, 2008, we recorded $91.5 million in fair value adjustments for (i.) our Series A and Series B warrants acquired in connection with our purchase of Pathmark, (ii.) our conversion feature of the 5.125% convertible senior notes and the 6.75% convertible senior notes, and (iii.) our financing warrants recorded in connection with the issuance of our convertible senior notes. There were no such gains during the 28 weeks ended September 8, 2007.

EQUITY IN EARNINGS OF METRO, INC.

We used the equity method of accounting to account for our investment in Metro, Inc., through March 13, 2007, because we exerted significant influence over substantive operating decisions made by Metro, Inc. through our membership on Metro, Inc.'s Board of Directors and its committees and through an information technology services agreement with Metro, Inc. During the 28 weeks ended September 8, 2007, we recorded $7.9 million in equity earnings relating to our equity investment in Metro, Inc.

During fiscal 2007, we sold all of our holdings in Metro, Inc. Thus, there were no such equity earnings during the 28 weeks ended September 6, 2008.

INCOME TAXES

The provision for income taxes from continuing operations for the 28 weeks ended September 6, 2008 was $2.4 million compared to $2.5 million for the 28 weeks ended September 8, 2007. Consistent with prior year, we continue to record a valuation allowance against our net deferred tax assets.

The effective tax rate on continuing operations of 92.0% for the 28 weeks ended September 6, 2008 varied from the statutory rate of 35% primarily due to the recording of state and local income taxes, recording additional valuation allowance offset by a permanent difference related to nonoperating income from the fair value adjustments related to the conversion features, financing warrants and Series A and B warrants.

The effective tax rate on continuing operations of 4.2% for the 28 weeks ended September 8, 2007 varied from the statutory rate of 35% primarily due to state and local income taxes and a decrease to our valuation allowance as a result of the utilization of loss carryforwards that were not previously tax benefited.

DISCONTINUED OPERATIONS

Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete. However, our Company continues to pay occupancy costs for operating leases on closed locations.

On April 24, 2007, based upon unsatisfactory operating trends and the need to devote resources to our expanding Northeast core business, our Company announced negotiations for the sale of our non-core stores within our Midwest operations, including inventory related to these stores. Our Company ceased sales operations

in all stores as of July 7, 2007. Planned sale transactions for these stores have been completed. On May 30, 2007, our Company announced advanced negotiation for the sale of our non-core stores located within the Greater New Orleans area, including inventory related to these stores. Our Company ceased sales operations in all stores not sold as of November 1, 2007. Planned sale transactions for these stores have been completed.

The loss from operations of discontinued businesses, net of tax, for the 28 weeks ended September 6, 2008 of $18.2 million decreased from a loss from operations of discontinued businesses, net of tax, of $166.1 million for the 28 weeks ended September 8, 2007 primarily due to a decrease in vacancy related costs that were recorded in the first and second quarters of fiscal 2007 due to the closure of stores in the Midwest and the Greater New Orleans area. The gain on disposal of discontinued operations of $2.8 million for the 28 weeks ended September 6, 2008 increased from the loss on disposal of discontinued operations in the prior year of $48.8 million primarily due to the absence of impairment losses recorded on the property, plant and equipment in the Greater New Orleans area and Midwest as we recorded the assets' fair market value based upon proceeds received and expected proceeds less costs to sell.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

The following table presents excerpts from our Consolidated Statements of Cash Flows:

	28 Weeks Ended	
	Sept. 6, 2008	Sept. 8, 2007
Net cash (used in) provided by operating activities	$ (30,824)	$ 1,999
Net cash (used in) provided by investing activities	$ (45,225)	$ 75,524
Net cash provided by (used in) financing activities	$ 106,385	$ (87,516)

Net cash used in operating activities of $30.8 million for the 28 weeks ended September 6, 2008 primarily reflected our net loss of $15.1 million, adjusted for non-cash charges for (i.) depreciation and amortization of $140.8 million, (ii.) charges related to our asset disposition initiatives of $4.9 million, (iii.) other share based awards of $7.0 million, partially offset by, (iv.) gain on disposal of discontinued operations of $2.8 million, and (v.) nonoperating income related to marked to market adjustments for financial instruments of $91.5 million. Further, cash was provided by an increase in accounts payable of $50.5 million mainly due to the timing of payments partially offset by an increase in inventories of $20.6 million, an increase in prepaid expenses and other current assets of $19.0 million, an increase in other assets of $9.0

million, a decrease in accrued salaries, wages and benefits, and taxes of $23.7 million, a decrease in other non-current liabilities of $51.5 million primarily due to payments on closed locations. Refer to Working Capital below for discussion of changes in working capital items. Net cash provided by operating activities of $2.0 million for the 28 weeks ended September 8, 2007 primarily reflected our net loss of $156.5 million, adjusted for non-cash charges for (i.) depreciation and amortization of $90.0 million, (ii.) losses on the disposal of owned property of $1.2 million, (iii.) loss on disposal of discontinued operations of $48.8 million, (iv) other property impairments of $1.1 million partially offset by (v.) income from our asset disposition initiatives, primarily related to real estate gains, of $21.0 million, (vi.) our equity in earnings of Metro, Inc. of $7.9 million, and (vii.) the gain on sale of shares of Metro, Inc. of $78.4 million. Further, cash was provided by a decrease in accounts receivable of $33.0 million, a decrease in inventories of $71.6 million, an increase in other non-current liabilities of $70.0 million due to an increase in our store closing reserves, partially offset by an increase in prepaid expenses and other current assets of $10.8 million, an increase in other assets of $9.0 million and a decrease in accounts payable of $29.6 million mainly due to the timing of payments.

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Net cash used in investing activities of $45.2 million for the 28 weeks ended September 6, 2008 primarily reflected property expenditures totaling $59.4 million, which included 2 new liquor stores, 3 major remodels, 1 major enlargement, 4 Pathmark Price Impact remodels and 3 Starbucks remodels partially offset by proceeds from disposal of property of $6.1 million and proceeds from maturities of restricted marketable securities of $7.1 million. For fiscal 2008, we have reduced our planned capital expenditures from approximately $200 million to an approximate range of $100 million to $125 million mainly due to a shift to lower cost Pathmark Price Impact remodels as well as our intention to limit capital expenditures in light of the difficult economic environment. Net cash provided by investing activities of $75.5 million for the 28 weeks ended September 8, 2007 primarily reflected proceeds from the sale of assets of $74.4 million ($22.9 million in the Northeast, $51.1 million in the Midwest and $0.4 million in the Greater New Orleans area), cash received from the sale of shares of Metro, Inc. of $203.5 million, and net sales of marketable securities of $20.4 million partially offset by an increase in restricted cash of $142.7 million and property expenditures totaling $79.8 million, which included 3 new supermarkets, 6 major remodels and 2 minor remodels.

Net cash provided by financing activities of $106.4 million for the 28 weeks ended September 6, 2008 primarily reflected net proceeds under our revolving lines of credit of $108.0 million, proceeds from a promissory note of $10.0 million, an increase in book overdrafts of $35.1 million, partially offset by the settlement of Series A warrants of $45.7 million. Net cash used in financing activities of $87.5 million for the 28 weeks ended September 8, 2007 primarily reflected principal payments on long-term borrowings of $32.0 million and net principal payments on revolving lines of credit of $63.2 million partially offset by proceeds from the exercise of stock options of $6.1 million.

We operate under an annual operating plan which is reviewed and approved by our Board of Directors and incorporates the specific operating initiatives we expect to pursue and the anticipated financial results of our Company. Our plan for fiscal 2008 at this time has been approved and we believe that our present cash resources, including invested cash on hand, available borrowings from our Credit Agreement and other sources, are sufficient to meet our needs. Based on information available to us, we have no indication that the financial institutions syndicated under our Credit Agreement would be unable to fulfill their commitments as of our filing date. However, given the current economic

environment and credit risk market crisis there is no assurance that this may not change in the foreseeable future.

Profitability, cash flow, asset sale proceeds and timing can be impacted by certain external factors such as unfavorable economic conditions, competition, labor relations and fuel and utility costs which could have a significant impact on cash generation. If our profitability and cash flow do not improve in line with our plans or if the taxing authorities do not affirm the adequacy of our Company's Domestic Reinvestment Plan, we anticipate that we would be able to modify the operating plan in order to ensure that we have appropriate resources.

WORKING CAPITAL

We had working capital of $154.3 million at September 6, 2008 compared to working capital of $117.1 million at February 23, 2008. We had cash and cash equivalents aggregating $131.0 million at September 6, 2008 compared to $100.7 million at February 23, 2008. The increase in working capital was attributable primarily to the following:

- An increase in cash and cash equivalents as detailed in the Consolidated Statements of Cash Flows;
- An increase in inventories due to seasonality;

- A decrease in current portion of other financial liabilities due to the exercise of Series A warrants by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P., and
- A decrease in accrued salaries, wages and benefits primarily due to payments made in connection with our annual incentive programs.

Partially offset by the following:

- An increase in accounts payable (inclusive of book overdrafts) due to the timing of payments.

LINE OF CREDIT

On January 16, 2008, we entered into a secured line of credit agreement with Blue Ridge Investments, L.L.C. This agreement enables us to borrow funds on a revolving basis subject to invested cash balances. Each borrowing bears interest at a rate per annum equal to the BBA Libor Daily Floating Rate plus 0.10%. At September 6, 2008 and February 23, 2008, we had borrowings outstanding under this line of credit agreement of $11.4 million and $11.6 million, respectively. This agreement expires December 31, 2008. These loans are collateralized by a first priority perfected security interest in our ownership interest in the Columbia Fund. See Note 5 - Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Securities, for further discussion on the Columbia Fund.

CREDIT AGREEMENT

On December 3, 2007, the 2005 Revolving Credit Agreement and Letter of Credit Agreement were refinanced pursuant to a new $675 million Credit Agreement ("Credit Agreement"). Our Credit Agreement is syndicated by various financial institutions with Banc of America Securities LLC and Bank of America, N.A. as the lead arranger. Subject to borrowing base requirements, the Credit Agreement

provides for a five-year term loan of $82.9 million and a five-year revolving credit facility of $592.1 million enabling us to borrow funds and issue letters of credit on a revolving basis. The Credit Agreement includes a $100 million accordion feature which gives us the ability to increase commitments from $675 million to $775 million. The Credit Agreement is collateralized by all assets of the company, including, but not limited to, inventory, certain accounts receivable, pharmacy scripts, owned real estate and certain Pathmark leaseholds. Borrowings under the Credit Agreement bear interest based on LIBOR or Prime interest rate pricing. Subject to certain conditions, we are permitted to pay cumulative cash dividends on common shares as well as make bond repurchases. At September 6, 2008, there were $277.9 million of loans and $229.6 million in letters of credit outstanding under this agreement. As of September 6, 2008, after reducing availability for borrowing base requirements, we had $167.5 million available under the Credit Agreement.

On December 27, 2007, in order to facilitate the syndication of the Credit Agreement under current market conditions, we entered into an Amended and Restated Credit Agreement, whereby a portion of the revolving commitment was converted into a $50 million term loan tranche which was collateralized by certain real estate assets at an increased margin rate. This agreement expires in December 2012.

Based on information available to us, we have no indication that the financial institutions syndicated under our Credit Agreement would be unable to fulfill their commitments as of our filing date.

PROMISSORY NOTE

On September 2, 2008, our Company issued a three year, unsecured promissory note in the amount of $10 million to Erivan Karl Haub. Erivan Haub is the father of Christian W. E. Haub, our Executive Chairman, and is a limited partner, of Tengelmann which owns an interest in our Company's stock. The principal is due in a lump sum payment on August 18, 2011 and will bear interest at a rate of 6% per year, payable in twelve equal payments of $0.15 million over the term of the note.

SERIES A AND SERIES B WARRANTS

As part of the acquisition of Pathmark on December 3, 2007, we issued 4,657,378 and 6,965,858 roll-over stock warrants in exchange for Pathmark's 2005 Series A and Series B warrants, respectively. The number of warrants issued was computed based on the conversion factor of 0.46296. The Series A warrants were exercisable at $18.36 and expired on June 9, 2008 and the Series B warrants are exercisable at $32.40 and expire on June 9, 2015. These warrants were originally valued using the price of A&P common stock of $30.05 per common share, the quoted market price of A&P common stock on November 30, 2007, the last trading day before the transaction closing date. The Tengelmann stockholders have the right to approve any issuance of common stock under these warrants upon exercise (assuming Tengelmann's outstanding interest is at least 25% and subject to liquidity impairments defined within the Tengelmann Stockholder Agreement). In addition, Tengelmann has the ability to exercise a "Put Right" whereby it has the ability to require A&P to purchase A&P stock held by Tengelmann to settle these warrants. Based on the rights provided to Tengelmann, A&P does not have sole discretion to determine whether the payment upon exercise of these warrants will be settled in cash or through issuance of an equivalent portion of A&P shares. Therefore, these warrants are recorded as liabilities and marked-to-market each reporting period based on A&P's current stock price.

On May 7, 2008, the 4,657,378 Series A warrants were exercised by Yucaipa Corporate Initiatives Fund I, L.P., Yucaipa American Alliance Fund I, L.P. and Yucaipa American Alliance (Parallel) Fund I, L.P. We opted to settle the Series A warrants in cash totaling $45.7 million rather than issuing additional common shares.

Included in "Nonoperating Income" on our Consolidated Statements of Operations for the 12 and 28 weeks ended September 6, 2008, is a loss of nil and $1.2 million, respectively, for the Series A warrants through the settlement date of May 7, 2008 and a gain of $48.8 million and $76.0 million, respectively, for the Series B warrants market value adjustment. The value of the Series B warrants were $30.1 million as of September 6, 2008 and is included in "Other financial liabilities" on our Consolidated Balance Sheets. The following assumptions and estimates were used in the Black-Scholes model for the Series B warrants:

	For the 28 weeks ended September 6, 2008
Expected life	6.8 years
Volatility	53.0%
Dividend yield	0%
Risk-free interest rate	3.24%

PUBLIC DEBT OBLIGATIONS

Outstanding notes totaling $593.2 million at September 6, 2008 consisted of $12.8 million of 9.125% Senior Notes due December 15, 2011, $144.2 million of 5.125% Convertible Senior Notes due June 15,

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2011, $236.2 million of 6.75% Convertible Senior Notes due December 15, 2012 and $200.0 million of 9.375% Notes due August 1, 2039. Interest is payable quarterly on the 9.375% Notes and semi-annually on the 9.125%, 5.125% and 6.75% Notes. The 9.375% Notes are now callable at par ($25 per bond) and the 9.125% Notes are callable at a premium to par (103.042%). The 9.375% Notes are unsecured obligations and were issued under the terms of our senior debt securities indenture, which contains among other provisions, covenants restricting the incurrence of secured debt. The 9.375% Notes are effectively subordinate to the Credit Agreement and do not contain cross default provisions. All covenants and restrictions for the 9.125% Senior Notes have been eliminated in connection with the cash tender offer in fiscal 2005. Our notes are not guaranteed by any of our subsidiaries.

During the 28 weeks ended September 8, 2007, the outstanding principal amount of our 7.75% Notes of $31.9 million due April 15, 2007 matured and was paid in full.

On December 18, 2007, we completed a public offering and issued $165 million 5.125% convertible senior notes due 2011 and $255 million 6.75% convertible senior notes due 2012. The 2011 notes are not redeemable at our option at any time. The 2012 notes are redeemable at our option on or after December 15, 2010, at a redemption price of 102.70% and on or after December 15, 2011, at a redemption price of 101.35%. The initial conversion price of the 2011 notes is

$36.40 representing a 30.0% premium to the offering price of $28.00 and the initial conversion price of the 2012 notes is $37.80 representing a 35.0% premium to the offering price of $28.00 at maturity, and at our option, the notes are convertible into shares of our stock, cash, or a combination of stock and cash.

Concurrent with this offering, we entered into call options and financing warrant transactions with financial institutions that are affiliates of the underwriters of the notes to effectively increase the conversion price of these notes and to reduce the potential dilution upon future conversion. Conversion prices were effectively increased to $46.20 or a 65% premium and $49.00 or a 75% premium for the 2011 and 2012 notes, respectively. We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC and we may, among other things, terminate the call option and financing warrant transactions with LBOTC and seek to effect similar transactions with a new counterparty. Unless we enter into new call option and warrant transactions, the impact of the LBOTC bankruptcy effectively reduced conversion prices to their stated prices of $36.40 for the 2011 notes and $37.80 for the 2012 notes.

As of December 18, 2007, our Company did not have sufficient authorized shares to provide for all potential issuances of common stock. Therefore, in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," our Company accounted for the conversion features as freestanding instruments. The notes were recorded with a discount equal to the value of the conversion features at the transaction date and will be accreted to the par value of the notes over the life of the notes. The value of the conversion features were determined utilizing the Black-Scholes option pricing model and recorded as a long term liability. The portion of the conversion features for which there are not shares available for settlement of conversions is marked to market each balance sheet date. On June 26, 2008, at a special meeting of shareholders, the number of shares of common stock our Company has authority to issue was increased to 160,000,000 based on a majority vote by our shareholders. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of $1.7 million and a gain of $9.4 million, respectively, in "Nonoperating Income" on our Consolidated Statements of Operations for the conversion features of the 5.125% convertible senior notes. During the 12 and 28 weeks ended September 6, 2008, the gain that was recorded in "Nonoperating Income" on our Consolidated Statements of Operations for the conversion

features of the 6.75% convertible senior notes was nil and $5.1 million, respectively. Based on an increase in available shares primarily due to the exercise of our Series A warrants during the first quarter of fiscal 2008 and the increase in authorized shares during the second quarter of fiscal 2008, the fair value of the conversion features of the 5.125% and 6.75% convertible senior notes of $13.8 million and $14.7 million as of June 26, 2008, respectively, were reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income. Thus, the fair value of the conversion features for the 5.125% and 6.75% convertible notes are no longer classified as a liability at September 6, 2008. The following assumptions and estimates were used in the Black-Scholes model:

As of
June 26, 2008

Expected life	3.0 years
Volatility	33.4%
Dividend yield	0%
Risk-free interest rate	3.11%

SHARE LENDING AGREEMENTS

We have entered into share lending agreements, dated December 12, 2007, with certain financial institutions, under which we have agreed to loan up to 11,278,988 shares of our common stock (subject to certain adjustments set forth in the share lending agreements). These borrowed shares must be returned to us no later than December 15, 2012 or sooner if certain conditions are met. If an event of default should occur under the stock lending agreement and a legal obstacle exists that prevents the Borrower from returning the shares, the Borrower shall, upon written request of our Company, pay our Company, using available funds, in lieu of the delivery of loaned shares, to settle its obligation. On June 26, 2008, security holders approved to loan up to an additional 1,577,569 shares of our Company's common stock pursuant to the share lending agreement.

These financial institutions will sell the "borrowed shares" to investors to facilitate hedging transactions relating to the issuance of our 5.125% and 6.75% Convertible Notes. Pursuant to these agreements, we loaned 8,134,002 shares of our stock of which 6,300,752 shares were sold to the public on December 18, 2007 in a public offering. We did not receive any proceeds from the sale of the borrowed shares. We received a nominal lending fee from the financial institutions pursuant to the share lending agreements.

Any shares we loan will be issued and outstanding. Investors that purchase borrowed shares will be entitled to the same voting and dividend rights as any other holders of our common stock; however, the financial institutions will not have such rights pursuant to the share lending agreements. The obligation of the financial institutions to return the borrowed shares has been accounted for as a prepaid forward contract and, accordingly, shares underlying this contract are removed from the computation of basic and dilutive earnings per share. On a net basis, this transaction will have no impact on earnings per share.

On September 15, 2008, Lehman and certain of its subsidiaries, including, Lehman Europe filed a petition under Chapter 11 of the U.S Bankruptcy Code with the United States Bankruptcy Court. Lehman Europe is party to a 3,206,058 million share lending agreement with our Company. Due to the circumstances of the Lehman bankruptcy, it is likely we will record the loaned shares as issued and outstanding starting on September 15, 2008, for purposes of computing and reporting our Company's basic and diluted weighted average shares and earnings per share.

CALL OPTION AND FINANCING WARRANT

Concurrent with our issuance of the convertible senior notes, we entered into call option and financing warrant transactions with financial institutions that are affiliates of the underwriters to reduce the potential dilution upon future conversion of the notes and to effectively increase the conversion price of the notes. The call options allow our Company to purchase common shares at $36.40 with respect to the 5.125% notes and $37.80 with respect to the 6.75% notes. These purchased shares would be used to satisfy the conversion of the convertible senior notes. The call options are accounted for as free standing

derivatives and $73.5 million is recorded as equity in the Consolidated Balance Sheet. The financing warrants allow holders to purchase common shares at $46.20 with respect to the 5.125% notes and $49.00 with respect to the 6.75% notes. The financing warrants were valued at $36.8 million at the issuance date. At the issuance date, our Company did not have sufficient authorized shares to provide all potential issuances of common stock. Therefore, the financing warrants were accounted for as freestanding derivatives, required to be settled in cash until sufficient shares were available and were recorded as a long-term liability in the Consolidated Balance Sheet. On June 26, 2008, at a special meeting of shareholders, the number of shares of common stock our Company has authority to issue was increased to 160,000,000 based on a majority vote by our shareholders. Thus, the financing warrants were marked to market through June 26, 2008 utilizing the Black-Scholes option pricing model and $28.9 million was reclassified to "Additional paid-in-capital" on our Consolidated Statements of Stockholder's Equity and Comprehensive (Loss) Income as of June 26, 2008. These financing warrants are no longer classified as a liability at September 6, 2008. During the 12 and 28 weeks ended September 6, 2008, we recorded a loss of $4.2 million and a gain of $2.3 million, respectively, relating to these warrants, which is included in "Nonoperating income" on our Consolidated Statements of Operations. The following assumptions and estimates were used in the Black-Scholes model:

	As of June 26, 2008
Expected life	3.3 years - 4.8 years
Volatility	33.4%
Dividend yield	0%
Risk-free interest rate range	3.11% - 3.54%

We understand that on or about October 3, 2008, Lehman Brothers OTC Derivatives, Inc. or "LBOTC" who accounts for 50% of the call option and financing warrant transactions filed for bankruptcy protection, which is an event of default under such transactions. We are carefully monitoring the developments affecting LBOTC and we may, among other things, terminate the call option and financing warrant transactions with LBOTC and seek to effect similar transactions with a new counterparty. In the event we terminate these transactions, we would have the right to monetary damages from LBOTC in an amount equal to the present value of our cost to replace the transactions with another party for the same period and on the same terms.

OTHER

We are the guarantor of a loan of $1.2 million related to a shopping center, which will expire in 2011.

In the normal course of business, we have assigned to third parties various leases related to former operating stores (the "Assigned Leases"). When the Assigned Leases were assigned, we generally

remained secondarily liable with respect to these lease obligations. As such, if any of the assignees were to become unable to continue making payments under the Assigned Leases, we could be required to assume the lease obligation. As of

September 6, 2008, 229 Assigned Leases remain in place. Assuming that each respective assignee became unable to continue to make payments under an Assigned Lease, an event we believe to be remote, we estimate our maximum potential obligation with respect to the Assigned Leases to be approximately $697.2 million, which could be partially or totally offset by reassigning or subletting such leases.

Our existing senior debt rating was Caa1 with stable outlook with Moody's Investors Service ("Moody's") as of September 6, 2008. Our existing senior debt rating was B with positive outlook with Standard & Poor's Ratings Group ("S&P") as of September 6, 2008. Also S&P assigned B- ratings to our $165 million 5.125% convertible senior notes due 2011 and our $255 million 6.75% convertible senior notes due 2012. Moody's assigned a Caa1 rating to our $165 million 5.125% convertible senior notes due 2011 and our $255 million 6.75% convertible senior notes due 2012.

Our liquidity rating was SGL3 with Moody's as of September 6, 2008. Our recovery rating was 5 with S&P as of September 6, 2008 indicating a modest expectation of 10%-30% recovery of our senior debt to our lenders. Future rating changes could affect the availability and cost of financing to our Company.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are those accounting estimates that we believe are important to the portrayal of our financial condition and results of operations and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Self-Insurance Reserves

Our Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. We estimate the required liability of such claims on a discounted basis, utilizing an actuarial method, which is based upon various assumptions, which include, but are not limited to, our historical loss experience, projected loss development factors, actual payroll, legal costs and other data. Legal expenses incurred in connection with workers' compensation and general liability claims are charged to the specific claim to which costs pertain. The required liability is also subject to adjustment in the future based upon the changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity).

Long-Lived Assets

We review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. The value of the assets is determined based on estimates of future cash flows. Any impairment amounts are included in SG&A in our Consolidated Statements of Operations. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels do not improve, there may be a need to take further

actions which may result in future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

Closed Store and Closed Warehouse Reserves

For closed stores and warehouses that are under long-term leases, we adjust the charges originally accrued for these events for 1) interest accretion, 2) settlements on leases or sold properties, and 3) changes in estimates in future sublease rental assumptions. Net adjustments, all of which have been disclosed in the Notes to the Consolidated Financial Statements, for changes have been cumulatively approximately 5% from the date of inception, with the most significant adjustments being made prior to 2000. Adjustments are predominantly due to fluctuations in the real estate market from the time the original charges are incurred until the properties were actually settled.

As of September 6, 2008, we had recorded liabilities for estimated probable obligations of $183 million. Of this amount, $21 million relates to stores closed in the normal course of business, $26 million relates to stores and warehouses closed as part of the asset disposition initiatives (see Note 9 of our Consolidated Financial Statements), and $136 million relates to stores closed as part of our discontinued operations (see Note 8 of our Consolidated Financial Statements). Due to the long-term nature of the lease commitments, it is possible that current accruals, which are based on estimates of vacancy costs and sublease income, will change in the future as economic conditions change in the real estate market; however, we are unable to estimate the impact of such changes at this time and the existing obligations are management's best estimate of these obligations at this time.

Warrant Liability

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

Employee Benefit Plans

The determination of our obligation and expense for pension and other postretirement benefits is dependent, in part, on our selection of certain assumptions used by our actuaries in calculating these amounts. These assumptions include the weighted average discount rate at which obligations can be effectively settled, the anticipated rate of future increases in compensation levels, the expected long-term rate of return on assets, increases or trends in health care cost, and certain employee related factors, such as turnover, retirement age and mortality.

The discount rate is determined by taking into account the actual pattern of maturity of the benefit obligations. To generate the year-end discount rate, a single rate is developed using a yield curve which is derived from multiple high quality corporate bonds, discounting each future year's projected cash flow, and determining the equivalent single discount rate. A discount rate of 5.75% was selected for the February 23, 2008 disclosures. We use independent actuaries to assist us in determining the discount rate assumption and measuring our plans' obligations.

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

Our long-term rate of return is developed by taking into account the target allocations contained in each plan's investment policy, as of the beginning of the year, and reflecting long term historical data, with greater weight given to

recent years. Under this approach, separate analyses are performed to determine the

expected long-term rate of inflation, real rates of return for each asset class, and the correlations among the returns for the various asset classes. We use independent actuaries to assist us in determining our long-term rate of return assumptions.

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

Inventories

We evaluate inventory shrinkage throughout the year based on actual physical counts and record reserves based on the results of these counts to provide for estimated shrinkage between the store's last inventory and the balance sheet date. Physical inventory counts are taken every period for fresh inventory, approximately twice per fiscal year on a staggered basis for the remaining merchandise inventory in stores, and annually for inventory in distribution centers and supplies. The average shrinkage rate resulting from the physical inventory counts is applied to the ending inventory balance in each store as of the balance sheet date to provide for estimated shrinkage from the date of the last physical inventory count for that location. Adjustments to the stock loss reserve based on physical inventories have not been material.

Income Taxes

As discussed in Note 14 of the Consolidated Financial Statements, our Company recorded a valuation allowance for the entire U.S. net deferred tax asset since, in accordance with SFAS 109, it was more likely than not that the net deferred tax asset would not be utilized based on historical cumulative losses. Under SFAS 109, this valuation allowance could be reversed in future periods if our Company experiences improvement in our U.S. operations.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement 109 ("FIN 48") as of February 25, 2007. The cumulative effect of the adoption of the recognition and measurement provisions of FIN 48 resulted in a $24.4 million increase to the February 25, 2007 balance of retained earnings. Results of prior periods have not been restated. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we determine whether the benefits of our tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is more likely than not of being sustained in our Consolidated Financial Statements.

For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in our Consolidated Financial Statements. Our policy for interest and penalties under FIN 48 related to income tax exposures was not impacted as a result of the adoption of the recognition and measurement provisions of FIN 48. Therefore, we continue to

recognize interest and penalties as incurred within "(Provision for) benefit from income taxes" in our Consolidated Statements of Operations.

Our Company makes estimates of the potential liability based on its assessment of all potential tax exposures. In addition, we use factors such as applicable tax laws and regulations, current information and past experience with similar issues to make these adjustments. The increase in our liabilities for

unrecognized tax benefits as of the date of adoption of approximately $165 million was due mostly to our assessment of potential exposure concerning a deduction taken in the Company's fiscal 2005 federal income tax return. Despite the Company's belief that its tax return position is supportable, the Company believes that the position may not be fully sustained upon review by tax authorities. Such amount was adjusted to approximately $154 million in the fourth quarter of fiscal 2007 in connection with the Company's fiscal 2006 tax return to provision reconciliation. As we were in a full valuation allowance position, the approximate $11 million adjustment had no effect on the Company's earnings. In addition, the acquisition of Pathmark Stores Inc. increased this balance to the current $164 million. Our Consolidated Balance Sheet has been adjusted to reflect the liabilities for uncertain tax positions and deferred tax assets for net operating losses, since such losses are available to absorb the taxable income attributable to the unrecognized tax benefits. Thus, there was no impact on the Company's retained earnings resulting from the increase in the liability for unrecognized tax benefits.

ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

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

From time to time, we may enter hedging agreements in order to manage risks incurred in the normal course of business including forward exchange contracts to manage our exposure to fluctuations in foreign exchange rates.

Interest Rates

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. We do not have cash flow exposure due to rate changes on all of our Notes as of September 6, 2008 of $605.5 million because they are at fixed interest rates. However, we do have cash flow exposure on our committed bank lines of credit of $289.3 million due to our variable floating rate pricing. Accordingly, during the 12 and 28 weeks ended September 6, 2008, a presumed 1% change in the variable floating rate would have impacted interest expense by $0.7 million and $1.3 million, respectively. A presumed 1% change in the variable floating rate during the 12 and 28 weeks ended September 8, 2007, would have impacted interest expense by $0.04 million and $0.14 million, respectively.

Foreign Exchange Risk

We are exposed to foreign exchange risk to the extent of adverse fluctuations in

the Canadian dollar. As we have approximately $1.0 million in assets denominated in foreign currency, we do not believe that a change in the Canadian currency of 10% will have a material effect on our Consolidated Statements of Operations or Cash Flows.

ITEM 4 - Controls and Procedures

We have established and maintained disclosure controls and procedures that are designed to ensure that

information required to be disclosed in our Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our Company's management, including our President and Chief Executive Officer and Senior Vice President, Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our Company's management, including our Company's President and Chief Executive Officer along with our Company's Senior Vice President, Chief Financial Officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon the foregoing, our Company's President and Chief Executive Officer along with our Company's Senior Vice President, Chief Financial Officer, concluded that our Company's disclosure controls and procedures were effective as of the period covered by this report.

There have been no changes during our Company's fiscal quarter ended September 6, 2008 in our Company's internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, our Company's internal control over financial reporting.

CAUTIONARY NOTE

This presentation may contain forward-looking statements about the future performance of our Company, and is based on our assumptions and beliefs in light of information currently available. We assume no obligation to update this information. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including but not limited to: competitive practices and pricing in the food industry generally and particularly in our principal markets; our relationships with our employees; the terms of future collective bargaining agreements; the costs and other effects of lawsuits and administrative proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect our cost of capital or the ability to access capital; supply or quality control problems with our vendors; and changes in economic conditions, which may affect the buying patterns of our customers.

PART II. OTHER INFORMATION

ITEM 1 - Legal Proceedings

Refer to Note 18 - Commitments and Contingencies for discussion of our legal proceedings.

ITEM 1A - Risk Factors

Refer to Item 1A - Risk Factors in our Fiscal 2007 Form 10-K

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

None

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ITEM 3 - Defaults Upon Senior Securities

None

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

At our special meeting of shareholders, held June 26, 2008, there were 44,005,421 shares or 76.35% of the 57,634,195 shares outstanding and entitled to vote represented either in person or by proxy.

Of the total shares cast, 74.49% of the shares were voted in favor of Proposal 1, which represents more than a two-thirds majority of the votes cast in person or by proxy, for an amendment to our Company's charter to increase the total number of shares of common stock which our Company has authority to issue from 80,000,000 to 160,000,000 shares.

More than a majority of the shares were voted in favor of Proposals 2 though 5: 76.24% of the shares voted to approve the issuance of our Company's common stock pursuant to a net share settlement of the warrants described in the special meeting proxy statement; 76.22% of the shares voted to approve the issuance of an additional 1,577,569 shares of our Company's common stock pursuant to the share lending agreements described in the special meeting proxy statement; 63.67% of the shares voted to approve the adoption of our Company's 2008 Long Term Incentive and Share Award Plan; and 54.68% of the shares voted to approve a proposal to adjourn or postpone the Special Meeting, if necessary, to solicit additional proxies.

At our Annual Meeting of shareholders, held July 17, 2008, there were 48,852,383 shares or 84.76% of the 57,632,929 shares outstanding and entitled to vote represented either in person or by proxy.

Of the total shares cast, an affirmative vote of a majority of the votes cast at the Annual Meeting, or 83.86%, voted in favor of Proposal 1, for the election of nine directors.

ITEM 5 - Other Information

None

ITEM 6 - Exhibits

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

EXHIBIT NO.	DESCRIPTION

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10.50	Warehousing, Distribution and Related Services Agreement dated March 7, 2008 by and between the Company and C&S Wholesale Grocers, Inc. (incorporated herein by reference to Exhibit 10.50 to Form 10-Q filed on July 21, 2008)

31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with this 10-Q

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.

Dated: October 14, 2008 By: /s/ Melissa E. Sungela

Melissa E. Sungela, Vice President,
Corporate Controller (Chief Accounting Officer)