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GREAT ATLANTIC & PACIFIC TEA CO INC
Form 10-Q
January 15, 2002

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

FORM 10-Q

Mark One

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

For Quarter Ended December 1, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 1-4141

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

(Exact name of registrant as specified in charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

13-1890974

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

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

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

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

YES NO

As of December 1, 2001 the Registrant had a total of 38,347,466 shares of common stock - \$1 par value outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

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

	12 Weeks Ended		40 Weeks Ended	
	Dec. 1, 2001	Dec. 2, 2000	Dec. 1, 2001	Dec 2, 2000
Sales	\$2,525,388	\$2,428,790	\$8,461,272	\$8,068,144
Cost of merchandise sold	(1,799,951)	(1,740,230)	(6,036,316)	(5,755,986)
Gross margin	725,437	688,560	2,424,956	2,312,158
Store operating, general and administrative expense	(866,721)	(690,744)	(2,536,073)	(2,264,120)
(Loss) income from operations	(141,284)	(2,184)	(111,117)	48,038
Interest expense	(19,410)	(23,240)	(68,354)	(74,308)
Interest income	1,450	1,472	5,184	4,762
Loss before income taxes	(159,244)	(23,952)	(174,287)	(21,508)
Benefit from income taxes	66,757	9,439	71,430	7,205
Net loss	\$ (92,487)	\$ (14,513)	\$ (102,857)	\$ (14,303)
Loss per share:				
Net loss per share - basic and diluted	\$ (2.41)	\$ (0.38)	\$ (2.68)	\$ (0.37)
Weighted average number of common shares outstanding - basic and diluted *	38,347,225	38,347,216	38,347,219	38,347,216

* Common share equivalents for 2001 and 2000 have been excluded because they are either antidilutive or zero.

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See Notes to Quarterly Report

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

	Common Stock	Addit- ional Paid-in Capital	Unamort- ized Value of Restrict- ed Stock Grant	Retain- ed Earnings	Accumu- lated Other Compre- hensive Loss	Total Stock holders' Equity
	-----	-----	-----	-----	-----	-----
40 Week Period Ended December 1, 2001						

Balance at beginning of period						
38,347,216 shares	\$38,347	\$456,470	\$-	\$375,288	\$(72,808)	\$797,297
Net loss				(102,857)		(102,857)
Other comprehensive loss:						
Foreign currency translation adjustment					(1,214)	(1,214)
Stock options exercised		2				2
	-----	-----	---	-----	-----	-----
Balance at end of period	\$38,347	\$456,472	\$-	\$272,431	\$(74,022)	\$693,228
	=====	=====	===	=====	=====	=====
40 Week Period Ended December 2, 2000						

Balance at beginning of period						
38,367,216 shares	\$38,367	\$457,101	\$(441)	\$411,861	\$(60,696)	\$846,192
Net loss				(14,303)		(14,303)
Other comprehensive loss:						
Foreign currency translation adjustment					(12,179)	(12,179)
Minimum pension liability adjustment					2,682	2,682
Reversal of restricted stock grants	(20)	(631)	441			(210)
Cash dividends (\$.10 per share)				(11,505)		(11,505)
	-----	-----	---	-----	-----	-----
Balance at end of period	\$38,347	\$456,470	\$-	\$386,053	\$(70,193)	\$810,677
	=====	=====	===	=====	=====	=====

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Comprehensive Loss

	12 Weeks Ended		40 Weeks Ended	
	Dec. 1, 2001	Dec. 2, 2000	Dec. 1, 2001	Dec. 2, 2000
Net loss	\$ (92,487)	\$ (14,513)	\$ (102,857)	\$ (14,303)
Foreign currency translation adjustment	(940)	(9,679)	(1,214)	(12,179)
Minimum pension liability adjustment	-	-	-	2,682
Total comprehensive loss	\$ (93,427)	\$ (24,192)	\$ (104,071)	\$ (23,800)

See Notes to Quarterly Report

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

	December 1, 2001	February 24, 2001
	(Unaudited)	
ASSETS		
Current assets:		
Cash and short-term investments	\$111,205	\$131,550
Accounts receivable	202,875	183,382
Inventories	803,036	783,758
Prepaid expenses and other current assets	116,977	103,164
Total current assets	1,234,093	1,201,854
Property:		
Property owned	1,634,167	1,805,255
Property leased under capital leases	77,530	84,758
Property - net	1,711,697	1,890,013
Other assets	235,139	217,936
Total assets	\$3,180,929	\$3,309,803
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$4,073	\$ 6,195
Current portion of obligations under		

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capital leases	10,852	11,634
Accounts payable	578,111	566,482
Book overdrafts	128,607	108,448
Accrued salaries, wages and benefits	162,348	158,450
Accrued taxes	66,657	62,169
Other accruals	222,693	194,106
	-----	-----
Total current liabilities	1,173,341	1,107,484
	-----	-----
Long-term debt	806,349	915,321
Long-term obligations under capital leases	94,226	106,797
Other non-current liabilities	413,785	382,904
	-----	-----
Total liabilities	2,487,701	2,512,506
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - no par value; authorized - 3,000,000 shares; issued - none	-	-
Common stock - \$1 par value; authorized - 80,000,000 shares; issued and outstanding - 38,347,466 and 38,347,216 shares at December 1, 2001 and February 24, 2001, respectively	38,347	38,347
Additional paid-in capital	456,472	456,470
Accumulated other comprehensive loss	(74,022)	(72,808)
Retained earnings	272,431	375,288
	-----	-----
Total stockholders' equity	693,228	797,297
	-----	-----
Total liabilities and stockholders' equity	\$3,180,929	\$3,309,803
	=====	=====

See Notes to Quarterly Report

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

	40 Weeks Ended	
	Dec. 1, 2001	Dec. 2, 2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (102,857)	\$ (14,303)
Adjustments to reconcile net loss to cash provided by operating activities:		
Asset disposition initiative	172,474	-
Store/facilities exit charge reversal	-	(3,061)
Environmental charge	-	4,029
Depreciation and amortization	204,953	195,047
Deferred income tax benefit	(73,717)	(9,992)
Loss (gain) on disposal of owned property	22	(1,634)

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Other changes in assets and liabilities:		
(Increase) decrease in receivables	(20,429)	22,995
Increase in inventories	(22,600)	(87,561)
Increase in prepaid expenses and other current assets	(18,108)	(3,727)
Decrease (increase) in other assets	4,609	(3,607)
Increase in accounts payable	15,811	44,521
Increase in accrued salaries, wages and benefits	4,635	3,772
Increase in accrued taxes	4,566	8,505
Decrease in other accruals and other liabilities	(14,801)	(44,218)
Other operating activities, net	3,872	4,481
	-----	-----
Net cash provided by operating activities	158,430	115,247
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property	(176,209)	(325,729)
Proceeds from disposal of property	97,843	25,240
	-----	-----
Net cash used in investing activities	(78,366)	(300,489)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in short-term debt	10,000	(17,000)
Proceeds under revolving lines of credit	1,092,412	511,471
Payments on revolving lines of credit	(1,192,018)	(326,556)
Proceeds from long-term borrowings	915	22,620
Payments on long-term borrowings	(22,404)	(3,125)
Principal payments on capital leases	(9,030)	(8,514)
Increase (decrease) in book overdrafts	20,419	(739)
Proceeds from stock option exercises	2	-
Cash dividends	-	(11,505)
	-----	-----
Net cash (used in) provided by financing activities	(99,704)	166,652
Effect of exchange rate changes on cash and short-term investments	(705)	(2,073)
	-----	-----
Net decrease in cash and short-term investments	(20,345)	(20,663)
Cash and short-term investments at beginning of period	131,550	124,603
	-----	-----
Cash and short-term investments at end of period	\$111,205	\$103,940
	=====	=====

See Notes to Quarterly Report

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

1. Basis of Presentation

The consolidated financial statements for the 12 and 40 week periods ended December 1, 2001 and December 2, 2000 are unaudited, and in the opinion of Management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items, except for the supply chain and business process strategic

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

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

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

2. Income Taxes

The income tax benefit recorded for the 12 and 40 week periods of fiscal years 2001 and 2000 reflects the Company's estimated expected annual tax rates applied to its respective domestic and foreign financial results as well as a one-time adjustment relating to an enacted federal tax rate reduction from the Canadian government. This new legislation which became effective during the first quarter of fiscal 2001 will reduce the Canadian federal corporate income tax rate by a total of 7% from 28% to 21% by January 1, 2004. However, the tax benefit for the 40 weeks ended December 1, 2001 was decreased by \$1.2 million to reflect the reduction in value of the deferred Canadian tax asset (primarily relating to NOL carryforwards) resulting from the lower rates. Excluding this adjustment of the deferred tax asset, the benefit from income taxes would have been \$72.6 million or 41.7% of the loss before income taxes.

During the 40 weeks ended December 1, 2001, the Ontario government enacted corporate income tax rate changes, gradually reducing the rate from 14% to 8% by January 1, 2005. This additional Canadian tax rate reduction did not have a significant impact on the financial statements for the 12 and 40 weeks ended December 1, 2001.

3. Wholesale Franchise Business

As of December 1, 2001, the Company served 67 franchised stores. These franchisees are required to purchase inventory exclusively from the Company, which acts as a wholesaler to the franchisees. The Company had sales to these franchised stores of \$157 million and \$152 million for the third quarters of fiscal 2001 and 2000, respectively, and \$518 million and \$486 million for the 40 week periods ended in fiscal 2001 and 2000. In addition, the Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a fee, which primarily represents the reimbursement of costs incurred to provide such services.

The Company holds as assets inventory notes collateralized by the inventory in the stores and equipment lease receivables collateralized by the equipment in the stores. The current portion of the inventory notes and equipment leases, net of allowance for doubtful accounts, amounting to approximately \$2.1 million and \$3.7 million, are included in accounts receivable at December 1, 2001 and February 24, 2001, respectively. The long-term portion of the inventory notes and equipment leases amounting to approximately \$46.6 million and \$55.3 million are included in other assets at December 1, 2001 and February 24, 2001, respectively.

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

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

4. New Accounting Pronouncements Not Yet Adopted

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

In June 2001, the FASB issued SFAS No. 143, "Accounting For Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is required to adopt the provisions of SFAS No. 143 at the beginning of fiscal 2002. The Company has determined that the adoption of this statement will not have a material impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. This statement also broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are required to be adopted by the Company at the beginning of fiscal 2002. The Company has not determined the impact, if any, adoption of this statement will have on its financial position or results of operations.

5. Asset Disposition Initiative

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In May 1998, the Company initiated an assessment of its business operations in order to identify the factors that were impacting the performance of the Company. As a result of this assessment, in fiscal 1998, the Company recorded a net charge of approximately \$224 million related to the closure of 132 stores, two warehouse facilities and a coffee plant in the U.S. and a bakery plant in Canada. Additionally, in fiscal 1999 the Company recorded an additional charge of \$16 million, which included \$5 million of net costs to exit the Atlanta market (sale of 14 stores, two of which were included in the previously announced closure, the closure of the 22 remaining stores, a distribution center and administrative office) and \$11 million for additional severance costs related to the 132 stores closed in fiscal 1998.

The Company paid \$28.6 million of the total net severance charges from the time of the original charges through December 1, 2001, which resulted from the termination of approximately 3,400 employees. The remaining severance liability primarily relates to future obligations for early withdrawals from multi-employer union pension plans.

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

(Dollars in thousands)

	Store Occupancy	Severance and Benefits	Facilities Occupancy	Total
	-----	-----	-----	-----
Reserve Balance at Feb. 26, 2000	\$103,453	\$ 7,500	\$ 3,567	\$114,520
Addition (1)	5,062	-	-	5,062
Utilization (4)	(25,654)	(4,779)	(463)	(30,896)
Adjustment (3)	-	-	(3,104)	(3,104)
	-----	-----	-----	-----
Reserve Balance at Feb. 24, 2001	82,861	2,721	-	85,582
Addition (1)	3,259	-	-	3,259
Utilization (2)	(19,056)	(433)	-	(19,489)
	-----	-----	-----	-----
Reserve Balance at December 1, 2001	\$67,064	\$2,288	\$-	\$69,352
	=====	=====	=====	=====

(1) The addition to store occupancy of \$3.3 million during the 40 weeks ended December 1, 2001 and \$5.1 million during fiscal 2000, respectively, represent the present value of accrued interest related to lease obligations.

(2) Store occupancy utilization of \$19.1 million represents lease and other occupancy payments made during the 40 weeks ended December 1, 2001.

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- (3) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. As a result, in fiscal 2000, the Company recorded a net reduction in "Store operating, general and administrative expense" of \$3.1 million to reverse a portion of the \$224 million net restructuring charge recorded in fiscal 1998. The reversal is a result of a change in estimate resulting from the sale of one of the Company's warehouses sold during the first quarter of fiscal 2000.
- (4) Store occupancy utilization of \$25.7 million and facilities occupancy of \$0.5 million represent lease and other occupancy payments made during fiscal 2000.

Based upon current available information, Management evaluated the reserve balance of \$69.4 million as of December 1, 2001 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

At December 1, 2001, approximately \$11.8 million of the reserve is included in "Other accruals" and the remaining amount is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 1, 2001 and December 2, 2000 are the operating results of the one remaining store that was identified for closure as part of this store and facilities exit plan. This store was closed during the second quarter of fiscal 2001. The operating results of this store are as follows:

(In thousands)	12 Weeks Ended		40 Weeks Ended	
	December 1, 2001	December 2, 2000	December 1, 2001	December 2, 2000
Sales	\$ - =====	\$ 138 =====	\$ 197 =====	\$ 515 =====
Operating Loss	\$ - =====	\$ (44) =====	\$ (108) =====	\$ (115) =====

During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from Management's review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, the Company determined that certain underperforming operations, including 39 stores, should be closed and sold. As a result of these decisions, the Company announced on November 14, 2001 that it would incur costs of approximately \$200 - \$215 million pretax (\$115 - \$125 million after tax) through the third quarter of fiscal 2002. Of this amount, \$164.9 million pretax (\$95.7 million after tax) was included in the Statements of Consolidated Operations for the 40 week period ended December 1, 2001. The components of this net pretax charge were as follows:

- o \$151.7 million of non-cash costs to close 39 stores (30 in the United States and 9 in Canada) and certain other operations of which \$63.5 million related to the present value of future occupancy obligations, \$85.0 million related to net costs of disposing of fixed assets, \$2.0 million related to severance for store and administrative personnel and \$1.2 million related to other miscellaneous items;

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- o \$20.8 million of non-cash costs to discontinue development of 4 potential stores of which \$16.9 million related to the present value of future occupancy obligations, \$3.5 million related to fixed asset write-offs and \$0.4 million related to occupancy costs incurred in the current period;
- o \$7.6 million in cash gains on the sale of other properties and equipment, primarily land and buildings

Of this pretax charge, \$0.2 million was included in "Cost of merchandise sold" and \$164.7 million was included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for the 40 week period ended December 1, 2001.

To the extent fixed assets included in the items noted above could be used in other continuing operations, the Company will transfer those assets as needed. Fixed assets that the Company can not transfer to other operations will be scrapped. Accordingly, the write down recorded during the third quarter of fiscal 2001 was based on expected transfers.

In addition to the charges recorded during the third quarter of fiscal 2001, there were, and will continue to be, other charges related to the plan which could not be accrued for at December 1, 2001 because they did not meet the criteria for accrual under EITF 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit Activity (Including Certain Costs Incurred in a Restructuring)". Such costs have been, and will continue to be, expensed as incurred as the asset disposition is being executed. During the 12 and 40 weeks ended December 1, 2001, the Company incurred additional costs as part of this asset disposition of \$0.8 million and \$1.0 million, respectively, primarily related to non-accruable closing costs. These costs are included in the charge described above, but excluded from the table below, which represents only the reserve balance on the balance sheet.

As of December 1, 2001, the Company paid approximately \$0.3 million of the total severance charge recorded to date which resulted from the termination of approximately 125 employees. The remaining individual severance payments will be paid by the end of fiscal 2003.

The following reconciliation summarizes the activity related to the aforementioned charges since their announcement in November 2001:

(Dollars in thousands)	Occupancy	Severance and Benefits	Goodwill/ Fixed Assets	Total
	-----	-----	-----	-----
Original charge	\$80,456	\$1,982	\$81,519	\$163,957
Addition (1)	400	-	-	400
Utilization (2)	-	(342)	(81,519)	(81,861)
	-----	-----	-----	-----
Reserve Balance at December 1, 2001	\$80,856	\$1,640	\$-	\$82,496
	=====	=====	====	=====

(1) The addition to store occupancy of \$0.4 million represents the present value of accrued interest related to lease obligations.

(2) Severance utilization of \$0.3 million represents payments made to terminated employees during the period. Goodwill/fixed asset utilization of \$81.5 million represents the writeoff of fixed assets of the operations

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to be discontinued and the writeoff of goodwill related to the Barn acquisition in Canada that was deemed to be impaired.

Based upon current available information, Management evaluated the reserve balance of \$82.5 million as of December 1, 2001 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary.

At December 1, 2001, approximately \$18.7 million of the reserve is included in "Other accruals" and the remaining amount is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations for the 12 and 40 weeks ended December 1, 2001 and December 2, 2000 are the sales and operating results of the 39 stores that were identified for closure as part of this asset disposition. The results of these operations are as follows:

(In thousands)	12 Weeks Ended		40 Weeks Ended	
	December 1, 2001	December 2, 2000	December 1, 2001	December 2, 2000
Sales	\$68,875 =====	\$73,503 =====	\$236,549 =====	\$236,083 =====
Operating Loss	\$(6,265) =====	\$(6,886) =====	\$(21,072) =====	\$(18,348) =====

6. Operating Segments

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

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

The accounting policies for the segments are the same as those described in the summary of significant accounting policies included in the Company's Fiscal 2000 Annual Report. The Company measures segment performance based upon loss/income from operations.

Interim information on segments is as follows:

(Dollars in thousands)	12 Weeks Ended		40 Weeks Ended	
	Dec. 1, 2001	Dec. 2, 2000	Dec. 1, 2001	Dec. 2, 2000

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Sales				
U.S. Retail	\$1,952,948	\$1,883,595	\$6,560,141	\$6,268,609
Canada Retail	415,671	393,467	1,382,679	1,313,545
Canada Wholesale	156,769	151,728	518,452	485,990
	-----	-----	-----	-----
Total Company	\$2,525,388	\$2,428,790	\$8,461,272	\$8,068,144
	=====	=====	=====	=====
Depreciation and amortization				
U.S. Retail	\$53,527	\$52,285	\$177,915	\$170,672
Canada Retail	8,170	7,311	27,038	24,375
Canada Wholesale	-	-	-	-
	-----	-----	-----	-----
Total Company	\$61,697	\$59,596	\$204,953	\$195,047
	=====	=====	=====	=====
(Loss) income from operations				
U.S. Retail	\$ (149,561)	\$ (9,281)	\$ (143,200)	\$14,191
Canada Retail	2,115	1,554	12,141	17,681
Canada Wholesale	6,162	5,543	19,942	16,166
	-----	-----	-----	-----
Total Company	\$ (141,284)	\$ (2,184)	\$ (111,117)	\$48,038
	=====	=====	=====	=====
Loss before income taxes				
U.S. Retail	\$ (166,706)	\$ (29,282)	\$ (202,621)	\$ (48,929)
Canada Retail	1,036	(518)	7,595	10,320
Canada Wholesale	6,426	5,848	20,739	17,101
	-----	-----	-----	-----
Total Company	\$ (159,244)	\$ (23,952)	\$ (174,287)	\$ (21,508)
	=====	=====	=====	=====
Capital expenditures				
U.S. Retail	\$38,320	\$74,334	\$140,375	\$277,223
Canada Retail	14,408	9,752	35,834	48,506
Canada Wholesale	-	-	-	-
	-----	-----	-----	-----
Total Company	\$52,728	\$84,086	\$176,209	\$325,729
	=====	=====	=====	=====
	December 1,		February 24,	
	2001		2001	
	-----		-----	
Total assets				
U.S. Retail	\$2,557,306		\$2,679,217	
Canada Retail	546,567		548,801	
Canada Wholesale	77,056		81,785	
	-----		-----	
Total Company	\$3,180,929		\$3,309,803	
	=====		=====	

7. Project Financing Agreement

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

During fiscal 2000, the Company entered into an agreement that provided financing for software purchases and hardware leases up to \$71 million in the

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aggregate primarily relating to these initiatives. At that time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004 and were to have equal monthly payments of \$1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded, relating to software purchases of approximately \$29 million were to be repaid over the next several months. Accordingly, as of December 1, 2001, approximately \$26 million had been repaid and \$4 million was payable related to software and accrued interest. Additionally, the monthly payment amount was amended to reflect expected utilization related to hardware leases, and, as such, these payments are expected to change based upon the timing and amount of such funding. As of December 1, 2001, approximately \$29 million had been funded related to hardware leases, and as a result, approximately \$13 million was available for future financing. The leasing of the hardware under this agreement is being accounted for as an operating lease in accordance with SFAS No. 13, "Accounting for Leases".

8. Sale-Leaseback Transaction

During the fourth quarter of fiscal 2000, the Company sold 12 properties and simultaneously leased them back from the purchaser. The properties subject to this sale had a carrying value of approximately \$68 million. Net proceeds received by the Company related to this transaction amounted to approximately \$113 million. Of the 12 properties sold, 11 were sold for a profit resulting in a gain after deducting expenses of approximately \$45 million. This gain will be deferred and amortized over the life of the respective leases as a reduction of rental expense. One property in the aforementioned transaction was sold at a loss of approximately \$3 million after expenses. Since the fair value of this property was less than its carrying value, the Company recognized this loss in full during fiscal 2000.

During fiscal 2001 to date, the Company has sold 8 additional properties and simultaneously leased them back from the purchaser. Of these 8 transactions in fiscal 2001, 1 closed during the third quarter. The properties subject to this sale had a carrying value of approximately \$46 million. Net proceeds received by the Company related to these transactions amounted to approximately \$60 million. Of the 8 properties sold, 5 were sold for a profit resulting in a gain after deducting expenses of approximately \$16 million. This gain will be deferred and amortized over the life of the respective leases as a reduction of rental expense. Three properties in the aforementioned transaction were sold at a loss of approximately \$4 million after expenses. The majority of this loss was related to one of these properties, which was anticipated at the end of fiscal 2000, and, accordingly, was recognized in full at that time since the carrying value of such property exceeded its fair value less the cost of disposal.

The Company expects to enter into similar transactions with other owned properties from time to time in the future.

The resulting leases of the 20 properties sold in fiscal 2000 and 2001 have terms ranging from 20 to 25 years, with options to renew for additional periods, and are being accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases". Future minimum lease payments for these operating leases are as follows:

(Dollars in thousands)

Fiscal	

2001	\$3,327
2002	19,964
2003	19,964

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2004	19,964
2005	19,964
2006 and thereafter	325,763

Total	\$408,946
	=====

9. Subsequent Events

On December 14, 2001, the Company issued \$275 million 9 1/8% Senior Notes due December 15, 2011. These notes pay interest semi-annually on June 15 and December 15 and are callable beginning December 15, 2006. The Company used the proceeds from the issuance of these notes to repay approximately \$178 million of the total \$200 million 7.70% Senior Notes due January 15, 2004 and for general corporate purposes including repayment of borrowings under the Company's secured revolving credit agreement. The repayment of approximately \$178 million of the 7.70% Senior Notes due January 15, 2004 took place in the form of a tender offer whereby the Company paid a 6.25% premium to par. The premium plus costs to tender will result in a fourth quarter extraordinary loss due to the early extinguishment of debt of approximately \$7 million after tax (\$13 million pretax).

On January 4, 2002, the Company entered into an interest rate swap with a commercial bank with a notional amount of \$50 million maturing on April 15, 2007. This swap effectively converts a portion of the Company's \$300 million 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt.

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

Results of Operations

12 Weeks Ended December 1, 2001 Compared to 12 Weeks Ended December 2, 2000

Sales for the 12 week period ended December 1, 2001 of \$2,525 million increased \$97 million or 4.0% from sales of \$2,429 million for the 12 week period ended December 2, 2000. The increase in sales is due to increases in retail sales of \$92 million and wholesale sales of \$5 million. The increase in retail sales is attributable to the opening of 37 new stores since the beginning of the third quarter of fiscal 2000, of which 15 were opened in fiscal 2001, increasing sales by \$98 million. Additionally, comparable store sales for the third quarter of fiscal 2001, which include replacement stores, increased \$67 million or 3.1% when compared to the third quarter of fiscal 2000. This increase was partially offset by the closure of 48 stores since the beginning of the third quarter of fiscal 2000, of which 28 were closed in fiscal 2001, which decreased sales \$57 million, and the unfavorable effect of the Canadian exchange rate, which decreased sales \$16 million. The increase in wholesale sales is attributable to higher sales volume of \$11 million partially offset by the unfavorable effect of the Canadian exchange rate which decreased sales by \$6 million.

Average weekly sales per supermarket were approximately \$273,800 for the 12 week period ended December 1, 2001 versus \$260,100 for the corresponding period of the prior year, an increase of 5.3%. Sales in the U.S. during the third quarter of fiscal 2001 increased by \$69.4 million or 3.7% compared to the third quarter of fiscal 2000. Sales in Canada during the third quarter of fiscal 2001 increased \$27.2 million or 5.0% compared to the third quarter of fiscal 2000.

Gross margin as a percentage of sales increased 38 basis points to 28.73% for the 12 week period ended December 1, 2001 from 28.35% for the 12 week period ended December 2, 2000. The gross margin dollar increase of \$36.9 million

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resulted from increases in sales volume and the gross margin rate partially offset by a decrease in the Canadian exchange rate. Included in gross margin for the 12 week period ended December 1, 2001 were costs related to the supply chain and business process strategic initiatives of \$0.7 million, which were incurred to mark down inventory to be discontinued as a result of detailed category management studies, and costs related to the Company's asset disposition initiative of \$0.2 million, which were incurred to mark down inventory in stores announced for closure. Excluding the charges described above, as a percentage of sales, gross margin would have been 28.76% for the 12 week period ended December 1, 2001.

Store operating, general and administrative expense ("SG&A") was \$866.7 million for the 12 week period ended December 1, 2001 compared to \$690.7 million for the corresponding period of the prior year. As a percentage of sales, SG&A increased from 28.44% in the third quarter of fiscal 2000 to 34.32% in the third quarter of fiscal 2001.

Included in SG&A for the 12 week period ended December 1, 2001 and December 2, 2000 are costs relating to the supply chain and business process strategic initiatives of \$22.6 million and \$18.1 million, respectively. These costs primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiatives. Also included in SG&A for the 12 week period ended December 1, 2001 are net costs relating to the Company's asset disposition initiative of \$164.5 million as described in Note 5 of the Consolidated Financial Statements. Excluding the charges described above, as a percentage of sales, SG&A decreased from 27.69% for the 12 week period ended December 2, 2000 to 26.91% for the 12 week period ended December 1, 2001.

Interest expense of \$19.4 million for the third quarter of fiscal 2001 decreased from the prior year quarter amount of \$23.2 million. This was primarily due to decreased borrowing requirements in the third quarter of fiscal 2001 compared to fiscal 2000 as a result of lower capital expenditures, a reduction in working capital and the proceeds received on the sale leaseback transaction described in Note 8 of the Consolidated Financial Statements. The reduction is also partially due to a decrease in interest rates.

The loss before income taxes for the 12 week period ended December 1, 2001 was \$159.2 million compared to a loss before income taxes of \$23.9 million for the comparable period in the prior year, a change of \$135.3 million. This fluctuation is attributable principally to the increase in SG&A resulting primarily from the asset disposition charge partially offset by the increase in gross margin and lower interest expense.

The benefit from income taxes for the 12 week period ended December 1, 2001 was \$66.7 million compared to a benefit from income taxes of \$9.4 million in the comparable period of fiscal 2000. The increase in benefit from income taxes is primarily attributable to the asset disposition charge. The effective tax rates for the third quarters of fiscal 2001 and 2000 were 41.9% and 39.4%, respectively. These benefits from income taxes for the third quarters of fiscal 2001 and 2000 reflect the estimated expected annual tax rates applied to its respective domestic and foreign financial results.

Based on these overall results, the net loss for the 12 week period ended December 1, 2001 was \$92.5 million or \$2.41 per share - basic and diluted, as compared to a net loss of \$14.5 million or \$0.38 per share - basic and diluted in the prior year. The change in net loss from the third quarter of fiscal 2000 to the third quarter of fiscal 2001 is attributable principally to the asset disposition charge partially offset by higher gross margin and lower interest expense.

40 Weeks Ended December 1, 2001 Compared to 40 Weeks Ended December 2, 2000

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Sales for the 40 weeks ended December 1, 2001 of \$8,461 million increased \$393 million or 4.9% from sales of \$8,068 million for the 40 weeks ended December 2, 2000. The increase in sales is due to increases in retail sales of \$361 million and wholesale sales of \$32 million. The increase in retail sales is attributable to the opening of 47 new stores in fiscal 2000 and 15 new stores in fiscal 2001, increasing sales by \$391 million. Additionally, comparable store sales for the 40 weeks of fiscal 2001, which include replacement stores, increased \$235 million or 3.2% when compared to the 40 weeks of fiscal 2000. This increase was partially offset by the closure of 49 stores in fiscal 2000 and 28 stores in fiscal 2001, which decreased sales \$205 million, and the unfavorable effect of the Canadian exchange rate which decreased sales \$60 million. The increase in wholesale sales is attributable to higher sales volume of \$55 million partially offset by the unfavorable effect of the Canadian exchange rate, which decreased sales by \$23 million.

Average weekly sales per supermarket were approximately \$273,800 for the 40 week period ended December 1, 2001 versus \$259,800 for the corresponding period of the prior year, an increase of 5.4%. Sales in the U.S. during the 40 weeks ended December 1, 2001 increased by \$291.5 million or 4.7% compared to fiscal 2000. Sales in Canada during the 40 weeks ended December 1, 2001 increased \$101.6 million or 5.6% compared to fiscal 2000.

Gross margin as a percentage of sales was 28.66% for the 40 week periods ended December 1, 2001 and December 2, 2000. The gross margin dollar increase of \$112.8 million resulted from an increase in sales volume partially offset by decreases in the gross margin rate and the Canadian exchange rate. Included in gross margin for the 40 weeks ended December 1, 2001 were costs related to the supply chain and business process strategic initiatives of \$6.3 million which were incurred to mark down inventory to be discontinued as a result of detailed category management studies, and the Company's asset disposition initiative of \$0.2 million which were incurred to mark down inventory in stores announced for closure. Excluding the charges described above, as a percentage of sales, gross margin would have been 28.74% for the 40 week period ended December 1, 2001.

SG&A was \$2,536.1 million for the 40 weeks ended December 1, 2001 compared to \$2,264.1 million for the corresponding period of fiscal 2000. As a percentage of sales, SG&A increased from 28.06% for the 40 weeks ended December 2, 2000 to 29.97% for the 40 weeks ended December 1, 2001.

Included in SG&A for the 40 weeks ended December 1, 2001 and December 2, 2000 are costs relating to the supply chain and business process strategic initiatives of \$71.2 million and \$52.2 million, respectively. These costs primarily included professional consulting fees and salaries, including related benefits, of employees working full-time on the initiatives. Also included in SG&A for the 40 weeks ended December 1, 2001 are costs relating to the Company's asset disposition initiative of \$164.7 million as described in Note 5 of the Consolidated Financial Statements. Also included in SG&A for the 40 weeks ended December 2, 2000 was \$4.0 million of estimated environmental clean up costs for a non-retail property. Partially offsetting the fiscal 2000 expense was a reversal of \$3.1 million of charges related to the store closure initiative originally recorded in fiscal 1998, resulting primarily from a change in estimate related to the sale of a warehouse sold during the first quarter of fiscal 2000. Excluding the charges described above, as a percentage of sales, SG&A decreased from 27.40% for the 40 week period ended December 2, 2000 to 27.18% for the 40 week period ended December 1, 2001.

Interest expense of \$68.4 million for the 40 week period ended December 1, 2001 decreased from the prior year amount of \$74.3 million. This was due to decreased borrowing requirements during fiscal 2001 compared to fiscal 2000 as a result of lower capital expenditures, a reduction in working capital and the proceeds received on the sale leaseback transaction described in Note 8 of the

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Consolidated Financial Statements. The reduction is also partially due to a decrease in interest rates.

The loss before income taxes for the 40 week period ended December 1, 2001 was \$174.3 million compared to a loss before income taxes of \$21.5 million for the comparable period in fiscal 2000, a decrease of \$152.8 million. This fluctuation is attributable principally to the increase in SG&A resulting primarily from the asset disposition charge partially offset by the increase in gross margin and lower interest expense.

The benefit from income taxes for the 40 weeks ended December 1, 2001 was \$71.4 million compared to a benefit from income taxes of \$7.2 million in the comparable period of fiscal 2000. The increase in benefit from income taxes is primarily attributable to the asset disposition charge. This benefit from income taxes for the 40 weeks ended December 1, 2001 reflects the estimated expected annual tax rates applied to its respective domestic and foreign financial results, as well as an adjustment relating to a reduction in the Canadian federal corporate income tax rate. This new legislation, which was enacted during the first half of fiscal 2001, will reduce the Canadian federal corporate income tax rate by a total of 7% from 28% to 21% by January 1, 2004. The tax benefit for the 40 weeks ended December 1, 2001 was decreased by \$1.2 million to reflect the reduction in value of the deferred Canadian tax asset (primarily relating to NOL carryforwards) resulting from the lower rates. Excluding this adjustment of the tax asset, the benefit from income taxes would have been \$72.6 million or 41.7% of the loss before income taxes.

During the 40 weeks ended December 1, 2001, the Ontario government enacted corporate income tax rate changes, gradually reducing the rate from 14% to 8% by January 1, 2005. This Canadian tax rate reduction did not have a significant impact on the financial statements for the 40 weeks ended December 1, 2001.

Based on these overall results, the net loss for the 40 weeks ended December 1, 2001 was \$102.9 million or \$2.68 per share - basic and diluted, as compared to net loss of \$14.3 million or \$0.37 per share - basic and diluted for the 40 week period ended December 2, 2000. The change in net loss from the 40 weeks ended December 2, 2000 to December 1, 2001 is attributable principally to the asset disposition charge partially offset by higher gross margin and lower interest expense.

Asset Disposition Initiative

As described in Note 5 of the Consolidated Financial Statements, during the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from Management's review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, the Company determined that certain underperforming operations, including 39 stores, should be closed and sold. As a result of these decisions, the Company announced on November 14, 2001 that it would incur costs of approximately \$200 - \$215 million pretax (\$115 - \$125 million after tax). Of this amount, \$164.9 million pretax (\$95.7 million after tax) was included in the Statements of Consolidated Operations for the 40 week period ended December 1, 2001. The components of this net pretax charge were as follows:

- o \$151.7 million of non-cash costs to close 39 stores (30 in the United States and 9 in Canada) and certain other operations of which \$63.5 million related to the present value of future occupancy obligations, \$85.0 million related to net costs of disposing of fixed assets, \$2.0 million related to severance for store and administrative personnel and \$1.2 million related to other miscellaneous items;

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- o \$20.8 million of non-cash costs to discontinue development of 4 potential stores of which \$16.9 million related to the present value of future occupancy obligations, \$3.5 million related to fixed asset write-offs and \$0.4 million related to occupancy costs incurred in the current period;
- o \$7.6 million in cash gains on the sale of other properties and equipment, primarily land and buildings

Liquidity and Capital Resources

The Company had working capital of \$60.8 million at December 1, 2001 compared to \$94.4 million at fiscal 2000 year end. The Company had cash and short-term investments aggregating \$111.2 million at December 1, 2001 compared to \$131.6 million at fiscal 2000 year end. The Company had no short-term investments at December 1, 2001 or February 24, 2001. The decrease in working capital is attributable primarily to increases in book overdrafts, accounts payable and other accruals, as well as decreases in cash and prepaid expenses. This is partially offset by increases in accounts receivable, inventories and deferred tax asset.

The Company has a \$425 million secured revolving credit agreement (the "Secured Credit Agreement") expiring December 31, 2003, with a syndicate of lenders, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This agreement is secured primarily by inventory and company-owned real estate. The Secured Credit Agreement was comprised of a U.S. credit agreement amounting to \$340 million and a Canadian credit agreement amounting to \$85 million (C\$134 million at December 1, 2001). As of December 1, 2001, the Company had \$105 million of borrowings under the Secured Credit Agreement. Accordingly, as of December 1, 2001, after reducing availability for outstanding letters of credit and inventory requirements, the Company had \$292 million available under the Secured Credit Agreement. Borrowings under the agreement bear interest at the weighted average rate of 4.89% as of December 1, 2001 based on the variable LIBOR pricing.

On December 14, 2001, the Company issued \$275 million 9 1/8% Senior Notes due December 15, 2011. These notes pay interest semi-annually on June 15 and December 15 and are callable beginning December 15, 2006. The Company used the proceeds from the issuance of these notes to repay approximately \$178 million of the total \$200 million 7.70% Senior Notes due January 15, 2004 and for general corporate purposes including repayment of borrowings under the Company's secured revolving credit agreement. The repayment of approximately \$178 million of the 7.70% Senior Notes due January 15, 2004 took place in the form of a tender offer whereby the Company paid a 6.25% premium to par. The premium plus costs to tender will result in a fourth quarter extraordinary loss due to the early extinguishment of debt of approximately \$7 million after tax (\$13 million pretax).

On January 4, 2002, the Company entered into an interest rate swap with a commercial bank with a notional amount of \$50 million maturing on April 15, 2007. This swap effectively converts a portion of the Company's \$300 million 7.75% Notes due April 15, 2007 from fixed rate debt to floating rate debt.

The Company's loan agreements and certain of its notes contain various financial covenants that require, among other things, minimum fixed charge coverage and maximum levels of leverage and capital expenditures. At December 1, 2001, the Company was in compliance with the covenants on the notes and the Secured Credit Agreement.

As described in Note 7 of the Consolidated Financial Statements, during fiscal 2000 an agreement was entered into which provided financing for software purchases and hardware leases up to \$71 million in the aggregate primarily relating to the supply chain and business process strategic initiatives. At that

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time, software purchases and hardware leases were to be financed at an effective rate of 8.49% per annum, were to occur from time to time through 2004 and were to have equal monthly payments of \$1.4 million. In May 2001, the agreement was amended to include only hardware leases. The amounts previously funded relating to software purchases of approximately \$29 million were to be repaid over the next several months. Accordingly, as of December 1, 2001, approximately \$26 million had been repaid and \$4 million was payable related to software and accrued interest. Additionally, the monthly payment amount was amended to reflect expected utilization related to hardware leases, and, as such, these payments are expected to change based upon the timing and amount of such funding. As of December 1, 2001, approximately \$29 million had been funded related to hardware leases and, as a result, approximately \$13 million was available for future financing.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to \$350 million of debt and/or equity securities as of December 1, 2001 at terms determined by market conditions at the time of sale. As described above and in Note 9 of the Consolidated Financial Statements, on December 14, 2001 the Company issued \$275 million 9 1/8% Senior Notes due December 15, 2011. After this issuance, the Shelf Registration Statements were reduced to \$75 million.

As described in Note 8 of the Consolidated Financial Statements, during the fourth quarter of fiscal 2000 the Company sold 12 properties and simultaneously leased them back from the purchaser. Net proceeds received by the Company related to this transaction amounted to approximately \$113 million. Additionally, during fiscal 2001 to date, the Company has sold 8 properties and simultaneously leased them back from the purchaser. Of these 8 transactions in fiscal 2001, 1 closed during the third quarter. Net proceeds received by the Company related to these transactions amounted to approximately \$60 million. The Company expects to enter into similar transactions with other owned properties from time to time in the future.

During the 40 weeks ended December 1, 2001, the Company funded its capital expenditures, debt repayments and expenses related to the supply chain and business process strategic initiatives through internally generated funds combined with proceeds from disposals of property and revolving lines of credit. Capital expenditures totaled \$176 million during the 40 weeks ended December 1, 2001, which included 15 new supermarkets, 17 major remodels or enlargements and the Company's capital expenditures related to the supply chain and business process strategic initiatives. Capital expenditures are expected to be approximately \$75 million for the remainder of fiscal 2001, which includes approximately 5 new supermarkets, as well as capital expenditures related to the supply chain and business process strategic initiatives.

During the 40 weeks ended December 1, 2001, the Company incurred expenses related to the supply chain and business process strategic initiatives of approximately \$78 million before tax benefits. For the remainder of fiscal 2001, the Company plans to incur approximately an additional \$20-\$25 million in expenses, before tax benefits, related to the supply chain and business process strategic initiatives.

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

The Company's existing senior debt rating was B2 with negative implications with Moody's Investors Service and BB with negative implications with Standard & Poor's Ratings Group as of December 1, 2001. Future rating changes could affect the availability and cost of financing to the Company.

The Company believes that its current cash resources, including the funds

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available under the Secured Credit Agreement, together with cash generated from operations, will be sufficient for the Company's supply chain and business process strategic initiatives expenses, other capital expenditure programs and mandatory scheduled debt repayments throughout the next twelve months.

Market Risk

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

Interest rates

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its \$700 million in notes as of December 1, 2001 because they are at fixed interest rates. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, as of December 1, 2001, a 1% change in LIBOR would result in interest expense fluctuating approximately \$1.1 million per year.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. For the 12 and 40 week periods ended December 1, 2001, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of \$0.4 million and \$1.5 million, respectively. The Company does not believe that a change in the Canadian currency of 10% will have a material effect on the financial position or cash flows of the Company.

Cautionary Note

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

PART II. OTHER INFORMATION

ITEM 1 - Legal Proceedings

None

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ITEM 2 - Changes in Securities

None

ITEM 3 - Defaults Upon Senior Securities

None

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

None

ITEM 5 - Other Information

None

ITEM 6 - Exhibits and Reports on Form 8-K

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

Exhibit Index:

Exhibit Numbers	Description	Incorporation by reference (If applicable)
1)	Underwriting Agreement	Exhibit 1 to Form 8-K filed December 20, 2001
2)	Not Applicable	
3)	Articles of Incorporation and By-Laws	
	a) Articles of Incorporation as amended through July 1987	Exhibit 3)a) to Form 10-K for fiscal year ended February 27, 1988
	b) By-Laws as amended through March 1989	Exhibit 3)b) to Form 10-K for fiscal year ended February 25, 1989
4)	Instruments defining the rights of security holders, including indentures *	Exhibit 4.1 to Form 8-K dated as of January 1, 1991
		Exhibit 4.1 to Form 8-K filed December 4, 2001
		Exhibit 4.1 to Form 8-K December 20, 2001

* Agreements with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis shall be furnished to the Commission on request.

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Exhibit Index (continued):

Exhibit Numbers	Description	Incorporation by reference (If applicable)

10)	Material Contracts	
	a) Management Compensation and Termination Agreements	Exhibit 10)b) to Form 10-K for the fiscal years ended February 25, 1989, February 24, 1990, Exhibit 10)a) for the fiscal years ended February 26, 1994, February 25, 1995, February 22, 1997, February 28, 1998, February 27, 1999, February 26, 2000, and Exhibit 10 of Form 10-Q for the quarterly periods ending June 17, 2000, September 9, 2000 and December 2, 2000
	b) Supplemental Executive Retirement Plan, amended and restated	Exhibit 10)b) to Form 10-K for the fiscal years ended February 27, 1993, February 28, 1998 and attached
	c) 1984 Stock Option Plan,	Exhibit 10)e) to Form 10-K as amended for the fiscal year ended February 23, 1991
	d) 1994 Stock Option Plan	Exhibit 10)e) to Form 10-K for the fiscal year ended February 25, 1995
	e) 1994 Stock Option Plan for Non-Employee Directors	Exhibit 10)f) to Form 10-K for the fiscal year ended February 25, 1995
	f) Directors' Deferred Payment Plan	Exhibit 10)h) to Form 10-K for the fiscal year ended February 22, 1997

Exhibit Index (continued):

Exhibit Numbers	Description	Incorporation by reference (If applicable)
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|--|--|
| g) Competitive Advance and Revolving Credit Facilities Agreement dated as of June 10, 1997 and amendment dated February 17, 1999 | Exhibit 10) to Form 8-K filed on June 12, 1997; Exhibit 10)i) to Form 10-K for the fiscal year ended February 27, 1999 |
| h) Project Great Renewal - Phase I dated as of December 8, 1998; Phase II dated March 13, 2000 | Exhibit 99.1) to Form 8-K filed December 9, 1998; Exhibit 99) to Form 8-K filed March 24, 2000 |
| i) 1998 Long Term Incentive and Share Award plan | Exhibit 10)k) to Form 10-K for the fiscal year ended February 27, 1999 |
| j) Supplemental Retirement and Benefit Restoration Plan | |
| k) Credit Agreement dated as of February 23, 2001 | |

(b) Reports on Form 8-K

On December 20, 2001, the Company filed a report on Form 8-K containing (i) an Underwriting Agreement dated December 14, 2001, relating to the Company's issuance of \$275,000,000 aggregate principal amount of 9 1/8% Senior Notes due 2011, (ii) a form of Second Supplemental Indenture and (iii) a form of Global Note.

On December 4, 2001, the Company filed a report on Form 8-K containing a supplemental indenture, dated as of December 4, 2001, to the existing indenture, dated as of January 1, 1991, between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank as successor by merger to Manufacturers Hanover Trust Company).

On December 3, 2001, the Company filed a report on Form 8-K containing a prospectus supplement relating to the Company's offer of \$225 million aggregate principal amount of senior notes.

On November 14, 2001, the Company filed a report on Form 8-K containing a press release regarding the Company's program to improve operating results by disposing of underperforming assets and updates to its fiscal 2001 earnings guidance.

The Great Atlantic & Pacific Tea Company, Inc.

SIGNATURES

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

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THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.

Date: January 15, 2002

By: /s/ Kenneth A. Uhl

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

The Great Atlantic & Pacific Tea Company, Inc.