GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
October 28, 2011

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 10, 2011

OR

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

For the transition period from _______ to _______

Commission file number 1-4141

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

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

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

Registrant’s telephone number, including area code: 201-573-9700

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock - $1 par value	OTC Markets, Inc.
9.375% Notes, due August 1, 2039	OTC Markets, Inc.

Securities registered pursuant to Section 12 (g) of the Act: None

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ________ Accelerated filer –– ________ Non-accelerated filer x –––––––– Smaller reporting company__________

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [ ] No [x]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

The number of shares of common stock outstanding as of the close of business on October 21, 2011 was 53,852,470.

PART I – FINANCIAL INFORMATION
ITEM 1 – Financial Statements

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

	12 Weeks Ended		28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
Sales	$ 1,638,694	$ 1,918,279	$ 3,869,340	$ 4,483,209
Cost of merchandise sold	(1,183,264)	(1,354,931)	(2,790,591)	(3,155,193)
Gross margin	455,430	563,348	1,078,749	1,328,016
Store operating, general and administrative expense	(506,902)	(631,224)	(1,295,629)	(1,452,240)
Goodwill, trademark and long-lived asset impairment	(24,124)	(30,250)	(79,542)	(35,648)
Loss from continuing operations before nonoperating income, interest expense, net and reorganization items, net	(75,596)	(98,126)	(296,422)	(159,872)
Nonoperating income	8	2,177	91	10,454
Interest expense, net	(37,829)	(46,126)	(86,283)	(107,268)
Reorganization items, net	17,148	-	95,026	-
Loss from continuing operations before income taxes	(96,269)	(142,075)	(287,588)	(256,686)
(Provision for) benefit from income taxes	(1,562)	(105)	13,088	(245)
Loss from continuing operations	(97,831)	(142,180)	(274,500)	(256,931)
Discontinued operations:				
Loss from operations of discontinued businesses, net of income tax benefit of $1,464 and $2,606 for the 12 and 28 weeks ended September 10, 2011, respectively, and $0 for the 12 and 28 weeks ended September 11, 2010, respectively	(2,022)	(10,853)	(1,225)	(17,968)
Gain on disposal of discontinued operations, net of income tax provision of $0 for the 12 and 28 weeks ended September 10, 2011 and September 11, 2010, respectively	-	-	-	79
Reorganization items, net of income tax provision of $7 and $14,368 for the 12 and 28 weeks ended September 10, 2011, respectively, and $0 for the 12 weeks and 28 weeks ended September 11, 2010, respectively	8	-	19,841	-
(Loss) income from discontinued operations	(2,014)	(10,853)	18,616	(17,889)
Net loss	$ (99,845)	$ (153,033)	$ (255,884)	$ (274,820)
Net (loss) income per share – basic:				
Continuing operations	$ (1.84)	$ (2.72)	$ (5.15)	$ (4.98)
Discontinued operations	(0.04)	(0.21)	0.35	(0.33)
Net loss per share – basic	$ (1.88)	$ (2.93)	$ (4.80)	$ (5.31)

Net (loss) income per share – diluted:				
Continuing operations	$ (1.84)	$ (2.75)	$ (5.15)	$ (14.64)
Discontinued operations	(0.04)	(0.19)	0.35	(0.94)
Net loss per share – diluted	$ (1.88)	$ (2.94)	$ (4.80)	$ (15.58)
Weighted average common shares outstanding:				
Basic	53,852,470	53,778,502	53,852,470	53,618,284
Diluted	53,852,470	56,970,721	53,852,470	18,949,997

See Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
28 Weeks Ended September 10, 2011	Shares	Amount	Capital	Loss	Deficit	Deficit
Balance at 2/26/2011, as previously reported	53,852,470	$53,852	$511,157	$ (75,309)	$ (1,630,664)	$ (1,140,964)
Retrospective change in accounting						
principle for inventory valuation	-	-	-	-	11,329	11,329
Balance at 2/26/2011, as adjusted	53,852,470	53,852	511,157	(75,309)	(1,619,335)	(1,129,635)
Net loss	-	-	-	-	(255,884)	(255,884)
Beneficial conversion feature accretion						
on preferred stock	-	-	(2,591)	-	-	(2,591)
Preferred stock financing fees amortization	-	-	(936)	-	-	(936)
Other share based awards	-	-	1,991	-	-	1,991
Other comprehensive loss	-	-	-	(875)	-	(875)
Balance at 09/10/2011	53,852,470	$53,852	$509,621	$ (76,184)	$ (1,875,219)	$ (1,387,930)
28 Weeks Ended September 11, 2010						
Balance at 2/27/2010, as previously reported	55,868,129	$55,868	$526,421	$ (79,403)	$ (1,032,089)	$ (529,203)
Retrospective change in accounting						
principle for inventory valuation	-	-	-	-	9,285	9,285
Balance at 2/27/2010, as adjusted	55,868,129	55,868	526,421	(79,403)	(1,022,804)	(519,918)
Net loss	-	-	-	-	(274,820)	(274,820)
Beneficial conversion feature accretion						
on preferred stock	-	-	(2,591)	-	-	(2,591)
Dividends on preferred stock	-	-	(7,400)	-	-	(7,400)
Preferred stock financing fees amortization	-	-	(936)	-	-	(936)
Stock options exercised	4,834	5	23	-	-	28
Other share based awards	407,451	407	(581)	-	-	(174)
	-	-	-	380	-	380

Other comprehensive income						
Balance at 09/11/2010	56,280,414	$56,280	$514,936	$ (79,023)	$ (1,297,624)	$ (805,431)

Comprehensive Loss	12 Weeks Ended		28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
Net loss	$(99,845)	$(153,033)	$(255,844)	$(274,820)
Pension and other postretirement benefits, net of tax of $0 and $1,719 for the 12 and 28 weeks ended September 10, 2011, respectively, and $0 for the 12 and 28 weeks ended September 11, 2010, respectively	361	128	(875)	380
Other comprehensive income (loss), net of tax	361	128	(875)	380
Total comprehensive loss	$(99,484)	$(152,905)	$(256,759)	$(274,440)

See Notes to Consolidated Financial Statements.

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

ASSETS	Sept. 10, 2011	February 26, 2011
Current assets:		
Cash and cash equivalents	$ 301,569	$ 352,607
Restricted cash	4,180	1,731
Accounts receivable, net of allowance for doubtful accounts of $5,371 and $5,554 at September 10, 2011 and February 26, 2011, respectively	167,241	209,966
Inventories, net	398,586	452,289
Prepaid expenses and other current assets	42,989	36,329
Total current assets	914,565	1,052,922
Non-current assets:		
Property:		
Property owned, net	982,994	1,163,853
Property under capital leases, net	57,470	63,346
Property, net	1,040,464	1,227,199
Goodwill	110,412	110,412
Intangible assets, net	118,513	124,288
Other assets	156,351	141,357
Total assets	$ 2,340,305	$ 2,656,178
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 350,000	$ -
Current portion of obligations under capital leases	4,031	-
Current portion of real estate liabilities	607	-
Accounts payable	152,893	119,245
Book overdrafts	16,841	23,722
Accrued salaries, wages and benefits	99,570	109,428
Accrued taxes	35,896	26,175
Other accruals	79,753	65,048
Total current liabilities	739,591	343,618
Non-current liabilities:		
Long-term debt	-	350,000
Long-term obligations under capital leases	47,288	-
Long-term real estate liabilities	184,837	-
Deferred real estate income	16,758	-
Other non-current liabilities	123,557	74,162
Total liabilities not subject to compromise	1,112,031	767,780
Liabilities subject to compromise	2,469,399	2,874,734
Total liabilities	3,581,430	3,642,514
Series A redeemable preferred stock – no par value, $1,000 redemption value; authorized – 700,000		
	146,805	143,299

shares; issued - 179,020 shares at September 10, 2011 and February 26, 2011, respectively		
Commitments and contingencies (Refer to Note 20)		
Stockholders' deficit:		
Common stock – $1 par value; authorized – 260,000,000 shares; issued and outstanding – 53,852,470 shares at September 10, 2011 and February 26, 2011, respectively	53,852	53,852
Additional paid-in capital	509,621	511,157
Accumulated other comprehensive loss	(76,184)	(75,309)
Accumulated deficit	(1,875,219)	(1,619,335)
Total stockholders' deficit	(1,387,930)	(1,129,635)
Total liabilities and stockholders' deficit	$ 2,340,305	$ 2,656,178

See Notes to Consolidated Financial Statements.

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

	28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (255,884)	$ (274,820)
Adjustments to reconcile net loss to net cash used in operating activities (see next page)	151,393	195,938
Other changes in assets and liabilities:		
Decrease in receivables	54,646	17,534
Decrease (increase) in inventories	37,590	(7,209)
Increase in prepaid expenses and other current assets	(11,960)	(7,560)
Increase in other assets	(14,549)	(2,799)
(Decrease) increase in accounts payable	(9,662)	13,319
(Decrease) increase in accrued salaries, wages and benefits, and taxes	(2,238)	2,308
Increase in other accruals	80,169	5,917
Decrease in other non-current liabilities	(74,003)	(36,952)
Other operating activities, net	129	(99)
Payments for reorganization items	(23,984)	-
Net cash used in operating activities	(68,353)	(94,423)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property	(17,282)	(43,447)
Proceeds from disposal of property	8,789	8,739
Proceeds from flood insurance	-	4,910
Proceeds from sale of assets held for sale	38,302	-
(Increase) decrease in restricted cash	(2,449)	302
Proceeds from sale of pharmacy assets	4,785	-
Net cash provided by (used in) investing activities	32,145	(29,496)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	-	800
Principal payments on long-term debt	(99)	(134)
Proceeds under revolving lines of credit	-	201,600
Principal payments on revolving lines of credit	-	(200,700)
Principal payments on long-term real estate liabilities	(616)	(631)
Principal payments on capital leases	(5,610)	(6,317)
Decrease in book overdrafts	(6,881)	(21,804)
Payments of financing fees for debtor-in-possession financing	(1,624)	-
Deferred financing fees	-	(6)
Dividends paid on preferred stock	-	(7,000)
Proceeds from exercises of stock options	-	28
Net cash used in financing activities	(14,830)	(34,164)
Net decrease in cash and cash equivalents	(51,038)	(158,083)
Cash and cash equivalents at beginning of year	352,607	252,426

Cash and cash equivalents at end of period	$ 301,569	$ 94,343

See Notes to Consolidated Financial Statements.

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

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

	28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010
Depreciation and amortization	$ 101,588	$ 121,897
Goodwill, trademark and long-lived asset impairment	79,542	35,648
Impairment of long-lived assets in the normal course of business	1,465	1,144
Self-insurance reserve	3,127	21,661
Nonoperating income	(91)	(10,454)
Non-cash interest expense	10,104	23,258
Stock compensation expense (income)	1,509	(101)
Pension withdrawal costs	13,923	-
Employee benefit related costs	2,111	6,713
Asset disposition initiatives relating to discontinued operations	-	4
Non-cash occupancy charges for locations closed in the normal course of business	1,580	466
Adjustment to occupancy reserves	92,773	-
Losses relating to Hurricane Irene	1,000	-
Gain on disposal of owned property and write-down of property, net	(499)	(1,807)
Gain on disposal of discontinued operations	-	(79)
Gain on sale of pharmacy assets	(4,785)	-
Gain on sale of assets held for sale	(29,120)	-
Amortization of deferred real estate income	(1,777)	(2,412)
C&S contract effect	9,184	-
Provision for deferred income taxes	(1,719)	-
Reorganization items, net relating to continuing operations	(95,026)	-
Reorganization items, net relating to discontinued operations	(34,209)	-
Financing fees	713	-
Total adjustments to net loss	$ 151,393	$ 195,938

See Notes to Consolidated Financial Statements.

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, Consolidated Statements of Stockholders' Deficit and Comprehensive Loss, and Consolidated Statements of Cash Flows for the 12 and 28 weeks ended September 10, 2011 and September 11, 2010, and the Consolidated Balance Sheets at September 10, 2011 and February 26, 2011 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 2010 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. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Bankruptcy Filing
On December 12, 2010, our Company and all of our U.S. subsidiaries (the "Debtors") filed voluntary petitions for relief (the "Bankruptcy Filing") under chapter 11 of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York in White Plains (the "Bankruptcy Court"), which are being jointly administered under case number 10-24549. Management's decision to initiate the Bankruptcy Filing was in response to, among other things, our Company's deteriorating liquidity and management's conclusion that the challenges of successfully implementing additional financing initiatives and of obtaining necessary cost concessions from our Company's business and labor partners, was negatively impacting our Company's ability to implement our previously announced turnaround strategy. Our Company's non-U.S. subsidiaries, which are immaterial on a consolidated basis and have no retail operations, were not part of the Bankruptcy Filing.

We are currently operating as debtors-in-possession pursuant to the Bankruptcy Filing and continuation of our Company as a going-concern is contingent upon, among other things, the Debtors' ability (i) to comply with the terms and conditions of the DIP Credit Agreement described in Note 9 – Indebtedness and Other Financial Liabilities; (ii) to develop a plan of reorganization and obtain confirmation of that plan under the Bankruptcy Code; (iii) to reduce debt and other liabilities through the bankruptcy process; (iv) to return to profitability, including by securing necessary near-term cost concessions from our business and labor partners; (v) to generate sufficient cash flow from operations; and (vi) to obtain financing sources to meet our future obligations. The uncertainty regarding these matters raises substantial doubt about our ability to continue as a going concern.

Our Company was required to apply the FASB's provisions of Reorganizations effective on December 12, 2010, which is applicable to companies in chapter 11, which generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Bankruptcy Filing petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the Consolidated Statements of Operations beginning in the year ended February 26, 2011. The balance sheet must distinguish pre-Bankruptcy Filing liabilities subject to compromise from both those pre-Bankruptcy Filing liabilities that are not subject to compromise and from post-Bankruptcy Filing liabilities. As discussed in Note 9 - Indebtedness and Other Financial Liabilities, currently the Senior Secured Notes totaling $260.0 million have priority over the unsecured creditors of our Company. Based upon the uncertainty surrounding the ultimate treatment of the Notes in our reorganization plan, including the potential that these Notes may be impaired, these Notes are classified as "Liabilities subject to compromise" in our Consolidated Balance Sheets. Our Company continues to evaluate creditors' claims for other claims that may also have priority over unsecured creditors. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be approved by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization. In addition, cash used in reorganization items must be disclosed separately in our Consolidated Statements of Cash Flows.

Supply Agreement

On June 2, 2011, our Company entered into a definitive supply agreement with C&S Wholesale Grocers, Inc. ("C&S") effective May 29, 2011, whereby C&S will provide warehousing, transportation, procurement, purchasing and ancillary services (the "Services") in support of a substantial portion of our Company's supply chain. This agreement replaced the warehousing, logistics, procurement and purchasing agreement under which the parties had been operating since 2008.

The term of the agreement is through the effective date of our Company's plan of reorganization in its Bankruptcy Filing but may be extended by either party for a term concurrent with a fixed volume commitment based upon wholesale purchases of merchandise resulting in a term of approximately seven years. The cost structure of the agreement is a combination of a fixed cost and variable upcharge pricing model. The charges are subject to adjustment due to volume change or other material changes to the operating assumptions of the agreement.

Our Company expects it will realize a run-rate of more than $50 million in annual savings commencing with our Company's emergence from the Bankruptcy Filing pursuant to a plan of reorganization. The agreement provides our Company with important service enhancements, including detailed service specifications and key performance measures. The agreement also permits our Company to maintain product standards and specifications for all merchandise purchased for resale in our Company's stores.

Assumed Leases

During the 12 weeks ended September 10, 2011, our Company assumed 330 real estate leases, including leases for shopping center tenants as well as leases for subleased locations. In connection with the assumption of the leases, the related liability balances previously classified as "Liabilities subject to compromise" were reclassified to the respective balance sheet captions in our Consolidated Balance Sheets. In addition, all undisputed cure amounts related to these leases in the amount of $6.8 million have been paid to the landlords.

Significant Accounting Policies

A summary of our significant accounting policies may be found in our Annual Report on Form 10-K for the year ended February 26, 2011. Except for as described below, there have been no changes in these policies during the 28 weeks ended September 10, 2011.

Change in Accounting Policy

Effective June 19, 2011, our Company changed its method of valuing inventories held at our Pathmark stores from the last-in first-out ("LIFO") method to the first-in first-out ("FIFO") method. As previously noted, our Company entered into a definitive supply agreement with C&S effective May 29, 2011 to provide Services in support of a substantial portion of our Company's supply chain. As a result of the agreement with C&S, our Company began transitioning our inventory to different warehouses such that, beginning in our second fiscal quarter, the Pathmark inventory is no longer separately segregated and managed. Our Company believes that the FIFO method of inventory valuation is preferable under GAAP and improves financial reporting because it conforms all of our Company's inventories to a consistent inventory method and the use of FIFO better aligns costing with our Company's forecasting and procurement decisions. As described in the accounting guidance for accounting changes and error corrections, the comparative Consolidated Financial Statements of prior periods presented have been adjusted to apply the new accounting method retrospectively.

The following line items within the Consolidated Statements of Operations were affected by the change in accounting policy (in thousands, except for per share data):

	For the 12 Weeks Ended September 10, 2011			For the 12 Weeks Ended September 11, 2010		
	As Computed under LIFO	As Reported under FIFO	Change: (Decrease) / Increase	As Originally Reported	As Adjusted	Change: (Decrease) / Increase
Cost of merchandise sold	$ (1,184,105)	$ (1,183,264)	$ (841)	$ (1,355,572)	$ (1,354,931)	$ (641)
Gross margin	454,589	455,430	841	562,707	563,348	641
Loss from continuing operations before provision for income taxes	(97,110)	(96,269)	841	(142,716)	(142,075)	641
Provision for income taxes	(1,562)	(1,562)	-	(105)	(105)	-
Loss from continuing operations	(98,672)	(97,831)	841	(142,821)	(142,180)	641
Loss from discontinued operations	(2,014)	(2,014)	-	(10,853)	(10,853)	-
Net loss	(100,686)	(99,845)	841	(153,674)	(153,033)	641
Net (loss) income per share – basic:						
Continuing operations	$ (1.85)	$ (1.84)	$ 0.01	$ (2.73)	$ (2.72)	$ 0.01
Discontinued operations	(0.04)	(0.04)	-	(0.21)	(0.21)	-
Net loss per share - basic	$ (1.89)	$ (1.88)	$ 0.01	$ (2.94)	$ (2.93)	$ 0.01
Net (loss) income per share – diluted:						
Continuing operations	$ (1.85)	$ (1.84)	$ 0.01	$ (2.76)	$ (2.75)	$ 0.01
Discontinued operations	(0.04)	(0.04)	-	(0.19)	(0.19)	-
Net loss per share - diluted	$ (1.89)	$ (1.88)	$ 0.01	$ (2.95)	$ (2.94)	$ 0.01

	For the 28 Weeks Ended September 10, 2011			For the 28 Weeks Ended September 11, 2010		
	As Computed under LIFO	As Reported under FIFO	Change: (Decrease) / Increase	As Originally Reported	As Adjusted	Change: (Decrease) / Increase
Cost of merchandise sold	$ (2,792,554)	$ (2,790,591)	$ (1,963)	$ (3,156,690)	$ (3,155,193)	$ (1,497)
Gross margin	1,076,786	1,078,749	1,963	1,326,519	1,328,016	1,497
Loss from continuing operations before benefit from (provision for) income taxes	(289,551)	(287,588)	1,963	(258,183)	(256,686)	1,497
	13,088	13,088	-	(245)	(245)	-

Benefit from (provision for) income taxes												
Loss from continuing operations		(276,463)		(274,500)		1,963		(258,428)		(256,931)		1,497
Income (loss) from discontinued operations		18,616		18,616		-		(17,889)		(17,889)		-
Net loss		(257,847)		(255,884)		1,963		(276,317)		(274,820)		1,497
Net (loss) income per share – basic:												
Continuing operations	$	(5.18)	$	(5.15)	$	0.03	$	(5.01)	$	(4.98)	$	0.03
Discontinued operations		0.35		0.35		-		(0.33)		(0.33)		-
Net loss per share - basic	$	(4.83)	$	(4.80)	$	0.03	$	(5.34)	$	(5.31)	$	0.03
Net (loss) income per share – diluted:												
Continuing operations	$	(5.18)	$	(5.15)	$	0.03	$	(14.72)	$	(14.64)	$	0.08
Discontinued operations		0.35		0.35		-		(0.94)		(0.94)		-
Net loss per share - diluted	$	(4.83)	$	(4.80)	$	0.03	$	(15.66)	$	(15.58)	$	0.08

The following line items within the Consolidated Balance Sheets were affected by the change in accounting policy (in thousands):

	As of September 10, 2011		
	As Computed under LIFO	As Reported under FIFO	Change
Inventories, net	$ 385,294	$ 398,586	$ 13,292
Accumulated deficit	(1,888,511)	(1,875,219)	13,292

	As of February 26, 2011		
	As Originally Reported	As Adjusted	Change
Inventories, net	$ 440,960	$ 452,289	$ 11,329
Accumulated deficit	(1,630,664)	(1,619,335)	11,329

There was no impact on net cash provided by operating activities as a result of this change in accounting policy.

2. Recently Issued Accounting Pronouncements

Comprehensive Income. In June 2011, the FASB issued updated guidance on the presentation of comprehensive income, eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. All changes in our Company's stockholders' deficit will be presented in either a single continuous statement of comprehensive loss or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for public entities for fiscal years, and interim periods within those years, ending after December 15, 2011 with early adoption permitted. The impact of this update is expected to be immaterial.

Intangibles — Goodwill and Other. In September 2011, the FASB issued updated guidance allowing the use of a qualitative approach to test goodwill for impairment. The updated guidance would permit our Company to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of one of our reporting units is less than its carrying value. If we conclude that this is the case, it is then necessary for us to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the impact of our pending adoption of this update.

Multi-employer Pension Plan. In September 2011, the FASB issued updated guidance to require employers who participate in multi-employer pension plans to provide additional quantitative and qualitative disclosures. Such disclosures include, but are not limited to, the significant plans in which the employer participates within, the level of participation and financial health within such plans and the nature of the employer commitments to such plans. The updated guidance for public entities is effective for annual periods for fiscal years ending after December 15, 2011. The adoption of this guidance is expected to impact related disclosures to our Consolidated Financial Statements only.

3. Goodwill and Other Intangible Assets

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

Goodwill
As part of our consideration of whether goodwill is recoverable, we have noted a decline in revenues and cash flows during the first half of fiscal 2011 from the projections used in the fourth quarter fiscal 2010 to evaluate the goodwill for the Waldbaum’s reporting units. We determined we do not have a triggering event, as we continue to anticipate that expected savings from the recently negotiated C&S supply agreement and from the ongoing labor negotiations will improve future cash flows at the Waldbaum's reporting units to a level that will exceed the related carrying value of the assets. However, the most recent decline in cash flows does indicate that the estimated fair value of this reporting unit may not exceed the carrying value of the assets by as much as previously anticipated during our fourth quarter of fiscal 2010. It should be noted that the expected savings from the ongoing labor negotiations are not assured and if such savings are not realized, then the cash flow projections of this reporting unit would be lowered to such a level that it is likely the goodwill at this reporting unit would be impaired.

The carrying amount of our goodwill was $110.4 million at September 10, 2011 and February 26, 2011, respectively. Our goodwill allocation by segment at September 10, 2011 and February 26, 2011 was as follows (in thousands):

	Fresh	Gourmet	Other	Total
Goodwill	$ 116,032	$ 12,110	$ 5,974	$ 134,116
Accumulated impairment losses	(23,704)	-	-	(23,704)
Goodwill at February 26, 2011	$ 92,328	$ 12,110	$ 5,974	$ 110,412
Goodwill	$ 116,032	$ 12,110	$ 5,974	$ 134,116
Accumulated impairment losses	(23,704)	-	-	(23,704)

Goodwill at September 10, 2011	$ 92,328	$ 12,110	$ 5,974	$ 110,412

Intangible Assets, net

As part of our consideration of whether the definite lived intangible assets are recoverable, we have noted a decline in revenues and cash flows during the first half of fiscal 2011 from the projections used in the fourth quarter fiscal 2010 to evaluate the definite lived intangible assets for the Pathmark reporting unit. We determined we do not have a triggering event, as we continue to anticipate that expected savings from the recently negotiated C&S supply agreement and from the ongoing labor negotiations will improve future cash flows at the Pathmark reporting unit to a level that will exceed the related carrying value of the assets. However, the most recent decline in cash flows does indicate that the estimated fair value of this reporting unit may not exceed the carrying value of the assets by as much as previously anticipated during our fourth quarter of fiscal 2010. It should be noted that the expected savings from the ongoing labor negotiations are not assured and if such savings are not realized, then the cash flow projections of this reporting unit would be lowered to such a level that it is likely the definite lived intangible assets at this reporting unit would be impaired.

As part of our consideration of whether the indefinite lived intangible assets are recoverable, we have noted a decline in revenues and cash flows during the first half of fiscal 2011 from the projections used in the fourth quarter fiscal 2010 to evaluate the indefinite lived intangible assets for the Pathmark reporting unit. We determined we do not have a triggering event. Further, any changes in sensitivity to changes in revenues or market royalty rates have not been significant.

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

	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization at Sept. 10, 2011	Accumulated Amortization at Feb. 26, 2011
Loyalty card customer relationships	5	$ 19,200	$ 14,088	$ 11,815
In-store advertiser relationships	20	14,720	2,774	2,378
Pharmacy payor relationships	13	75,000	21,745	18,639
Pathmark trademark	Indefinite	48,200	-	-
Total		$ 157,120	$ 38,607	$ 32,832

Amortization expense relating to our intangible assets for the 12 weeks ended September 10, 2011 and September 11, 2010 was $2.5 million during each period. Amortization expense relating to our intangible assets for the 28 weeks ended September 10, 2011 and September 11, 2010 was $5.8 million during each period.

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

2011	$4,950
2012	9,670
2013	6,505
2014	6,505
2015	6,505
Thereafter	36,178

4. Fair Value Measurements

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

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

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

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

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 10, 2011 and February 26, 2011 (in thousands):

	Total Carrying Value at September 10, 2011	Fair Value Measurements at September 10, 2011 Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,552	$ -	$ 1,552	$ -
Liabilities:				
Series B warrant	$ 79	$ -	$ 79	$ -

	Total Carrying Value at Feb. 26, 2011	Fair Value Measurements at Feb. 26, 2011 Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 1,553	$ -	$ 1,553	$ -
Liabilities:				
Series B warrant	$ 170	$ -	$ 170	$ -

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the 12 and 28 weeks ended September 10, 2011.

Level 3 Valuations
We did not have any financial assets or liabilities classified as Level 3 within the fair value hierarchy as of September 10, 2011 and February 26, 2011.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis. Fair value measurements of our nonfinancial assets and nonfinancial liabilities on a nonrecurring basis using Level 3 inputs are primarily used in the impairment analyses of our goodwill and other indefinite-lived intangible assets, our long-lived assets and closed locations occupancy costs. Long-lived assets and closed locations occupancy costs were measured at fair value on a nonrecurring basis using Level 3 inputs, as unobservable inputs were used to measure their fair value. Refer to Note 5 – Valuation of Long-Lived Assets, Note 17 – Discontinued Operations and Note 18 – Asset Disposition Initiatives for more information relating to the valuation of these assets and liabilities.

Long-Term Debt

The following table provides the carrying values recorded in our Consolidated Balance Sheets and the estimated fair values of financial instruments as of September 10, 2011 and February 26, 2011 (in thousands):

	At September 10, 2011		At February 26, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current portion of long-term debt	$ 350,000	$ 350,000	$ 159	$ 159
Long-term debt – subject to compromise	905,235	399,612	1,255,225	765,577

Our DIP Credit Agreement is classified as a current liability as of the balance sheet date. Our long-term debt includes borrowings under a related party promissory note and our unsecured debt securities. The fair value of our debt securities are determined based on quoted market prices for such notes in non-active markets.

5. Valuation of Long-Lived Assets

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

Impairments due to closure or conversion in the normal course of business
We review assets in stores planned for closure or conversion for impairment upon determination that such assets will not be used for their intended useful life. During the 12 and 28 weeks ended September 10, 2011, we recorded impairment charges on long-lived assets of $1.5 million for both periods related to locations that were closed or converted in the normal course of business, as compared to $0.6 million and $1.1 million in impairment losses recorded during the 12 and 28 weeks ended September 11, 2010, respectively. These amounts were recorded within "Store operating, general and administrative expense" in our Consolidated Statements of Operations.

Impairments due to store closures
In February 2011, our Company obtained authority from the Bankruptcy Court to close 32 stores in six states as we continue to fully implement our comprehensive financial and operational restructuring. As a result, we recorded an impairment charge of $31.4 million during fiscal 2010, of which $19.4 million, $9.0 million and $3.0 million related to our Fresh, Pathmark, and Other reporting segments, respectively. These store closures were completed on April 16, 2011. We recorded an additional impairment charge of $0.4 million during the first quarter of fiscal 2011, of which $0.3 million and $0.1 million were attributed to our Pathmark and Fresh reporting segments, respectively. These amounts were recorded within "Goodwill, trademark, and long-lived asset impairment" in our Consolidated Statements of Operations.

In April and May 2011, our Company obtained approval from the Bankruptcy Court to sell, or alternatively, to close, an additional 25 stores located in Maryland, Delaware and the District of Columbia (the "Southern Stores"). During the first quarter of fiscal 2011, our Company held an auction whereby we agreed to sell our interests in 12 of our existing stores based in Maryland and the District of Columbia, all of which were a part of our Fresh reportable segment, for $38.3 million in cash which relates to fixed assets. The transactions closed during June and July 2011 resulting in a gain of $29.1 million, which was recorded within "Store operating, general and administrative expense" in our Consolidated Statements of Operations. During the 12 and 28 weeks ended September 10, 2011, we recorded an impairment charge of $0.1 million and $3.0 million, respectively, all of which pertained to our Fresh reporting segment. These amounts were recorded within "Goodwill, trademark, and long-lived asset impairment" in our Consolidated Statements of Operations. These store closures and sales were completed by July 9, 2011.

In the second quarter of fiscal 2010, our Company announced the closure of 25 stores in five states as we began the implementation and execution phase of our comprehensive financial and operational restructuring. As a result, we recorded an impairment charge of $23.7 million during the 12 weeks ended September 11, 2010. This amount was recorded within "Goodwill, trademark, and long-lived asset impairment" in our Consolidated Statements of Operations.

Impairments due to unrecoverable assets

As part of the ongoing development of our Plan of Reorganization, during our second quarter of fiscal 2011, we refined our projected cash flows of baseline operations, before any potential cash flows that might result from capital improvements, for all locations. For those locations where the projected undiscounted cash flows did not exceed the net carrying value of the long-lived assets, we determined the fair value of the long-lived assets and recorded an impairment charge of $24.0 million and $76.1 million during the 12 and 28 weeks ended September 10, 2011, respectively, which related primarily to favorable leases and which also included capital leases and land and buildings, with a carrying amount of $99.5 million to their fair value of $75.5 million for the 12 weeks ended September 10, 2011. The impairment charge of $24.0 million and $76.1 million recorded during the 12 weeks and 28 weeks ended September 10, 2011, respectively, all related to our Pathmark reportable segment. These amounts were recorded within “Goodwill, trademark, and long-lived asset impairment” in our Consolidated Statements of Operations.

We recorded an impairment charge of $6.6 million and $12.0 million during the 12 and 28 weeks ended September 11, 2010, respectively, to partially write down stores’ long-lived assets, which primarily consist of favorable leases and which also included capital leases and land and buildings, with a carrying amount of $22.0 million to their fair value of $15.4 million for the 12 weeks ended September 11, 2010. The impairment charge of $6.6 million during the 12 weeks ended September 11, 2010 all related to Pathmark. The impairment charge of $12.0 million recorded during the 28 weeks ended September 11, 2010 all related to Pathmark, with the exception of $0.9 million which related to SuperFresh. These amounts were recorded within “Goodwill, trademark, and long-lived asset impairment” in our Consolidated Statements of Operations.

The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. Our projected cash flows of baseline operations include an estimate for expected savings from the recently negotiated C&S supply agreement and from the ongoing labor negotiations. If current operating levels do not improve or the expected cost savings from ongoing labor negotiations do not occur, there may be a need to take further actions which may result in additional future impairments on long-lived assets, including the potential for impairment of assets that are held and used.

6. Hurricane Irene and Impact on our Company Stores

In August 2011, Hurricane Irene had a major effect on certain portions of the Northeast region and resulted in the significant interruption of business for eleven of our Company stores. As of September 10, 2011, nine of these stores had fully resumed operations. We are currently working to re-open one other store and the remaining impacted store is currently providing limited sales of merchandise.

We maintain insurance coverage for this type of loss which provides for reimbursement from losses resulting from property damage, loss of product as well as business interruption coverage. As of the balance sheet date, we were able to determine that we incurred impairment losses of $5.3 million for property, plant and equipment that was damaged as a result of Hurricane, as well as an inventory loss of $6.9 million. We also determined that we incurred $0.8 million in other related hurricane costs, which has been recorded in “Store operating, general and administrative expense” in our Consolidated Statements of Operations.

Our Company is currently assessing the remaining extent of our losses in the Northeast region and we expect to recover the losses caused by Hurricane Irene in excess of our estimated insurance deductible of approximately $1.0 million, which was recorded in "Store operating, general and administrative expense" in our Consolidated Statements of Operations for the 12 and 28 weeks ended September 10, 2011. We recorded approximately $12.0 million in receivable related to the amount we expect to recover for impairment and out-of-pocket expenses in excess of our estimated insurance deductible.

7. Other Accruals

Other accruals at September 10, 2011 and February 26, 2011 were comprised of the following (in thousands):

	At Sept. 10, 2011			At Feb. 26, 2011		
	Other Accruals Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Other Accruals	Other Accruals Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Other Accruals
Self-insurance reserves	$ 48,925	$ (42,136)	$ 6,789	$ 47,792	$ (45,466)	$ 2,326
Deferred taxes	31,539	-	31,539	28,335	-	28,335
Closed locations reserves	1,210	(1,210)	-	11,358	(11,358)	-
Damages claim for rejected leases	186,751	(186,751)	-	106,642	(106,642)	-
Pension withdrawal liabilities	10,461	(10,461)	-	10,461	(10,461)	-
GHI liability for employee benefits	8,095	(8,095)	-	7,776	(7,776)	-
Accrued occupancy-related costs						
for open stores	41,988	(22,766)	19,222	48,742	(24,523)	24,219
Deferred income	22,616	(12,026)	10,590	23,299	(21,363)	1,936
Deferred real estate income	1,670	(824)	846	2,508	(2,508)	-
Accrued audit, legal and other	12,047	(6,875)	5,172	11,777	(8,118)	3,659
Accrued interest	52,991	(49,845)	3,146	35,600	(33,921)	1,679
Other postretirement and postemployment benefits	2,931	(2,931)	-	2,918	(2,918)	-
Accrued advertising	404	-	404	718	-	718
Other accruals	5,026	(2,981)	2,045	10,181	(8,005)	2,176
Total	$ 426,654	$ (346,901)	$ 79,753	$ 348,107	$ (283,059)	$ 65,048

(1) Refer to Note 10 – Liabilities subject to compromise for additional information.

8. Other Non-Current Liabilities

Other non-current liabilities at September 10, 2011 and February 26, 2011 were comprised of the following (in thousands):

	At Sept. 10, 2011			At Feb. 26, 2011		
	Non-Current Liabilities Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Other Non-Current Liabilities	Non-Current Liabilities Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Other Non-Current Liabilities
Self-insurance reserves	$ 383,565	$ (347,133)	$ 36,432	$ 366,891	$ (354,704)	$ 12,187

Closed locations reserves	1,801	(1,801)	-	39,192	(39,192)	-
Pension withdrawal liabilities	103,461	(103,461)	-	86,735	(86,735)	-
GHI liability for employee benefits	93,751	(93,751)	-	86,505	(86,505)	-
Pension plan benefits	130,085	(130,085)	-	125,000	(125,000)	-
Other postretirement and postemployment benefits	38,956	(38,956)	-	38,737	(38,737)	-
Loans on life insurance policies	61,943	-	61,943	61,943	-	61,943
Step rent liabilities	48,335	(24,214)	24,121	56,287	(56,287)	-
Deferred income	22,402	(21,915)	487	53,031	(53,031)	-
Deferred real estate income	14,094	(14,094)	-	86,801	(86,801)	-
Unfavorable lease liabilities	795	(795)	-	4,201	(4,201)	-
Other non-current liabilities	10,697	(10,123)	574	11,348	(11,316)	32
Total	$ 909,885	$ (786,328)	$ 123,557	$ 1,016,671	$ (942,509)	$ 74,162

(1) Refer to Note 10 – Liabilities subject to compromise for additional information.

9. Indebtedness and Other Financial Liabilities

Our indebtedness at September 10, 2011 and February 26, 2011 consisted of the following debt obligations (in thousands):

	At September 10, 2011			At February 26, 2011		
	Indebtedness Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Indebtedness	Indebtedness Prior to Financial Statement Classification	Amounts Classified as Subject to Compromise(1)	Indebtedness
Debtor-in-Possession Credit Agreement, due June 14, 2012	$ 350,000	$ -	$ 350,000	$ 350,000	$ -	$ 350,000
Related Party Promissory Note, due August 18, 2011	10,000	(10,000)	-	10,000	(10,000)	-
5.125% Convertible Senior Notes, due June 15, 2011	165,000	(165,000)	-	165,000	(165,000)	-
9.125% Senior Notes, due December 15, 2011	12,840	(12,840)	-	12,840	(12,840)	-
6.750% Convertible Senior Notes, due December 15, 2012	255,000	(255,000)	-	255,000	(255,000)	-
11.375% Senior Secured Notes, due August 1, 2015	260,000	(260,000)	-	260,000	(260,000)	-
9.375% Notes, due August 1, 2039	200,000	(200,000)	-	200,000	(200,000)	-
Other	2,395	(2,395)	-	2,544	(2,544)	-
Subtotal	1,255,235	(905,235)	350,000	1,255,384	(905,384)	350,000
	(350,000)	-	(350,000)	(159)	159	-

Less current portion of long-term debt						
Long-term debt	$ 905,235	$ (905,235)	$ -	$ 1,255,225	$ (905,225)	$ 350,000

(1) Refer to Note 10 – Liabilities subject to compromise for additional information.

DEBTOR-IN-POSSESSION CREDIT AGREEMENT

In connection with the Bankruptcy Filing, on December 13, 2010, the Bankruptcy Court entered its interim financing order, among other things, permitting us to enter into a Superpriority Debtor-in-Possession Credit Agreement as amended and restated in its entirety by that certain Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of December 21, 2010, further amended and restated in its entirety by that certain Second Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of January 10, 2011, further amended and restated in its entirety by that certain Third Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of January 13, 2011, further amended by that certain First Amendment to the Third Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of July 8, 2011, further amended (subsequent to the reporting period) by that certain Second Amendment to the Third Amended and Restated Superpriority Debtor-in-Possession Credit Agreement dated as of September 21, 2011 (the "Second Amendment to the DIP Credit Agreement"), as may be further amended, amended and restated, supplemented or otherwise modified from time to time (the "DIP Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent and as collateral agent (in such capacity, the "Agent"), the lenders from time to time party thereto (collectively, the "DIP Lenders") and our Company and certain subsidiaries as borrowers thereunder. On December 14, 2010, we satisfied all of the conditions to the effectiveness of the DIP Credit Agreement and to the initial closing thereunder and consummated the transactions contemplated thereunder including the refinancing in full of our Company's and its applicable subsidiaries' obligations under the pre-existing first lien credit facility. The Bankruptcy Court entered a final order approving the DIP Credit Agreement on January 11, 2011. Pursuant to the terms of the DIP Credit Agreement:

- the DIP Lenders agreed to lend up to $800.0 million in the form of a $350.0 million term loan and a $450.0 million revolving credit facility with a $250.0 million sublimit for letters of credit, in each case subject to the terms and conditions therein;

- our Company's and the Subsidiary Borrower's obligations under the DIP Credit Agreement and the other specified loan documents are guaranteed by our Company's certain other subsidiaries that are Debtors ("Subsidiary Guarantors" and, together with our Company and the Subsidiary Borrowers, the "Loan Parties"); and

- the Loan Parties' obligations under the DIP Credit Agreement and such other specified loan documents are secured by a security interest in, and lien upon, substantially all of the Loan Parties' existing and after-acquired personal and real property, having the priority and subject to the terms therein and in the order(s) entered into by the Bankruptcy Court, as applicable.

Our Company will have the option to have interest on the revolving loans under the revolving credit facility provided under the DIP Credit Agreement accrue at an alternate base rate plus 200 basis points or at adjusted LIBOR plus 300 basis points. Our Company will have the option to have interest on the term loan provided under the DIP Credit Agreement accrue at an alternate base rate plus 600 basis points or at adjusted LIBOR (with a floor of 175 basis points) plus 700 basis points. The DIP Credit Agreement limits, among other things, our Company's and the other Loan Parties' ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay certain indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of certain indebtedness and certain material contracts. Notably, however, the DIP Credit Agreement permits our Company to use the proceeds generated from the sale of the Southern Stores in the operation of our business rather than requiring us to use those proceeds to reduce the Loan Parties' outstanding indebtedness under the DIP Credit Agreement.

The DIP Credit Agreement also contains certain financial covenants. The Second Amendment to the DIP Credit Agreement amended the covenants regarding minimum excess availability and minimum cumulative EBITDA. The Second Amendment to the DIP Credit Agreement changed the measurement intervals for minimum excess availability requirements and reduced the minimum cumulative EBITDA requirements to have them measured beginning with respect to the period ending December 31, 2011 rather than prior to such time as required by the DIP Credit Agreement, provided that if the Company has filed a Plan of Reorganization reasonably satisfactory to the DIP Lenders prior to December 31, 2011, the measurement period for the minimum cumulative EBITDA covenant will be measured beginning on February 25, 2012. The financial covenants, as amended by the Second Amendment to the DIP Credit Agreement, include a minimum excess availability covenant of $100.0 million (or $75.0 million at any time after December 31, 2011 but prior to the delivery of financial statements to the DIP Lenders for the period ended February 25, 2012, or $50.0 million at any time thereafter), minimum liquidity covenant of $100.0 million and minimum cumulative EBITDA covenant as defined in the DIP Credit Agreement. Minimum cumulative EBITDA measured beginning on September 11, 2011 to and including the applicable date set forth in the table below is as follows (in millions):

Date	Minimum Cumulative EBITDA
December 31, 2011	10.0
January 28, 2012	25.0
February 25, 2012	40.0
March 24, 2012	55.0
April 21, 2012	70.0
May 19, 2012	85.0
June 16, 2012	100.0

If we file a Plan of Reorganization with the Bankruptcy Court prior to January 30, 2012, the minimum EBITDA covenants for the respective periods ended December 31, 2011 and January 28, 2012 are waived.

Meeting our EBITDA covenant requires increasing levels of performance throughout the year, including the successful implementation of our business improvement initiatives. We previously entered into a definitive supply agreement with C&S to provide Services and as of the balance sheet date we are in the process of negotiating with union locals to obtain consensual modifications to collective bargaining agreements necessary for our successful reorganization. We may not achieve our minimum cumulative EBITDA covenant. A financial covenant violation could result in termination of the DIP Credit Agreement and/or termination of our access to funding thereunder. If either (or both) of those were to occur, our Company could be without sufficient cash availability to meet our operating needs or satisfy our obligations as they fall due, in which instance we may be unable to successfully reorganize.

The DIP Credit Agreement matures upon the earliest to occur of (a) June 14, 2012, (b) the acceleration of the loans and the termination of the commitment thereunder, and (c) the substantial consummation (as defined in Section 1101(2) of the Bankruptcy Code, which for purposes hereof shall be no later than the effective date thereof) of a Plan of Reorganization that is confirmed pursuant to an order entered by the Bankruptcy Court.

Warrants

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

The value of the Series B warrants as of September 10, 2011 and February 26, 2011 was $0.1 million and $0.2 million, respectively, and is included in "Liabilities subject to compromise" in our Consolidated Balance Sheets. Our "Nonoperating income" for the 12 and 28 weeks ended September 10, 2011 was comprised of gains of approximately $8,000 and $90,800, respectively, relating to market value adjustments for Series B warrants. Market value adjustments for Series B warrants recorded during the 12 and 28 weeks ended September 11, 2010 was consisted of gains of $2.2 million and $10.5 million, respectively. The following assumptions and estimates were used in the Black-Scholes model used to value the Series B warrants:

	At September 10, 2011	At February 26, 2011
Expected life	3.75 Years	4.29 Years
Volatility	121.2%	111.3%
Dividend yield range	0%	0%
Risk-free interest rate	0.31%	2.16%

Call Option and Financing Warrants

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

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

10. Liabilities Subject to Compromise

As a result of the Bankruptcy Filing, the payment of pre-petition indebtedness is subject to compromise or other treatment under a Plan of Reorganization. Generally, actions to enforce or otherwise effect payment of pre-Bankruptcy Filing liabilities are stayed. Although payment of pre-petition claims generally is not permitted, the Bankruptcy Court granted the Debtor authority to pay certain pre-petition claims in designated categories and subject to certain terms and conditions. This relief generally was designed to preserve the value of our Company's businesses and assets. Among other things, the Bankruptcy Court authorized us to pay certain pre-petition claims relating to employee wages and benefits, customers, vendors, and suppliers.

We have been paying and intend to continue to pay undisputed post-petition claims in the normal course of business. In addition, we may reject pre-petition executory contracts and unexpired leases with respect to our operations, with the approval of the Bankruptcy Court. Any damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as “Liabilities subject to compromise” in our Consolidated Balance Sheets. We previously notified all known claimants subject to the bar date of their need to file a proof of claim with the Bankruptcy Court. A bar date is the date by which claims against our Company must be filed if the claimants disagree with the amounts included in our schedule of assets and liabilities filed with the Bankruptcy Court and wish to receive any distribution in the Bankruptcy Filing. The bar date of June 17, 2011 set by the Bankruptcy Court has passed. Thus far, claimants filed over nine thousand claims against our Company, asserting approximately $27.9 billion worth of liabilities. Our Company and our retained professionals are continuing to review and analyze the proofs of claim submitted by claimants and will investigate any material differences between these claims and liability amounts estimated by our Company. If necessary, in the event of a claims dispute, the Bankruptcy Court will make a final determination whether such claims should be allowed and, if so, the appropriate amount of such allowed claims. The ultimate amount of such liabilities is not determinable at this time.

Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as “Liabilities subject to compromise” may be subject to future adjustments depending on Bankruptcy Court actions, further developments with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, or other events. We expect that certain amounts currently classified as “Liabilities subject to compromise” may in fact be paid in the normal course of business as they come due. Any resulting changes in classification will be reflected in subsequent financial statements.

Liabilities subject to compromise consist of the following (in thousands):

	At September 10, 2011	At February 26, 2011
Accounts payable	$ 176,927	$ 212,135
Accrued salaries, wages, and benefits	10,949	10,939
Self-insurance reserves	389,269	400,170
Closed locations reserves	3,011	50,550
Damages claim for rejected leases	186,751	106,642
Pension withdrawal liabilities	113,922	97,196
GHI liability for employee benefits	101,846	94,281
Accrued occupancy-related costs for open stores	22,766	24,523
Deferred income	33,941	74,394
Deferred real estate income	14,918	89,309
Accrued audit, legal and other	6,875	8,118
Accrued interest	49,845	33,921
Other postretirement and postemployment benefits	41,887	41,655
Other accruals	2,981	8,005
Pension plan benefits	130,085	125,000
Step rent liabilities	24,214	56,287
Unfavorable lease liabilities	795	4,201
Other noncurrent liabilities	10,123	11,316
5.125% Convertible Senior Notes, due June 15, 2011	165,000	165,000
Related Party Promissory Note, due August 18, 2011	10,000	10,000
9.125% Senior Notes, due December 15, 2011	12,840	12,840
6.750% Convertible Senior Notes, due December 15, 2012	255,000	255,000

11.375% Senior Secured Notes, due August 1, 2015		260,000		260,000
9.375% Notes, due August 1, 2039		200,000		200,000
Other debt		2,473		2,714
Obligations under capital leases		53,649		121,058
Real estate liabilities		189,332		399,480
Total liabilities subject to compromise	$	2,469,399	$	2,874,734

Rejected Leases

During the 12 and 28 weeks ended September 10, 2011, we rejected 19 and 63 of our leases, respectively, through the bankruptcy process, reducing the closed locations reserves balance associated with these leases by $13.5 million and $52.6 million, respectively, net to the allowable claim for damages of $186.8 million as of September 10, 2011. The remaining closed locations reserves balance of $3.0 million pertains to locations for which the leases have not been rejected. In connection with the rejected leases during the 12 and 28 weeks ended September 10, 2011, the related deferred real estate income, unfavorable lease liabilities, obligations under capital leases and real estate liabilities were written off, all which were recorded to “Reorganization items, net” in our Consolidated Statements of Operations. Refer to Note 15 – Reorganization Items, Net, for further discussion of our rejected leases.

Assumed Leases

During the 12 weeks ended September 10, 2011, our Company assumed 330 real estate leases, including leases for shopping center tenants as well as leases for subleased locations. In connection with the assumption of the leases, the related liability balances previously classified as “Liabilities subject to compromise” were reclassified to the respective balance sheet captions in our Consolidated Balance Sheets. In addition, all undisputed cure amounts related to these leases in the amount of $6.8 million have been paid to the landlords.

Non-debtor Financing Agreements

Intercompany financing agreements with foreign non-Debtor subsidiaries of $94.1 million are not reflected in the above liabilities subject to compromise table as these amounts were eliminated on a consolidated basis.

11. Redeemable Preferred Stock

On August 4, 2009, our Company issued 60,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-T, without par value, to affiliates of Tengelmann and 115,000 shares of 8.0% Cumulative Convertible Preferred Stock, Series A-Y, without par value, to affiliates of Yucaipa Companies LLC, together referred to as the “Preferred Stock”, for approximately $162.8 million, after deducting approximately $12.2 million in closing and issuance costs. Each share of the Preferred Stock has an initial liquidation preference of one thousand dollars, subject to adjustment.

The Preferred Stock issuance was classified within temporary stockholders’ equity in our Consolidated Balance Sheets as of September 10, 2011 and February 26, 2011. The holders of the Preferred Stock are entitled under a pre-bankruptcy agreement to an 8.0% dividend, payable quarterly in arrears in cash or in additional shares of Preferred Stock if our Company does not meet the liquidity levels required to pay the dividends. We are currently not accruing for the 8% dividend and no dividends have been paid during the pendency of our bankruptcy case.

On November 24, 2010 our Company’s Board of Directors authorized a payment-in-kind (“PIK”) dividend on our Preferred Stock, payable on December 15, 2010 to holders of record on November 15, 2010 (“Record Date”). Dividends are required to be PIK in the event our Company does not have the ability to pay the dividends in cash. As of the Record Date, we did not have the ability to pay the dividends in cash. The calculation of PIK dividends on our Preferred Stock is based upon the rate defined by the original terms of the Preferred Stock at 9.5% per annum. The PIK dividends of approximately $4.0 million are included in “Series A redeemable preferred stock” in our Consolidated Balance Sheets. The PIK dividend due on December 15, 2010 was not paid by our Company due to the Bankruptcy Filing.

During the 12 and 28 weeks ended September 10, 2011, we recorded deferred financing fees amortization of $0.4 million and $0.9 million, respectively, and embedded beneficial conversion features accretion of $1.1 million and $2.6 million, respectively, within "Additional paid-in capital". During the 12 and 28 weeks ended September 11, 2010, we recorded deferred financing fees amortization of $0.4 million and $0.9 million, respectively, and embedded beneficial conversion features accretion of $1.1 million and $2.6 million, respectively, within "Additional paid-in capital". During the 12 and 28 weeks ended September 11, 2010, we accrued Preferred Stock dividends of $3.1 million and $7.4 million, respectively, within "Additional paid-in capital" and paid Preferred Stock cash dividends of nil and $7.0 million, respectively.

12. Stock Based Compensation

At September 10, 2011, we had two stock-based compensation plans, the 2008 Long Term Incentive and Share Award Plan and the 2004 Non-Employee Director Compensation Plan. The general terms of each plan are reported in our Fiscal 2010 Annual Report on Form 10-K.

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

	For the 12 Weeks Ended		For the 28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
Stock options	$ 566	$ 122	$ 1,322	$ (246)
Restricted stock units	452	451	651	(291)
Common stock granted to Directors	-	187	(464)	436
Total stock-based compensation expense (income)	$ 1,018	$ 760	$ 1,509	$ (101)

There were no stock-based grants during the 28 weeks ended September 10, 2011.

Stock options

As of September 10, 2011, approximately $5.8 million, net of tax, of total unrecognized compensation expense related to unvested stock option awards will be recognized over a weighted average period of 2.0 years.

Restricted Stock

None of the previously granted restricted stock units vested during the 12 and 28 weeks ended September 10, 2011. As of September 10, 2011, approximately $1.3 million, net of tax, of total unrecognized compensation expense relating to restricted stock units granted during fiscal 2010 and fiscal 2009 is expected to be recognized through fiscal 2013.

2004 Non-Employee Director Compensation Plan

Although the 2004 Non-Employee Director Compensation Plan ("Director Plan") is still in effect, at this time our Company does not anticipate issuing an annual grant of common stock or common stock equivalent in fiscal 2011. As a result, our Company reversed previously recognized stock compensation expense expected to be issued at the fiscal 2011 annual meeting during the first quarter of fiscal 2011. Such stock compensation expense will not be recognized in our Consolidated Statements of Operations until formal changes are made to the Director Plan.

13. Retirement Plans and Benefits

Defined Benefit Plans

The components of our net pension cost were as follows (in thousands):

For the 12 Weeks Ended For the 28 Weeks Ended

	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
Service cost	$ 1,498	$ 1,407	$ 3,496	$ 3,565
Interest cost	6,628	6,662	15,465	15,591
Expected return on plan assets	(6,950)	(6,640)	(16,745)	(15,493)
Amortization of:				
Net prior service cost	21	-	49	81
Actuarial loss	404	439	943	1,024
Special termination benefits	-	350	-	400
Net pension cost	$ 1,601	$ 2,218	$ 3,208	$ 5,168

We did not contribute to our two defined benefit plans during the 28 weeks ended September 10, 2011. As a result of the Bankruptcy Filing, we do not plan to make any contributions to our two defined benefit plans during the remainder of fiscal 2011. Our minimum contribution payment required for the plans' fiscal 2010 plan year is approximately $11.1 million, which was due on September 15, 2011 and remains unpaid. In addition, quarterly contributions for the plans' 2011 plan year total approximately $2.5 million per quarter, which were due on April 15, 2011 and July 15, 2011, and remain unpaid. In the event that we successfully reorganize under chapter 11 and we emerge from bankruptcy prior to the end of fiscal 2011, our Company may be required to make the $11.1 million required contributions to our two defined benefit plans, as well as other missed contributions, during fiscal 2011.

Postretirement Plans

The components of our net postretirement benefits cost were as follows (in thousands):

	For the 12 Weeks Ended		For the 28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
Service cost	$ 175	$ 151	$ 408	$ 352
Interest cost	431	428	1,006	999
Amortization of:				
Net prior service credit	-	(198)	-	(462)
Actuarial gain	(63)	(112)	(148)	(262)
Net postretirement benefits cost	$ 543	$ 269	$ 1,266	$ 627

Our current estimates are subject to change due to changes in actuarial assumptions and further clarifications provided by regulatory guidance expected to be released in future years.

GHI Employee Obligation

As of September 10, 2011 and February 26, 2011, the fair value of our contractual obligation to Grocery Hauler Inc.'s ("GHI") employees was $101.8 million and $94.3 million, respectively, using discount rates of 4.75% and 5.50%, respectively, which were derived from the published zero-coupon AA corporate bond yields. Additions to our GHI employee obligation for current service costs is recorded within "Cost of merchandise sold" in our Consolidated Statements of Operations at its current value. Accretion of the obligation to present value and impact of discount rates used to value the obligation are recorded within "Interest expense, net" in our Consolidated Statements of Operations. As a result of the rejection of the GHI Trucking Agreement (discussed further in Note 20 – Commitments and Contingencies), accruals for future services for participant benefits were suspended during the first quarter of fiscal 2011 upon termination of the remaining GHI employees. During the 12 and 28 weeks ended September 10, 2011, we recognized service costs of nil and $5,700, respectively, and interest expense of $6.7 million and $10.9 million, respectively, representing interest accretion on this obligation, as well as the impact of the lower discount rates used to value this obligation, resulting from declines in the published zero-coupon AA corporate bond yields during each period. During the 12 and 28 weeks ended September 11, 2010, we recognized service costs of $0.2 million and $0.4 million, respectively, and interest expense of $4.1 million and $8.5 million, respectively, representing interest accretion on this obligation, as well as the impact of the lower discount rates used to value this obligation, resulting from declines in the published zero-coupon AA corporate bond yields during each period. During the 28 weeks ended September 10, 2011 and September 11, 2010, benefit payments of $3.4 million and $7.7 million, respectively, were made by the Pathmark Pension Plan.

Our employee obligation relating to pension benefits for GHI's employees are considered subject to compromise and are included within "Liabilities subject to compromise" in our Consolidated Balance Sheets as of September 10, 2011 and February 26, 2011.

Multi-employer Union Pension Plans

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

During the first quarter of fiscal 2011, we received notification from the trustees of a multi-employer union pension plan for payment of a partial withdrawal resulting from the closure of certain Pathmark stores in fiscal 2009. The impact of the partial withdrawal is a liability of approximately $14.1 million, which is included within "Liabilities subject to compromise" in our Consolidated Balance Sheets as of September 10, 2011. We could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans, which benefits could be significant and material for our Company.

14. Interest Expense, Net

Interest expense, net is comprised of the following (in thousands):

	For the 12 Weeks Ended		For the 28 Weeks Ended	
	Sept. 10, 2011	Sept. 11, 2010	Sept. 10, 2011	Sept. 11, 2010
$800 million Debtor-in-Possession Credit Agreement	$ 8,585	$ -	$ 20,053	$ -
$655 million Credit Agreement	341	3,104	1,052	7,109
Related Party Promissory Note, due Aug. 18, 2011	-	138	-	325
11.375% Senior Secured Notes, due Aug. 1, 2015	6,825	6,808	15,925	15,958
9.125% Senior Notes, due Dec. 15, 2011	-	269	-	629
5.125% Convertible Senior Notes, due June 15, 2011	-	1,941	-	4,542
6.750% Convertible Senior Notes, due Dec. 15, 2012	-	3,950	-	9,245
9.375% Notes, due August 1, 2039	-	4,280	-	10,095
Obligations under capital leases and real estate liabilities	11,056	11,293	27,318	26,735
Self-insurance and GHI interest	4,466	3,752	11,399	8,871
GHI discount rate adjustment and COLI non-cash interest	6,380	3,759	10,021	7,648
Amortization of deferred financing fees and discounts	159	6,647	491	15,381
Other	17	194	24	769
Subtotal	37,829	46,135	86,283	107,307

Interest income	-	(9)	-	(39)
Interest expense, net	$ 37,829	$ 46,126	$ 86,283	$ 107,268

We recorded $8.6 million and $20.1 million in contractual interest for the DIP Credit Agreement during the 12 and 28 weeks ended September 10, 2011, respectively. We continued to record contractual interest for our $260 million 11.375% Senior Secured Notes due August 1, 2015 that were issued in August 2009. We did not record contractual interest expense of approximately $8.6 million and $22.6 million for the 12 and 28 weeks ended September 10, 2011, respectively, for our Related Party Promissory Note, due August 18, 2011, 9.125% Senior Notes, due December 15, 2011, 5.125% Convertible Senior Notes, due June 15, 2011, 6.750% Convertible Senior Notes, due December 15, 2012, and 9.375% Notes, due August 1, 2039, all of which are unsecured obligations for which we ceased accruing interest during the fourth quarter 2010 as a result of the Bankruptcy Filing. Debt discounts and deferred financing fees for all debt which is subject to compromise were reclassified into the carrying value of the respective indebtedness upon the Bankruptcy Filing and the balances were then adjusted to the face value of the debt. As a result of this reclassification, we ceased amortization of deferred financing fees and discounts effective as of the Bankruptcy Filing date. Although we have recorded interest accretion expense on obligations under capital leases and real estate liabilities, self-insurance reserves, GHI and corporate owned life insurance obligations, we have not made a final determination as to the value of any underlying assets or the rejection/assumption of any of the obligations that we have not assumed. Once a determination is made, the accretion of the interest expense may change.

15. Reorganization Items, Net

Reorganization items, net represent amounts incurred and recovered as a direct result of the Bankruptcy Filing and were comprised of the following (in thousands):

	For the 12 Weeks Ended Sept. 10, 2011	For the 28 Weeks Ended Sept. 10, 2011
Professional fees, net	$ (12,668)	$ (29,836)
US Trustee fees	(257)	(512)
Write-off of balance sheet items related to rejected contracts, net - continuing operations	16,644	47,157
C&S contract effect	-	34,139
Reduction of closed locations reserve - continuing operations	13,429	44,078
Reorganization items, net - continuing operations	17,148	95,026
Write-off of balance sheet items related to rejected contracts, net - discontinued operations	(64)	25,735
Reduction of closed locations reserve - discontinued operations	79	8,474
Provision for income taxes for reorganization items, net - discontinued operations	(7)	(14,368)
Total reorganization items, net	$ 17,156	$ 114,867

For the 12 and 28 weeks ended September 10, 2011, professional fees of $12.7 million and $29.8 million were accrued, respectively, and $12.4 million and $23.5 million were paid, respectively, related to our Bankruptcy Filing. U.S. Trustee fees of approximately $0.2 million and $0.5 million were incurred and paid during the 12 and 28 weeks ended September 10, 2011, respectively.

On June 2, 2011, our Company rejected its prior contract with C&S and entered into a new definitive supply agreement effective May 29, 2011. As a result of our renegotiated contract, in the first quarter of fiscal 2011 we eliminated $34.1 million of previously recorded unfavorable contract liability.

During the 12 and 28 weeks ended September 10, 2011, we rejected 19 and 63 of our leases, respectively, through the bankruptcy process and reduced the closed locations reserves balance associated with these leases by $13.5 million and $52.6 million, respectively, $13.4 million and $44.1 million of which was attributed to continuing operations, respectively, and $0.1 million and $8.5 million was attributed to discontinued operations, respectively, net to the allowable claim for damages of $17.4 million and $55.3 million for the respective periods then ended. Our total closed locations reserves balance of $189.8 million relates to damage claims of $186.8 million and $3.0 million pertains to locations for which the leases have not been rejected as of September 10, 2011. In connection with the rejection of the 19 and 63 leases during the 12 and 28 weeks ended September 10, 2011, respectively, we also wrote off the related obligations under capital leases of $2.5 million and $9.8 million, respectively, unfavorable lease liabilities of nil and $3.2 million, respectively, real estate liabilities of $13.7 million and $22.6 million, respectively, deferred real estate income of nil and $9.4 million, respectively, other liabilities of $0.5 million and $0.6 million respectively, with an offsetting write-off of other assets of $0.2 million and $1.0 million, respectively, totaling $16.5 million, net and $44.6 million, net, respectively. Of these amounts, $16.6 million and $43.0 million relate to continuing operations, respectively, and $(0.1) million and $1.6 million relate to discontinued operations, respectively.

During the 28 weeks ended September 10, 2011, we rejected 9 of our assigned leases through the bankruptcy process and wrote-off the related property, net of $13.5 million with an offsetting write-off of deferred real estate income of $41.8 million, totaling $28.3 million. Of this amount, $4.2 million relates to continuing operations and $24.1 million relates to discontinued operations, respectively.

16. Income Taxes

During the 12 and 28 weeks ended September 10, 2011, our valuation allowance increased by $34.4 million and $95.6 million, respectively, to reflect generation of additional operating losses and increases to other deferred tax assets. In future periods, we will continue to record a valuation allowance against net deferred tax assets until such time as the certainty of the realization of future tax benefits can be reasonably assured.

Our Company is subject to U.S. federal income tax, as well as income tax in multiple state and foreign jurisdictions. As of September 10, 2011, with a few exceptions, we remain subject to examination by federal, state and local tax authorities for tax years 2005 through 2009. With a few exceptions, we are no longer subject to federal, state or local examinations by tax authorities for tax years 2004 and prior. At September 10, 2011 and February 26, 2011, we had unrecognized tax benefits of $0.6 million, which were recorded within deferred tax liabilities in “Other accruals” in our Consolidated Balance Sheets. We do not expect that the amount of our gross unrecognized tax positions will change significantly in the next 12 months. Any future decrease in our Company's gross unrecognized tax positions is not expected to affect our effective tax rate. Our Company classifies interest and penalty expense related to unrecognized tax benefits within “(Provision for) benefit from income taxes” in our Consolidated Statements of Operations. For the 12 and 28 weeks ended September 10, 2011 and September 11, 2010, respectively, no amounts were recorded for interest and penalties within “(Provision for) benefit from income taxes” in our Consolidated Statements of Operations.

The effective tax rate on continuing operations of (3.1%) and 4.5% for the 12 and 28 weeks ended September 10, 2011, respectively, and (0.07%) and (0.10%) for the 12 and 28 weeks ended September 11, 2010 respectively, varied from the statutory rate of 35%, primarily due to state and local income taxes, and the increase in our valuation allowance. The rate for the 12 and 28 weeks ended September 11, 2010 was also impacted by the mark to market of the Series B warrants issued in the acquisition of Pathmark.

At September 10, 2011, we had federal Net Operating Loss (“NOL”) carry forwards of approximately $1.0 billion, which will expire between fiscal 2024 and 2031, some of which are subject to an annual limitation. The federal NOL carry forwards include $7.4 million related to the excess tax deductions for stock option plans that have yet to reduce income taxes payable. Upon utilization of these carry forwards, the associated tax benefits of approximately $2.6 million will be recorded in “Additional paid-in capital” in our Consolidated Balance Sheets. In addition, we had state loss carry forwards of $1.0 billion that will expire between fiscal 2011 and fiscal 2031. Our Company’s general business credits consist of federal and state work incentive credits, which will expire between fiscal 2011 and fiscal

2030, some of which are subject to an annual limitation.

At September 10, 2011 and February 26, 2011, we had net current deferred tax liabilities of $31.5 million and $28.3 million, respectively, which were included in “Other accruals” in our Consolidated Balance Sheets and non-current deferred tax assets of $19.9 million and $16.7 million, respectively, which were recorded in “Other assets” in our Consolidated Balance Sheets.

Revision of Prior Period Financial Statements

During the first quarter of fiscal 2011, our Company identified the amount of income tax benefit and income tax expense allocated to continuing operations and discontinued operations, respectively, for the fiscal year ended February 26, 2011 was improperly presented in our Consolidated Statements of Operations. The impact of this improper presentation, which results from the improper intraperiod allocation of income taxes, was an understatement of the “Benefit from income taxes” related to “Loss from continuing operations” and an understatement of the “Provision for income taxes” related to “Income from discontinued operations” of $33.1 million in our Consolidated Statements of Operations during the fiscal year ended February 26, 2011. The effect of this revision had no impact on our “Net loss” in our Consolidated Statements of Operations or “Net cash used in operating activities” in our Consolidated Statements of Cash Flows for the fiscal year ended February 26, 2011.

The following table presents the impact of this revision in our Company's Consolidated Statements of Operations for the fiscal year ended February 26, 2011 (in thousands):

	As Reported	Adjustment	As Revised
Benefit from (provision for) income taxes	$ 3,798	$ 33,146	$36,944
Loss from continuing operations	(673,400)	33,146	(640,254)
Income (loss) from discontinued operations	74,825	(33,146)	41,679
Net (loss) income per share - basic	(11.45)	0.01	(11.44)

The revisions described above will be reflected in our Company's Consolidated Financial Statements for the fiscal year ended February 25, 2012, which will be included in our Company's Annual Report on Form 10-K for the fiscal year ended February 25, 2012.

17. Discontinued Operations

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

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

		For the 28 weeks Ended September 10, 2011			
	Balance at 2/26/2011	Interest Accretion(1)	Adjustments(2)	Utilization(3)	Balance at 9/10/2011
2007 Events					
Occupancy	$ 49,317	$ 80	$ (6,818)	$ -	$ 42,579
Pension withdrawal	57,581	1,880	-	-	59,461
2007 events total	106,898	1,960	(6,818)		102,040
2005 Event					
Occupancy	21,390	-	-	-	21,390

2003 Events					
Occupancy	8,451	12	(1,641)	(39)	6,783
Total	$ 136,739	$ 1,972	$ (8,459)	$	