CME GROUP INC.
Form 4
May 29, 2008

FORM 4

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

OMB APPROVAL	
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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Bitsberger Timothy S.
(Last) (First) (Middle)
20 S. WACKER DRIVE
(Street)
CHICAGO, IL 60606
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CME GROUP INC. [CME]

3. Date of Earliest Transaction (Month/Day/Year)
05/27/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock Class A	05/27/2008		A[(1)]		166	A	$ 0	166	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Bitsberger Timothy S. 20 S. WACKER DRIVE CHICAGO, IL 60606	X			

Signatures

By: Margaret C. Austin For: Timothy Bitsberger	05/28/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Granted pursuant to the Chicago Mercantile Exchange Holdings Inc. 2005 Director Stock Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 2004 2003 2004 2003 ------------------ ------------------ ---------------- ----------------- Loss from operations United States $ (28,085) $ (36,191) $ (50,780) $ (68,548) Canada (16,423) 16,149 (2,348) 37,896 ------------------ ----------------- ----------------- ----------------- Total Company $ (44,508) $ (20,042) $ (53,128) $ (30,652) ================== ================== ================== ================== Loss from continuing operations before income taxes United States $ (48,088) $ (51,958) $ (94,983) $ (106,479) Canada (18,072) 14,991 (7,182) 34,524 ------------------ ----------------- ----------------- ----------------- Total Company $ (66,160) $ (36,967) $ (102,165) $ (71,955) ================== ================== ================ ================= Capital expenditures United States $ 26,465 $ 7,249 $ 66,664 $ 46,314 Canada 15,486 11,666 30,778 29,550 ------------------ ----------------- ---------------- ----------------- Total Company $ 41,951 $ 18,915 $ 97,442 $ 75,864 ================== ================== ================ ================= (1) The grocery category includes grocery, frozen foods, dairy, general merchandise/health and beauty aids, liquor, pharmacy and fuel. (2) The meat category includes meat, deli, bakery and seafood. (3) The produce category includes produce and floral. February 28, 2004 September 11, (As Restated 2004 See Note 3) ---------------- ----------------- Total assets United States $ 1,946,659 $ 2,011,165 Canada 824,248 772,651 ---------------- ---------------- Total Company $ 2,770,907 $ 2,783,816 =================

================= 11. Commitments and Contingencies On October 1, 2004, our Company announced that we had reached a settlement, subject to court approval, of the previously disclosed Canadian class action lawsuit, captioned 1176560 Ontario Limited, 1184883 Ontario Inc. and 1205427 Ontario Limited vs. The Great Atlantic & Pacific Company of Canada Limited; Ontario Superior Court of Justice, Court File No. 02 CV-227777CP, which was filed by certain franchisees of our Food Basics discount grocery operations in Ontario, Canada. The settlement was approved by the Canadian court on October 4, 2004. Under the terms of the settlement, A&P Canada will pay approximately $32 million (pre-tax), representing payment for damages as well the repurchase of the franchise shares. The transaction is scheduled to be completed during the third quarter of this fiscal year and the estimated pre-tax loss is approximately $24.7 million ($19.4 million after-tax). The estimated loss has been included in SG&A for the 12 and 28 weeks ended September 11, 2004. As previously disclosed, the dismissal by the United States District Court for the District of New Jersey of the amended securities class action Complaint filed against our Company and certain of our officers and directors in In re The Great Atlantic & Pacific Tea Company, Inc. Securities Litigation, No. 02 CV 2674 (D.N.J.) (FSH), was affirmed in July 2004 by the United States Court of Appeals for the Third Circuit. The deadline by which plaintiffs could have filed with the United States Supreme Court a petition seeking a writ of certiorari challenging the Third Circuit's ruling expired in early October 2004 without plaintiffs having made such a filing. We are subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. We are also subject to certain environmental claims. While the outcome of these claims cannot be predicted with certainty, Management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows. ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations INTRODUCTION ------------ This Management's Discussion and Analysis describes matters considered by Management to be significant to understanding the financial position, results of operations and liquidity of our Company, including a discussion of the results of continuing operations as well as liquidity and capital resources. These items are presented as follows: o Basis of Presentation - a discussion of our Company's results during the 12 and 28 weeks ended September 11, 2004 and September 6, 2003. o Overview - a general description of our business; the value drivers of our business; measurements; opportunities; challenges and risks; and initiatives. o Outlook - a discussion of certain trends or business initiatives for the remainder of fiscal 2004 that Management wishes to share with the reader to assist in understanding the business. o Results of Continuing Operations and Liquidity and Capital Resources - a discussion of the following: - Results for the 12 weeks ended September 11, 2004 compared to the 12 weeks ended September 6, 2003 and results for the 28 weeks ended September 11, 2004 compared to the 28 weeks ended September 6, 2003; - The Company's Asset Disposition Initiative; and - Current and expected future liquidity. o Critical Accounting Estimates - a discussion of significant estimates made by Management. BASIS OF PRESENTATION --------------------- The accompanying consolidated financial statements of The Great Atlantic & Pacific Tea Company, Inc. for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003 are unaudited and, in the opinion of Management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial position and results of operations for such periods. The accompanying consolidated financial statements also include the impact of adopting FIN 46-R, EITF 03-10, and the change in our method of valuing certain of our inventories from the LIFO method to the FIFO method during the first quarter of fiscal 2004. The consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Fiscal 2003 Annual Report on Form 10-K. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements include the accounts of our Company, all majority-owned subsidiaries, and franchise operations. OVERVIEW -------- The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets, combination food and drug stores and discount food stores in 10 U.S. states, the District of Columbia, and Ontario, Canada. Our Company's business consists of retail grocery operations, which include 630 directly managed stores and 65 franchised stores as of September 11, 2004. Operations are managed by two strategic business units ("SBUs") within the Company, A&P U.S. and A&P Canada, which are supported by central corporate functions. The chief executives of both SBUs, and the executives leading corporate functions, report directly to the Chairman of the Board, President & Chief Executive Officer of our Company. o A&P U.S., based in Paterson, New Jersey, oversees all operations in the United States. Our conventional operations include the A&P, Waldbaum's and Food Emporium banners, which serve Metro New York; Super Fresh, which serves Philadelphia and Baltimore; Farmer Jack, which serves the greater Detroit area; and Sav-A-Center, which serves the New Orleans area.

We also operate the Food Basics discount banner in several of these areas. The stores are supported by eight regional distribution centers located in the various markets in which we operate. o A&P Canada, based in Toronto, Ontario, oversees operations across Ontario, with stores operating under the A&P, Dominion, Food Basics, Ultra Food & Drug and The Barn Market banners. A&P Canada also serves as a franchisor to certain Food Basics stores in Ontario. The stores are supported by four distribution centers. Although the Company remained unprofitable during the quarter, we view our second quarter performance as consistent with the previous trend, with sales and operating income in our U.S. and Canadian operations, excluding the costs of settling the Canadian lawsuit (refer to Note 11 - Commitments and Contingencies for further discussion of the settlement), improving slightly versus year ago, while operating cash flow was essentially flat. Our ongoing strategies have three focal points (i.) to turn around and rebuild our U.S. business, (ii.) to maintain profitability and accelerate growth in Canada, and (iii.) to preserve our financial liquidity through strict cost control, appropriate capital spending and diligent cash management. In the U.S., although overall comparable store sales were negative (-1.0%), we achieved year over year progress in operating income due to our continued emphasis on improvement of merchandising and operating fundamentals, expense management and productivity measures, and the ongoing development of our discount and fresh food marketing concepts for the future. The profitability of our Canadian operations continued in the second quarter, as we improved our year-over-year sales trend with positive comparable store sales of +3.9% for Company owned stores, +2.4% for all stores. The improvement reflects the continued development of A&P Canada's fresh food marketing initiatives, which continue to differentiate our stores from conventional competitors. Our Food Basics operation also contributed to our positive sales trend by further sharpening its low cost appeal within the competitive discount segment. Our Canadian management is fine-tuning the Food Basics format to heighten its low price, high value impact, and is executing the changes across the store network. A recent, significant development was the settlement in late September of a class action by 29 Food Basics franchisees, which resulted in our plan to purchase 23 franchised operating units (refer to Note 11 - Commitments and Contingencies for further discussion of the settlement). The resolution of this matter eliminates a major obstacle to the growth of Food Basics in Ontario and enables us to continue developing our Canadian discount business with a larger complement of corporate-owned stores, while also strengthening the ongoing franchise operations. Financially, we remain very focused on managing cash flow, capital spending and debt levels effectively, to ensure we have sufficient cash availability. Despite having budgeted increased capital expenditures through fiscal 2004, we continue to manage spending closely in alignment with ongoing results and the competitive environment. As a result, we have chosen to complete many of our capital expenditure projects especially in the U.S., late in this fiscal year or next year. OUTLOOK ------- In light of the continued lack of vibrancy in the U.S. economy, and the unknown impact of the upcoming Presidential election and related events on the immediate future, we remain conservative in our near-term outlook for both sales growth and earnings improvement. Going forward, we continue to pursue the long-term strategies and initiatives that we believe will restore sustainable profitability in the U.S., and drive additional growth in Canada, which are as follows: o In the U.S., strengthen our mainstream operations with improved fresh food marketing, an improved quality image and more efficient operations; and sharpen the focus and efficiency of our expanded Food Basics discount business in the U.S.; o In Canada, sustain and grow our positive operating trends with continued fresh box development in mainstream operations, and the renewed and more aggressive discount impact of Food Basics, and o Centrally, continue to maintain liquidity with focus on cash flow generation, efficient support operations and strict cost control. While we believe that we have opportunities for profit improvement, various uncertainties and other factors could cause us to fail to achieve these goals. These include, among others, the following: o Actions of competitors could adversely affect our sales and future profits. The grocery retailing industry continues to experience fierce competition from other food retailers, super-centers, mass merchandiser clubs, warehouse stores, drug stores and restaurants. Our continued success is dependent upon our ability to compete in this industry and to reduce operating expenses, including managing health care and pension costs contained in our collective bargaining agreements. The competitive practices and pricing in the food industry generally and particularly in our principal markets may cause us to reduce our prices in order to gain or maintain share of sales, thus reducing margins. o Changes in the general business and economic conditions in our operating regions, including the rate of inflation, population growth, the nature and extent of continued consolidation in the food industry and employment and job growth in the markets in which we operate, may affect our ability to hire and train qualified employees to operate our stores. This would negatively affect earnings and sales growth. General economic changes may also affect the shopping habits and buying patterns of our customers, which could affect sales and earnings. We

have assumed economic and competitive situations will not change significantly for the balance of fiscal 2004 and will not worsen in fiscal 2005 and 2006. However, we cannot fully foresee the effects of changes in economic conditions, inflation, population growth, customer shopping habits and the consolidation of the food industry on A&P's business. o Our capital expenditures could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, if development and remodel costs vary from those budgeted, or if changes in financial markets negatively affect our cost of capital or our ability to access capital. Our present pace of spending indicates that our capital expenditures will be somewhat less than our original estimates for the year, due to the timing of carefully thought out expansion projects. o Our ability to achieve our profit goals will be affected by (i.) our success in executing category management and purchasing programs that we have underway, which are designed to improve our gross margins and reduce product costs while making our product selection more attractive to consumers, (ii.) our ability to achieve productivity improvements and shrink reduction in our stores, (iii.) our success in generating efficiencies in our distribution centers and our administrative offices, and (iv.) our ability to eliminate or maintain a minimum level of supply and/or quality control problems with our vendors. o The vast majority of our employees are members of labor unions. While we believe that our relationships with union leaderships and our employees are satisfactory, we operate under collective bargaining agreements which periodically must be renegotiated. In fiscal 2004, we have several contracts expiring and under negotiation. In each of these negotiations rising health care and pension costs will be an important issue, as will the nature and structure of work rules. We are hopeful, but cannot be certain, that we can reach satisfactory agreements without work stoppages in these markets. However, the actual terms of the renegotiated collective bargaining agreements, our future relationships with our employees and/or a prolonged work stoppage affecting a substantial number of stores could have a material effect on our results. o The amount of contributions made to our pension and multi-employer plans will be affected by the performance of investments made by the plans as well as the extent to which trustees of the plans reduce the costs of future service benefits. o We have estimated our exposure to claims, administrative proceedings and litigation and believe we have made adequate provisions for them, where appropriate. Unexpected outcomes in both the costs and effects of these matters could result in an adverse effect on our earnings. Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly from those included in or contemplated or implied by forward-looking statements made by us or our representatives. RESULTS OF CONTINUING OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES -- Our consolidated financial information presents the income related to our operations of discontinued businesses separate from the results of our continuing operations. The discussion and analysis that follows focuses on continuing operations. 12 WEEKS ENDED SEPTEMBER 11, 2004 COMPARED TO THE 12 WEEKS ENDED SEPTEMBER 6, 2003 --- OVERALL ------- Sales for the second quarter of fiscal 2004 were $2.5 billion consistent with the second quarter of fiscal 2003; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, increased 0.1%. Net loss per share - basic and diluted for the second quarter of fiscal 2004 was $1.67 compared to $2.17 for the second quarter of fiscal 2003. 12 Weeks 12 Weeks Ended Ended Favorable/ Sept. 11, 2004 Sept. 6, 2003 (Unfavorable) % Change ------------------ ----------------- --------------- ------------------ Sales $ 2,490.6 $ 2,464.8 $ 25.8 1.0% Increase in comparable store sales for Company-operated stores 0.1% 1.1% NA NA Loss from continuing operations (64.5) (57.1) (7.4) (13.0%) Income (loss) from discontinued operations 0.3 (26.6) 26.9 101.1% Net loss (64.2) (83.7) 19.5 23.3% Net loss per share (1.67) (2.17) 0.50 23.0% SALES ----- Sales for the second quarter of fiscal 2004 of $2,490.6 million increased $25.8 million or 1.0% from sales of $2,464.8 million for second quarter of fiscal 2003. The higher sales were due to an increase in Canadian sales of $44.8 million partially offset by a decrease in U.S. sales of $19.0 million. The increase in Canadian sales was primarily due to the favorable impact of the Canadian exchange rate. The following table presents sales for each of our operating segments for the second quarter of fiscal 2004 and the second quarter of fiscal 2003: 12 Weeks Ended 12 Weeks Ended Sept. 11, 2004 Sept. 6, 2003 (Decrease) Increase % Change ----------------- ------------------- --------------------- ------------------ United States $ 1,708.5 $ 1,727.5 $ (19.0) (1.1%) Canada 782.1 737.3 44.8 6.1 ----------------- ----------------- ------------------- ------------------ Total $ 2,490.6 $ 2,464.8 $ 25.8 1.0% ================= ================= =================== ================== The following details the dollar impact of several items affecting the increase in sales by operating segment from the second quarter of fiscal 2003 to the second quarter of fiscal 2004: Impact of Impact of Foreign Comparable New Closed Exchange

Store Stores Stores Rate Sales Total ------------- ------------- ------------- ------------- ----------- United States $ 65.2 $ (67.5) $ - $ (16.7) $ (19.0) Canada 81.2 (74.3) 22.3 15.6 44.8 ------------- ------------- ------------- ------------- ----------- Total $ 146.4 $ (141.8) $ 22.3 $ (1.1) $ 25.8 ============= ============= ============= ============= =========== The decrease in U.S. sales was primarily attributable to the closing of 27 stores since the beginning of the second quarter of fiscal 2003, of which 9 were closed in fiscal 2004, decreasing sales by $67.5 million, and the decrease in comparable store sales for the second quarter of fiscal 2004 of $16.7 million or -1.0% as compared with the second quarter of fiscal 2003. This decrease was partially offset by the opening or re-opening of 20 new stores since the beginning of the second quarter of fiscal 2003, of which 15 were opened or re-opened in fiscal 2004, increasing sales by $65.2 million. Included in the 27 stores closed since the beginning of the second quarter of fiscal 2003 were 6 stores closed as part of the asset disposition initiative as discussed in Note 7 of our Consolidated Financial Statements. The increase in Canadian sales was primarily attributable to the opening or re-opening of 13 stores since the beginning of the second quarter of fiscal 2003, of which 4 were opened or re-opened in fiscal 2004, increasing sales by $81.2 million, the favorable effect of the Canadian exchange rate, which increased sales by $22.3 million, and the increase in comparable store sales for the second quarter of fiscal 2004 of $15.6 million or 2.4% for Company-operated stores and franchised stores combined, as compared to the second quarter of fiscal 2003. These increases were partially offset by the closure of 19 stores since the beginning of the second quarter of fiscal 2003, of which 11 were closed in fiscal 2004, decreasing sales by $74.3 million. Average weekly sales per supermarket for the U.S. were approximately $325,500 for the second quarter of fiscal 2004 versus $277,800 for the corresponding period of the prior year, an increase of 17.2% primarily due to the impact of openings and closings with net higher average weekly sales. Average weekly sales per supermarket for Canada were approximately $212,200 for the second quarter of fiscal 2004 versus $193,400 for the corresponding period of the prior year, an increase of 9.7%. This increase was primarily due to the increase in the Canadian exchange rate and higher comparable store sales. GROSS MARGIN ------------ The following table presents gross margin dollar results and gross margin as a percentage of sales by operating segment for the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003. Gross margin as a percentage of sales decreased 11 basis points to 27.93% for the second quarter of fiscal 2004 from 28.04% for the second quarter of fiscal 2003. This 11 basis point decrease was caused by the increase in Canadian sales as a percentage of our total as Canada has a lower gross margin rate. We believe the impact on margin for changes in costs and special reductions was not significant. 12 Weeks Ended 12 Weeks Ended September 11, 2004 September 6, 2003 --- --- Gross Margin Rate to Sales% Gross Margin Rate to Sales% ------------ ------------- ------------ -------------- United States $ 506.8 29.66% $ 508.8 29.46% Canada 188.7 24.13 182.3 24.72 ------------ ------------- ------------ -------------- Total $ 695.5 27.93% $ 691.1 28.04% ============ ============= ============= =============== The following table details the dollar impact of several items affecting the gross margin dollar increase (decrease) from the second quarter of fiscal 2003 to the second quarter of fiscal 2004: Sales Volume Gross Margin Rate Exchange Rate Total ----------------- ---------------- ---------------- --------------- United States $ (5.6) $ 3.6 $ - $ (2.0) Canada 2.3 (4.3) 8.4 6.4 ---------------- ---------------- -------------- ------------- Total $ (3.3) $ (0.7) $ 8.4 $ 4.4 ================ ================ ============== ============= STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE --- The following table presents store operating, general and administrative expense ("SG&A"), by operating segment, in dollars and as a percentage of sales for the second quarter of fiscal 2004 compared with the second quarter of fiscal 2003. SG&A expense was $740.0 million or 29.71% for the second quarter of fiscal 2004 as compared to $711.1 million or 28.85% for the second quarter of fiscal 2003. 12 Weeks Ended 12 Weeks Ended Sept. 11, 2004 Sept. 6, 2003 --- --- SG&A Rate to Sales% SG&A Rate to Sales% ------------------ ---------------- ----------------- --------------- United States $ 534.9 31.31% $ 545.0 31.55% Canada 205.1 26.23 166.1 22.53 -------------- -------------- -------------- ----------------- Total $ 740.0 29.71% $ 711.1 28.85% ============== =============== ============== ============== The increase in total SG&A as a percentage of sales is driven by the costs of settling the Canadian lawsuit of $24.7 million (refer to Note 11 - Commitments and Contingencies for further discussion of the settlement) partially offset by the increase in Canadian sales as a percentage of our total as Canada has a lower SG&A rate. The U.S. had overall favorability of 24 basis points. While part of the improvement in the U.S. is due to the increase in Food Basics as a percentage of U.S. sales, most of the favorability is due to very tight cost controls. Categories in which the U.S. experienced cost

improvements include advertising due to less spend ($6.6 million), labor ($4.5 million), and corporate administrative expenses due to increased information technology charges to Canada ($3.6 million). The increase in SG&A in Canada of $39.0 million is primarily due to the costs of settling the Canadian lawsuit of $24.7 million, an increase in labor of $5.1 million due mainly to increased sales, an increase in occupancy of $2.8 million as a result of the opening of new stores, increased group overhead mainly due to information technology costs previously charged to the U.S. now charged to Canada of $4.1 million and an increase in store conversion costs of $1.8 million. Included in SG&A for the second quarter of fiscal 2003 were net gains of $5.2 million primarily relating to favorable lease terminations previously reserved for as part of our asset disposition initiative as described in Note 7 of our Consolidated Financial Statements. During the second quarter of fiscal 2004, we recorded an impairment loss of $0.9 million related to certain idle property that, based upon new information received about such assets, including an appraisal and an offer, was impaired and written down to its net realizable value. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. There were no such amounts recorded during the second quarter of fiscal 2003. We also 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 second quarter of fiscal 2004 and 2003, we recorded impairment losses on property, plant and equipment of $0.8 million and $0.5 million, respectively, related to United States stores that were or will be closed in the normal course of business. These amounts are included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels and trends continue, there may be future impairments on long-lived assets, including the potential for impairment of assets that are held and used. INTEREST EXPENSE ---------------- Interest expense of $22.1 million for the second quarter of fiscal 2004 increased from the prior year amount of $17.9 million due primarily to higher interest expense resulting from our on balance sheet financing obligations (sale leaseback of Company-owned properties) entered into in the fourth quarter of fiscal 2003 of approximately $3.9 million. This impact was partially offset by lower interest from lower borrowings of approximately $0.4 million. INCOME TAXES ------------ The benefit from income taxes from continuing operations for the second quarter of fiscal 2004 was $1.6 million (a $1.0 million provision for our U.S. operations and a $2.6 million benefit from our Canadian operations) compared to a $20.1 million provision for income taxes from continuing operations for the second quarter of fiscal 2003 (a $14.1 million provision for our U.S. operations and a $6.0 million provision for our Canadian operations). Our U.S. tax provision for continuing operations for the second quarter of fiscal 2003 was offset by a tax benefit provided on discontinued operations of $12.7 million in accordance with Statement of Financial Accounting Standards 109, "Accounting for Income Taxes". Consistent with prior year, we continue to record a valuation allowance in an amount that would reduce our U.S. deferred tax asset to the amount that is more likely than not to be realized. For the second quarter of fiscal 2004, our effective income tax rate of 2.4% changed from the effective income tax rate of 54.5% in the second quarter of fiscal 2003 as follows: 12 Weeks Ended

	September 11, 2004		September 6, 2003	
	Tax (Provision) Benefit	Effective Tax Rate	Tax (Provision) Benefit	Effective Tax Rate
United States	$ (1,035)	1.6%	$ (14,117)	38.2%
Canada	2,649	(4.0%)	(6,008)	16.3%
	$ 1,614	(2.4%)	$ (20,125)	54.5%

The decrease in our effective tax rate was primarily due to the absence of a tax provision recognized from continuing operations. As discussed above, $12.7 million of provision was recognized in the second quarter of fiscal 2003 as compared to the second quarter of fiscal 2004, where no provision was recognized. The remaining provisions recorded in the U.S. of $1.0 million and $1.4 million for the second quarters of fiscal 2004 and 2003, respectively, represent state and local taxes. In addition, the decrease in our effective tax rate resulted from the impact of the higher mix of Canadian loss from continuing operations as a percentage of our Company's loss from continuing operations in the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003. DISCONTINUED OPERATIONS ----------------------- Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete. The income from operations of discontinued businesses, net of tax, for the second quarter of fiscal 2004 was $0.3 million as compared to a loss from operations of discontinued businesses, net of tax, of $19.7 million for the second quarter of fiscal 2003 and is detailed by business as follows: 12

Weeks ended September 11, 2004 --- Eight Northern O'Clock New England Kohl's Coffee Total --------------- ---------------- -------------- ---------------- Income (loss) from operations of discontinued businesses Sales $ - $ - $ - $ - Operating expenses 699 (352) (3) 344 ------------- --------------- -------------- ------------- Income (loss) from operations of discontinued businesses, before tax 699 (352) (3) 344 Tax provision - - - - --------------- ---------------- -------------- ------------- Income (loss) from operations of discontinued businesses, net of tax $ 699 $ (352) $ (3) $ 344 =============== ================ =============== ============= Disposal related costs included in operating expenses above: --- Non-accruable closing costs $ 702 $ (192) $ (3) $ 507 Interest accretion on present value of future occupancy costs (3) (160) - (163) --------------- ---------------- --------------- ------------- Total disposal related costs $ 699 $ (352) $ (3) $ 344 --------------- ---------------- -------------- ------------- 12 Weeks ended September 6, 2003 --- Eight Northern O'Clock New England Kohl's Coffee Total --------------- ---------------- -------------- ---------------- (Loss) income from operations of discontinued businesses Sales $ - $ 38,494 $ 18,901 $ 57,395 Operating expenses (474) (79,500) (13,007) (92,981) ------------- ---------------- -------------- -------------- (Loss) income from operations of discontinued businesses, before tax (474) (41,006) 5,894 (35,586) Tax benefit (provision) 212 18,324 (2,634) 15,902 --------------- ---------------- -------------- ------------- (Loss) income from operations of discontinued businesses, net of tax $ (262) $ (22,682) $ 3,260 $ (19,684) =============== ================ =============== ============== Disposal related costs included in operating expenses above: --- Pension withdrawal liability $ - $ (2,500) $ - $ (2,500) Occupancy related costs - (25,077) - (25,077) Severance and benefits - (7,138) - (7,138) Non-accruable inventory costs - (692) - (692) Non-accruable closing costs (474) 451 (320) (343) --------------- ---------------- -------------- ---------------- Total disposal related costs $ (474) $ (34,956) $ (320) $ (35,750) --------------- ---------------- -------------- ---------------- The loss on disposal of discontinued operations, net of tax, was nil for the second quarter of fiscal 2004 as compared to $6.9 million for the second quarter of fiscal 2003 and is detailed by business as follows: 12 Weeks ended September 6, 2003 --- Eight Northern O'Clock New England Kohl's Coffee Total --------------- ---------------- -------------- ---------------- Loss on disposal of discontinued businesses Gain on sale of fixed assets $ - $ - $ - $ - Fixed asset impairments - (3,751) - (3,751) Loss on disposal of --------------- ---------------- -------------- ---------------- discontinued businesses, before tax - (3,751) - (3,751) Tax provision - (3,160) - (3,160) --------------- ---------------- -------------- ---------------- Loss on disposal of discontinued businesses, net of tax $ - $ (6,911) $ - $ (6,911) =============== ================ =============== ================ 28 WEEKS ENDED SEPTEMBER 11, 2004 COMPARED TO THE 28 WEEKS ENDED SEPTEMBER 6, 2003 --- OVERALL ------- Sales for the 28 weeks ended September 11, 2004 were $5.8 billion, compared with $5.7 billion for the 28 weeks ended September 6, 2003; comparable store sales, which includes stores that have been in operation for two full fiscal years and replacement stores, increased 0.6%. Net loss per share - basic and diluted for the 28 weeks ended September 11, 2004 was $2.78 compared to $1.86 for the 28 weeks ended September 6, 2003. 28 Weeks 28 Weeks Ended Ended Favorable / Sept. 11, 2004 Sept. 6, 2003 (Unfavorable) % Change ---------------- -------------- ------------- ----------------- Sales $ 5,770.8 $ 5,693.3 $ 77.5 1.4% Increase in comparable store sales for Company- operated stores 0.6% 0.4% NA NA Loss from continuing operations (106.0) (77.7) (28.3) (36.4%) (Loss) income from discontinued operations (1.0) 14.0 (15.0) (107.1%) Cumulative effect of a change in accounting principle - FIN 46-R - (8.0) 8.0 100% Net loss (107.0) (71.7) (35.3) (49.2%) Net loss per share (2.78) (1.86) (0.92) (49.5%) Included in our results for the 28 weeks ended September 11, 2004 was a $1.1 million charge ($0.03 per share) relating to our Farmer Jack restructuring program as described in Note 7 of our Consolidated Financial Statements. SALES ----- Sales for the 28 weeks ended September 11, 2004 of $5,770.8 million increased $77.5 million or 1.4% from sales of $5,693.3 million for 28 weeks ended September 6, 2003. The higher sales were due to an increase in Canadian sales of $114.6 million partially offset by a decrease in U.S. sales of $37.1 million. The increase in Canadian sales was primarily due to the favorable impact of the Canadian exchange rate. The following table presents sales for each of our operating segments for the 28 weeks ended September 11, 2004 and the 28 weeks ended September 6, 2003: 28 Weeks Ended 28 Weeks Ended Sept. 11, 2004 Sept. 6, 2003 (Decrease) Increase % Change ----------------- ---------------- --------------------- ------------------ United States $ 3,938.1 $ 3,975.2 $ (37.1) (0.9%) Canada 1,832.7 1,718.1 114.6 6.7 ----------------- ---------------- -------------------- ------------------ Total $ 5,770.8 $ 5,693.3 $ 77.5 1.4% ================= ================= ===================

================== The following details the dollar impact of several items affecting the increase in sales by operating segment from the 28 weeks ended September 6, 2003 to the 28 weeks ended September 11, 2004: Impact of Impact of Foreign Comparable New Closed Exchange Store Stores Stores Rate Sales Total ------------- -------------- ------------- ------------- ----------- United States $ 130.3 $ (160.9) $ - $ (6.5) $ (37.1) Canada 195.3 (158.1) 59.8 17.6 114.6 ------------- -------------- ------------- ------------- ---------------- Total $ 325.6 $ (319.0) $ 59.8 $ 11.1 $ 77.5 ============= ============== ============= ============= ================ The decrease in U.S. sales was primarily attributable to the closing of 32 stores since the beginning of fiscal 2003, of which 9 were closed in fiscal 2004, decreasing sales by $160.9 million, and the decrease in comparable store sales for the 28 weeks ended September 11, 2004 of $6.5 million or 0.2% as compared with the 28 weeks ended September 6, 2003. These decreases were partially offset by the opening or re-opening of 25 new stores since the beginning of fiscal 2003, of which 15 were opened or re-opened in fiscal 2004, increasing sales by $130.3 million. Included in the 32 stores closed since the beginning of fiscal 2003 were 6 stores closed as part of the asset disposition initiative as discussed in Note 7 of our Consolidated Financial Statements. The increase in Canadian sales was primarily attributable to the opening or re-opening of 16 stores since the beginning of fiscal 2003, of which 4 were opened or re-opened in fiscal 2004, increasing sales by $195.3 million, the favorable effect of the Canadian exchange rate, which increased sales by $59.8 million, and the increase in comparable store sales for the 28 weeks ended September 11, 2004 of $17.6 million or 1.2% for Company-operated stores and franchised stores combined, as compared to the 28 weeks ended September 6, 2003. These increases were partially offset by the closure of 22 stores since the beginning of 2003, of which 11 were closed in fiscal 2004, decreasing sales by $158.1 million. Average weekly sales per supermarket for the U.S. were approximately $323,400 for the 28 weeks ended September 11, 2004 versus $298,700 for the corresponding period of the prior year, an increase of 8.3% primarily due to the impact of openings and closings with net higher average weekly sales. Average weekly sales per supermarket for Canada were approximately $210,000 for the 28 weeks ended September 11, 2004 versus $191,700 for the corresponding period of the prior year, an increase of 9.5%. This increase was primarily due to the increase in the Canadian exchange rate and higher comparable store sales. GROSS MARGIN ------------ The following table presents gross margin dollar results and gross margin as a percentage of sales by operating segment for the 28 weeks ended September 11, 2004 as compared to the 28 weeks ended September 6, 2003. Gross margin as a percentage of sales decreased 36 basis points to 27.99% for the 28 weeks ended September 11, 2004 from 28.35% for the second quarter of fiscal 2003. This 36 basis point decrease was caused by the increase in Canadian sales as a percentage of our total (approximately 10 basis points) and from the increase in U.S. Food Basics as a percentage of sales (approximately 26 basis points). We believe the impact on margin for changes in costs and special reductions was not significant. 28 Weeks Ended 28 Weeks Ended September 11, 2004 September 6, 2003 --- --- Gross Margin Rate to Sales% Gross Margin Rate to Sales% ------------ -------------- ------------ ----------------- United States $ 1,173.4 29.8% $ 1,194.6 30.05% Canada 442.1 24.12 419.6 24.42 ------------ -------------- -------------- ----------------- Total $ 1,615.5 27.99% $ 1,614.2 28.35% ============ =============== ============== ================== The following table details the dollar impact of several items affecting the gross margin dollar increase (decrease) from the 28 weeks ended September 6, 2003 to the 28 weeks ended September 11, 2004: Sales Volume Gross Margin Rate Exchange Rate Total ------------------ ----------------- ----------------- --------------- United States $ (11.1) $ (10.1) $ - $ (21.2) Canada 4.0 (3.5) 22.0 22.5 ---------------- ---------------- -------------- ------------- Total $ (7.1) $ (13.6) $ 22.0 $ 1.3 ================ ================ ============== ============= Included in the U.S. gross margin for the 28 weeks ended September 11, 2004 were costs related to our asset disposition initiative of $0.3 million, which had been incurred to mark down inventory in stores announced for closure. There were no such costs in the 28 weeks ended September 6, 2003. STORE OPERATING, GENERAL AND ADMINISTRATIVE EXPENSE -- The following table presents store operating, general and administrative by operating segment, in dollars and as a percentage of sales for the 28 weeks ended September 11, 2004 compared with the 28 weeks ended September 6, 2003. SG&A expense was $1,668.6 million or 28.91% for the 28 weeks ended September 11, 2004 as compared to $1,644.9 million or 28.89% for the 28 weeks ended September 6, 2003. 28 Weeks Ended 28 Weeks Ended Sept. 11, 2004 Sept. 6, 2003 --- --- SG&A Rate to Sales% SG&A Rate to Sales% ------------------ ---------------- ---------------- --------------- United States $ 1,224.1 31.08% $ 1,263.2 31.78% Canada 444.5 24.25 381.7 22.22 ------------- -------------- ------------- ---------------- Total $ 1,668.6 28.91% $ 1,644.9 28.89% ==============

============== ============== ============== The increase in total SG&A as a percentage of sales is driven by the costs of settling the Canadian lawsuit of $24.7 million (refer to Note 11 - Commitments and Contingencies for further discussion of the settlement) partially offset by the increase in Canadian sales as a percentage of our total as Canada has a lower SG&A rate. The U.S. had overall favorability of 70 basis points. While part of the improvement in the U.S. is due to the increase in Food Basics as a percentage of U.S. sales, most of the favorability is due to very tight cost controls. Categories in which the U.S. experienced cost improvements include advertising due to less spend ($16.5 million), utilities ($1.1 million), labor ($9.3 million), corporate administrative expenses due to increased information technology charges to Canada ($6.9 million), and severance ($1.7 million). The increase in SG&A in Canada of $62.8 million is primarily due to the costs of settling the Canadian lawsuit of $24.7 million, an increase in labor of $13.7 million due mainly to increased sales, an increase in occupancy of $7.8 million as a result of the opening of new stores, increased group overhead of $9.1 million mainly due to information technology costs previously charged to the U.S. now charged to Canada and an increase in store conversion costs of $2.2 million. Included in SG&A for the 28 weeks ended September 11, 2004 was a $0.8 million charge relating to our Farmer Jack restructuring program in the United States as described in Note 7 of our Consolidated Financial Statements. Included in SG&A for the 28 weeks ended September 6, 2003 were net gains of $5.2 million primarily relating to favorable lease terminations previously reserved for as part of our asset disposition initiative. During the 28 weeks ended September 11, 2004, we recorded an impairment loss of $0.9 million related to certain idle property that, based upon new information received about such assets, including an appraisal and an offer, was impaired and written down to its net realizable value. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. There were no such amounts recorded during the 28 weeks ended September 6, 2003. We also 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 28 weeks ended September 11, 2004 and September 6, 2003, we recorded impairment losses on property, plant and equipment of $0.8 million and $0.5 million, respectively, related to United States stores that were or will be closed in the normal course of business. These amounts are included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels and trends continue, there may be future impairments on long-lived assets, including the potential for impairment of assets that are held and used. INTEREST EXPENSE ---------------- Interest expense of $48.9 million for the 28 weeks ended September 11, 2004 increased from the prior year amount of $42.8 million due primarily to higher interest expense resulting from our on balance sheet financing obligations (sale leaseback of Company-owned properties) entered into in the fourth quarter of fiscal 2003 of approximately $9.1 million. This impact was partially offset by lower interest from lower borrowings of approximately $2.0 million. INCOME TAXES ----------- The provision for income taxes from continuing operations for the 28 weeks ended September 11, 2004 was $3.8 million (a $2.4 million provision for our U.S. operations and a $1.4 million provision for our Canadian operations) compared to a $5.8 million provision for income taxes from continuing operations for the 28 weeks ended September 6, 2003 (a $7.9 million benefit from our U.S. operations and a $13.7 million provision for our Canadian operations). Our U.S. tax benefit from continuing operations for the 28 weeks ended September 6, 2003 was offset by a tax provision provided on discontinued operations of $10.2 million in accordance with Statement of Financial Accounting Standards 109, "Accounting for Income Taxes". Consistent with prior year, we continue to record a valuation allowance in an amount that would reduce our U.S deferred tax asset to the amount that is more likely not to be realized. For the 28 weeks ended September 11, 2004, our effective income tax rate of 3.8% changed from the effective income tax rate of 8.0% for the 28 weeks ended September 6, 2003 as follows: 28 Weeks Ended -- September 11, 2004 September 6, 2003 ------------------------------- -------------------------------- Tax (Provision) Effective Tax Benefit Effective Benefit Tax Rate (Provision) Tax Rate -------------- --------------- -------------- --------------- United States $ (2,415) 2.4% $ 7,907 (11.0%) Canada (1,429) 1.4% (13,674) 19.0% -------------- --------------- -------------- --------------- $ (3,844) 3.8% $ (5,767) 8.0% ============== =============== ============== ================ The decrease in our effective tax rate was primarily due to the absence of a tax benefit recognized from continuing operations. As discussed above, $10.2 million of benefit was recognized for the 28 weeks ended September 6, 2003 as compared to the 28 weeks ended September 11, 2004, where no benefit was recognized. The remaining provisions recorded in the U.S. of $2.4 million and $2.3 million for the 28 weeks ended September 11, 2004 and September 6, 2003,

respectively, represent state and local taxes. In addition, the decrease in our effective tax rate resulted from the impact of the higher mix of Canadian loss from continuing operations as a percentage of our Company's loss from continuing operations for the 28 weeks ended September 11, 2004 as compared to the 28 weeks ended September 6, 2003. DISCONTINUED OPERATIONS ---------------------- Beginning in the fourth quarter of fiscal year 2002 and in the early part of the first quarter of fiscal 2003, we decided to sell our operations located in Northern New England and Wisconsin, as well as our Eight O'Clock Coffee business. These asset sales are now complete. The loss from operations of discontinued businesses, net of tax, for the 28 weeks ended September 11, 2004 was $1.0 million as compared to a loss from operations of discontinued businesses, net of tax, of $30.0 million for the 28 weeks ended September 6, 2003 and is detailed by business as follows: 28 Weeks ended September 11, 2004 -- Eight Northern O'Clock New England Kohl's Coffee Total -------------- --------------- -------------- --------------- Income (loss) from operations of discontinued businesses Sales $ - $ - $ - $ - Operating expenses 328 (774) (593) (1,039) ------------- -------------- -------------- ------------- Income (loss) from operations of discontinued businesses, before tax 328 (774) (593) (1,039) Tax provision - - - - -------------- --------------- -------------- ------------- Income (loss) from operations of discontinued businesses, net of tax $ 328 $ (774) $ (593) $ (1,039) =============== ================ =============== ============= Disposal related costs included in operating expenses above: -- Severance and benefits $ (326) $ - $ - $ (326) Non-accruable closing costs 660 (390) (593) (323) Interest accretion on present value of future occupancy costs (6) (384) - (390) -------------- --------------- -------------- ------------- Total disposal related costs $ 328 $ (774) $ (593) $ (1,039) -------------- --------------- -------------- ------------- 28 Weeks ended September 6, 2003 -- Eight Northern O'Clock New England Kohl's Coffee Total -------------- --------------- -------------- --------------- (Loss) income from operations of discontinued businesses Sales $ 32,726 $ 123,229 $ 44,073 $ 200,028 Operating expenses (43,464) (175,865) (32,357) (251,686) ------------- -------------- -------------- ------------- (Loss) income from operations of discontinued businesses, before tax (10,738) (52,636) 11,716 (51,658) Tax benefit (provision) 3,912 22,517 (4,733) 21,696 -------------- --------------- -------------- ------------- (Loss) income from operations of discontinued businesses, net of tax $ (6,826) $ (30,119) $ 6,983 $ (29,962) =============== ================ =============== ============== Disposal related costs included in operating expenses above: -- Pension withdrawal liability $ - $ (6,500) $ - $ (6,500) Occupancy related costs (3,993) (25,387) - (29,380) Non-accruable inventory costs - (1,989) - (1,989) Non-accruable closing costs (3,114) (1,837) (1,443) (6,394) Gain on sale of inventory 1,645 - - 1,645 Severance and benefits (2,635) (8,415) - (11,050) -------------- --------------- -------------- -------------- Total disposal related costs $ (8,097) $ (44,128) $ (1,443) $ (53,668) -------------- --------------- -------------- -------------- The gain on disposal of discontinued operations, net of tax, was nil for the 28 weeks ended September 11, 2004 as compared to $44.0 million for the 28 weeks ended September 6, 2003 and is detailed by business as follows: 28 Weeks ended September 6, 2003 -- Eight Northern O'Clock New England Kohl's Coffee Total -------------- --------------- -------------- --------------- Gain (loss) from disposal of discontinued businesses Gain on sale of fixed assets $ 85,983 $ 8,827 $ - $ 94,810 Fixed asset impairments - (18,968) - (18,968) Gain (loss) on disposal of ------------ ------------ ------------ ------------ discontinued businesses, before tax 85,983 (10,141) - 75,842 Tax provision (30,997) (856) - (31,853) ------------- --------------- ------------ ------------ Gain (loss) disposal of discontinued businesses, net of tax $ 54,986 $ (10,997) $ - $ 43,989 ============= ================ ============= ============= ASSET DISPOSITION INITIATIVE --------------------------- Overview -------- In fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores including the exit of the Richmond, Virginia and Atlanta, Georgia markets (Project Great Renewal). In addition, during the third quarter of fiscal 2001, we announced that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) would be closed and/or sold, and certain administrative streamlining would take place (2001 Asset Disposition). During the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets (Farmer Jack Restructuring). Presented below is a reconciliation of the charges recorded on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003. Present value ("PV") interest represents interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. Non-accruable

items represent charges related to the restructuring that are required to be expensed as incurred in accordance with SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities". 12 Weeks Ended September 11, 2004 12 Weeks Ended September 6, 2003 -- -- Project 2001 Farmer Project 2001 Farmer Great Asset Jack Great Asset Jack Renewal Disposition Restructuring Total Renewal Disposition Restructuring Total ------- ----------- ------------ -------- ---------- ----------- ------------ -------- Balance Sheet accruals PV interest $ 446 $ 568 $ 158 $ 1,172 $ 592 $ 714 $ - $ 1,306 Total accrued to -------- ---------- ---------- --------- ---------- ---------- ---------- -------- balance sheets 446 568 158 1,172 592 714 - 1,306 -------- ----------- ---------- --------- ---------- ----------- ---------- -------- Occupancy reversals - - - - - (6,778) - (6,778) Additional severance - - - - - 955 - 955 Adjustments to -------- ---------- ---------- --------- ---------- ---------- ---------- -------- balance sheets - - - - - (5,823) - (5,823) -------- ---------- ---------- --------- ---------- ---------- ---------- -------- Non-accruable items recorded on Statements of Operations Property writedowns - - - - - 422 - 422 Inventory markdowns - - - - - - - - Closing costs - - 9 9 - - - - -------- ---------- ---------- --------- ---------- ---------- ---------- -------- Total non-accruable items - - 9 9 - 422 - 422 -------- ---------- ---------- --------- ---------- ---------- ---------- -------- Less PV interest (446) (568) (158) (1,172) (592) (714) - (1,306) --------- ----------- ------------ ---------- ------------ ---------- ---------- ---------- Total amount recorded on Statements of Operations and Statements of Cash Flows excluding PV interest $ - $ - $ 9 $ 9 $ - $ (5,401) $ - $ (5,401) ======== ========== ========== ========= ========== ========== ========== ========= 28 Weeks Ended September 11, 2004 28 Weeks Ended September 6, 2003 --- -- Project 2001 Farmer Project 2001 Farmer Great Asset Jack Great Asset Jack Renewal Disposition Restructuring Total Renewal Disposition Restructuring Total -------- ----------- ------------ -------- ---------- ----------- ------------ ----- Balance Sheet accruals PV interest $ 1,076 $ 1,349 $ 380 $ 2,805 $ 1,420 $ 1,700 $ - $ 3,120 Total accrued to -------- ----------- ---------- --------- ---------- ---------- ---------- --------- balance sheets 1,076 1,349 380 2,805 1,420 1,700 - 3,120 -------- ----------- ---------- --------- ---------- ---------- ---------- --------- Occupancy reversals - - - - - (6,778) - (6,778) Additional severance - - - - - 955 - 955 Adjustments to -------- ----------- ---------- --------- ----------- ----------- ----------- --------- balance sheets - - - - - (5,823) - (5,823) -------- ----------- ---------- --------- ----------- ----------- ----------- --------- Non-accruable items recorded on Statements of Operations Property writedowns - - 90 90 - 422 - 422 Inventory markdowns - - 291 291 - - - - Closing costs - - 689 689 - - - - -------- ----------- ----------- --------- ----------- ----------- ----------- --------- Total non-accruable items - - 1,070 1,070 - 422 - 422 -------- ----------- ----------- --------- ----------- ----------- ----------- --------- Less PV interest (1,076) (1,349) (380) (2,805) (1,420) (1,700) - (3,120) --------- ----------- ------------ ---------- ------------ ----------- ----------- ---------- Total amount recorded on Statements of Operations and Statements of Cash Flows excluding PV interest $ - $ - $ 1,070 $ 1,070 $ - $ (5,401) $ - $ (5,401) ======== ========== ========== ========= ========== ========== ========== ========= Project Great Renewal --------------------- In May 1998, we initiated an assessment of our business operations in order to identify the factors that were impacting our performance. As a result of this assessment, in fiscal 1998 and 1999, we announced a plan to close two warehouse facilities and a coffee plant in the U.S., a bakery plant in Canada and 166 stores (156 in the United States and 10 in Canada) including the exit of the Richmond, Virginia and Atlanta, Georgia markets. As of September 11, 2004, we had closed all stores and facilities related to this phase of the initiative. The following table summarizes the activity related to this phase of the initiative over the last three fiscal years: Occupancy Severance and Benefits Total ----------------------------- ----------------------------- ------------------------------ U.S. Canada Total U.S. Canada Total U.S. Canada Total -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at February 24, 2001 $ 82,189 $ 672 $ 82,861 $ 2,721 $ - $ 2,721 $ 84,910 $ 672 $ 85,582 Addition (1) 3,500 318 3,818 - - - 3,500 318 3,818 Utilization (2) (22,887) (415) (23,302) (544) - (544) (23,431) (415) (23,846) -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at February 23, 2002 $ 62,802 $ 575 $ 63,377 2,177 $ - $ 2,177 64,979 575 65,554 Addition (1) 2,861 298 3,159 - - - 2,861 298 3,159 Utilization (2) (13,230) (386) (13,616) (370) - (370) (13,600) (386) (13,986) Adjustments (3) (3,645) - (3,645) 639 - 639 (3,006) - (3,006) --------- -------- --------- -------- -------- -------- --------- --------- --------- Balance at February 22, 2003 $ 48,788 $ 487 $ 49,275 $ 2,446 $ - $ 2,446 $ 51,234 $ 487 $ 51,721 Addition (1) 2,276 372 2,648 - - - 2,276 372 2,648 Utilization (2) (19,592) (407) (19,999) (289) - (289) (19,881) (407) (20,288) -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at February 28, 2004 $ 31,472 $ 452 $ 31,924 $ 2,157 $ - $ 2,157 $ 33,629 $ 452 $ 34,081 Addition (1) 1,063 13 1,076 - - - 1,063 13 1,076 Utilization (2) (3,285) (85) (3,370) (433) - (433) (3,718) (85) (3,803) -------- -------- -------- --------- -------- -------- --------- --------- --------- Balance at

Sept. 11, 2004 $ 29,250 $ 380 $ 29,630 $ 1,724 $ - $ 1,724 $ 30,974 $ 380 $ 31,354 ======== ======== ======== ======== ======== ======== ========= ========= ========= (1) The additions to store occupancy of $3.8 million, $3.2 million and $2.6 million during fiscal 2001, 2002 and 2003, respectively, and $1.1 million during the 28 weeks ended September 11, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. (2) Occupancy utilization of $23.3 million, $13.6 million and $20.0 million for fiscal 2001, 2002 and 2003, respectively, and $3.4 million during the 28 weeks ended September 11, 2004 represents payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $0.5 million, $0.4 million and $0.3 million for fiscal 2001, 2002 and 2003, respectively, and $0.4 million during the 28 weeks ended September 11, 2004 represents payments to individuals for severance and benefits, as well as payments to pension funds for early withdrawal from multi-employer union pension plans. (3) At each balance sheet date, we assess the adequacy of the balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. We have continued to make favorable progress in marketing and subleasing the closed stores. As a result, during fiscal 2002, we recorded a reduction of $3.6 million in occupancy accruals related to this phase of the initiative. Further, we increased our reserve for future minimum pension liabilities by $0.6 million to better reflect expected future payouts under certain collective bargaining agreements. We paid $96.1 million of the total occupancy charges from the time of the original charges through September 11, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $29.8 million of the total net severance charges from the time of the original charges through September 11, 2004, which resulted from the termination of approximately 3,400 employees. The remaining occupancy liability of $29.6 million relates to expected future payments under long term leases and is expected to be paid in full by 2020. The remaining severance liability of $1.7 million primarily relates to expected future payments for early withdrawals from multi-employer union pension plans and will be fully paid out by 2020. None of these stores were open during either of the first or second quarters of fiscal 2003 or 2004. As such, there was no impact on the Statements of Consolidated Operations from the 166 stores included in this phase of the initiative. At September 11, 2004 and February 28, 2004, approximately $5.6 million and $6.5 million, respectively, of the reserve was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets. Based upon current available information, we evaluated the reserve balances as of September 11, 2004 of $31.4 million for this phase of the asset disposition initiative and have concluded that they are appropriate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary. 2001 Asset Disposition --------------------- During the third quarter of fiscal 2001, the Company's Board of Directors approved a plan resulting from our review of the performance and potential of each of the Company's businesses and individual stores. At the conclusion of this review, our Company determined that certain underperforming operations, including 39 stores (30 in the United States and 9 in Canada) and 3 warehouses (2 in the United States and 1 in Canada) should be closed and/or sold, and certain administrative streamlining should take place. As of September 11, 2004, we had closed all stores and facilities related to this phase of the initiative. The following table summarizes the activity related to this phase of the initiative recorded on the Consolidated Balance Sheets since the announcement of the charge in November 2001: Occupancy Severance and Benefits Total ---------------------------- ---------------------------- ----------------------------- U.S. Canada Total U.S. Canada Total U.S. Canada Total -------- -------- -------- -------- -------- -------- --------- --------- --------- Original charge $ 78,488 $ 1,968 $ 80,456 $ 15,688 $ 7,747 $ 23,435 $ 94,176 $ 9,715 $ 103,891 Addition (1) 1,653 20 1,673 - - - 1,653 20 1,673 Utilization (2) (1,755) (51) (1,806) (1,945) (946) (2,891) (3,700) (997) (4,697) Adjustments (3) - - - - (584) (584) - (584) (584) -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at February 23, 2002 $ 78,386 $ 1,937 $ 80,323 13,743 $ 6,217 $ 19,960 $ 92,129 $ 8,154 $ 100,283 Addition (1) 4,041 49 4,090 2,578 966 3,544 6,619 1,015 7,634 Utilization (2) (18,745) (1,642) (20,387) (12,508) (6,952) (19,460) (31,253) (8,594) (39,847) Adjustments (3) (10,180) - (10,180) - 250 250 (10,180) 250 (9,930) --------- -------- --------- -------- -------- -------- --------- --------- --------- Balance at February 22, 2003 $ 53,502 $ 344 $ 53,846 $ 3,813 $ 481 $ 4,294 $ 57,315 $ 825 $ 58,140 Addition (1) 2,847 3 2,850 - - - 2,847 3 2,850 Utilization (2) (9,987) (974) (10,961) (2,457) (1,026) (3,483) (12,444) (2,000) (14,444) Adjustments (3) (6,778) 1,002 (5,776) 955 603 1,558 (5,823) 1,605 (4,218) -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at February 28, 2004 $ 39,584 $ 375 $ 39,959 $ 2,311 $ 58 $ 2,369 $ 41,895 $ 433 $ 42,328 Addition (1) 1,349 - 1,349 - - - 1,349 - 1,349 Utilization (2) (3,030) 13 (3,017)

(69) (58) (127) (3,099) (45) (3,144) -------- -------- -------- -------- -------- -------- --------- --------- --------- Balance at Sept. 11, 2004 $ 37,903 $ 388 $ 38,291 $ 2,242 $ - $ 2,242 $ 40,145 $ 388 $ 40,533 ======== ======== ======== ======== ======== ======== ========= ========= ========= (1) The additions to store occupancy of $1.7 million, $4.1 million and $2.9 million during fiscal 2001, 2002 and 2003, respectively, and $1.3 million during the 28 weeks ended September 11, 2004 represent the interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The addition to severance of $3.5 million during fiscal 2002 related to retention and . productivity incentives that were expensed as earned. (2) Occupancy utilization of $1.8 million, $20.4 million and $11.0 million during fiscal 2001, 2002 and 2003, respectively, and $3.0 million during the 28 weeks ended September 11, 2004 represent payments made during those periods for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $2.9 million, $19.5 million and $3.5 million during fiscal 2001, 2002 and 2003, respectively, and $0.1 million during the 28 weeks ended September 11, 2004 represent payments made to terminated employees during the period. (3) At each balance sheet date, we assess the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. Under Ontario provincial law, employees to be terminated as part of a mass termination are entitled to receive compensation, either worked or paid as severance, for a set period of time after the official notice date. Since such closures took place later than originally expected, less time remained in the aforementioned guarantee period. As a result, during fiscal 2001, we recorded an adjustment to severance and benefits of $0.6 million related to a reduction in the severance payments required to be made to certain store employees in Canada. Further, during fiscal 2002, we recorded adjustments of $10.2 million related to reversals of previously accrued occupancy related costs due to the following: o Favorable results of assigning leases at certain locations of $3.6 million; o The decision to continue to operate one of the stores previously identified for closure due to changes in the competitive environment in the market in which that store is located of $3.3 million; and o The decision to proceed with development at a site that we had chosen to abandon at the time of the original charge due to changes in the competitive environment in the market in which that site is located of $3.3 million. During fiscal 2003, we recorded net adjustments of $5.8 million related to reversals of previously accrued occupancy costs due to favorable results of subleasing, assigning and terminating leases. We also accrued $1.6 million for additional severance and benefit costs that were unforeseen at the time of the original charge. We paid $36.2 million ($33.5 million in the U.S. and $2.7 million in Canada) of the total occupancy charges from the time of the original charges through September 11, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $26.0 million ($17.0 million in the U.S. and $9.0 million in Canada) of the total net severance charges from the time of the original charges through September 11, 2004, which resulted from the termination of approximately 1,100 employees. The remaining occupancy liability of $38.3 million primarily relates to expected future payments under long term leases through 2017. The remaining severance liability of $2.2 million relates to expected future payments for severance and benefits payments to individual employees and will be fully paid out by 2006. At September 11, 2004 and February 28, 2004 approximately $12.4 million and $12.0 million of the reserve, respectively, was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on the Company's Consolidated Balance Sheets. Included in the Statements of Consolidated Operations for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003 are the sales and operating results of the 39 stores that were identified for closure as part of this asset disposition. The results of these operations are as follows: c 12 Weeks Ended 28 Weeks Ended ------------------------------ ------------------------------ Sept. 11, 2004 Sept. 6, 2003 Sept. 11, 2004 Sept. 6, 2003 ------------- ------------- ------------- ------------- Sales $ - $ - $ - $ 316 ============= ============= ============= ============= Operating loss $ - $ - $ - $ (72) ============= ============= ============= ============== Based upon current available information, we evaluated the reserve balances as of September 11, 2004 of $40.5 million for this phase of the asset disposition initiative and have concluded that they are appropriate to cover expected future costs. The Company will continue to monitor the status of the vacant properties and adjustments to the reserve balances may be recorded in the future, if necessary. Farmer Jack Restructuring ------------------------ As previously stated, during the fourth quarter of fiscal 2003, we announced an initiative to close 6 stores and convert 13 stores to our Food Basics banner in the Detroit, Michigan and Toledo, Ohio markets. In addition to the charge of $37.7 million related to the last phase of this initiative ($2.2 million in "Cost of merchandise sold" and $35.5 million in "Store operating, general and administrative expense" in our Consolidated Statement of Operations for fiscal 2003), excluding PV interest, we recorded costs in the 12 and 28 weeks ended

September 11, 2004 of nil and $1.1 million ($0.3 million in "Cost of merchandise sold" and $0.8 million in "Store operating, general and administrative expense"), respectively, as follows: 12 Weeks Ended 28 Weeks Ended September 11, 2004 September 11, 2004 ------------------ ------------------ Occupancy related $ - $ - Severance and benefits - - Property writedowns - 90 Inventory markdowns - 291 Nonaccruable closing costs 9 689 -------------- -------------- Total charges $ 9 $ 1,070 ============== ============== As of September 11, 2004, we had closed all 6 stores and successfully completed the conversions related to this phase of the initiative. The following table summarizes the activity to date related to the charges recorded for the aforementioned initiatives all of which were in the U.S. The table does not include property writedowns as they are not part of any reserves maintained on the balance sheet. It also does not include non-accruable closing costs and inventory markdowns since they are expensed as incurred in accordance with generally accepted accounting principles. Severance and Occupancy Benefits Total ------------ ------------- ---------- Original charge (1) $ 20,999 $ 8,930 $ 29,929 Addition (1) 56 - 56 Utilization (2) (1,093) (4,111) (5,204) ------------ ------------- ---------- Balance at February 28, 2004 $ 19,962 $ 4,819 $ 24,781 Addition (1) 380 - 380 Utilization (2) (3,530) (4,235) (7,765) ------------ ------------- ---------- Balance at Sept. 11, 2004 $ 16,812 $ 584 $ 17,396 ============ ============= ========== (1) The original charge to occupancy during fiscal 2003 represents charges related to closures and conversions in the Detroit, Michigan market of $21.0 million. The additions to occupancy during fiscal 2003 and the 28 weeks ended September 11, 2004 represent interest accretion on future occupancy costs which were recorded at present value at the time of the original charge. The original charge to severance during fiscal 2003 of $8.9 million related to individual severings as a result of the store closures, as well as a voluntary termination plan initiated in the Detroit, Michigan market. (2) Occupancy utilization of $1.1 million and $3.5 million during fiscal 2003 and the 28 weeks ended September 11, 2004, respectively, represents payments made for costs such as rent, common area maintenance, real estate taxes and lease termination costs. Severance utilization of $4.1 million and $4.2 million during fiscal 2003 and the 28 weeks ended September 11, 2004, respectively, represent payments made to terminated employees during the period. We paid $4.6 million of the total occupancy charges from the time of the original charge through September 11, 2004 which was primarily for occupancy related costs such as rent, common area maintenance, real estate taxes and lease termination costs. We paid $8.3 million of the total net severance charges from the time of the original charges through September 11, 2004, which resulted from the termination of approximately 300 employees. The remaining occupancy liability of $16.8 million relates to expected future payments under long term leases and is expected to be paid out in full by 2014. The remaining severance liability of $0.6 million relates to expected future payments for severance and benefits to individual employees and will be fully paid out by mid-2005. Included in the Statements of Consolidated Operations for the 12 and 28 weeks ended September 11, 2004 and September 6, 2003 are the sales and operating results of the 6 stores that were identified for closure as part of this phase of the initiative. The results of these operations are as follows: 12 Weeks Ended 28 Weeks Ended ------------------------------ ------------------------------ Sept. 11, 2004 Sept. 6, 2003 Sept. 11, 2004 Sept. 6, 2003 ------------- ------------- ------------- ------------- Sales $ - $ 12,390 $ 2,433 $ 29,356 ============= ============= ============= ============= Operating loss $ - $ (2,270) $ (43) $ (4,749) ============= ============= ============= ============== At September 11, 2004 and February 28, 2004, approximately $2.3 million and $9.0 million, respectively, of the liability was included in "Other accruals" and the remaining amount was included in "Other non-current liabilities" on our Consolidated Balance Sheets. We have evaluated the liability balance of $17.4 million as of September 11, 2004 based upon current available information and have concluded that it is appropriate. We will continue to monitor the status of the vacant properties and adjustments to the reserve balance may be recorded in the future, if necessary. LIQUIDITY AND CAPITAL RESOURCES ------------------------------ CASH FLOWS ---------- The following table presents excerpts from our Consolidated Statement of Cash Flows: Sept. 11, 2004 Sept. 6, 2003 ----------------- ----------------- Net cash provided by operating activities $ 51,939 $ 20,312 ----------------- ----------------- Net cash (used in) provided by investing activities $ (87,315) $ 66,200 ----------------- ----------------- Net cash provided by (used in) financing activities $ 10,918 $ (112,303) ----------------- ----------------- Net cash flow provided by operating activities of $51.9 million for the 28 weeks ended September 11, 2004 primarily reflected our net loss of $107.0 million, adjusted for a non-cash charge of $143.5 million for depreciation and amortization, a decrease in accounts receivable of $31.4 million, an increase in accounts payable of $47.9 million, and a increase in other accruals of $7.2 million partially offset by an increase in inventories of $28.8 million, an increase in prepaid assets and other current assets of $23.6 million, an increase in other assets of $11.9 million and a decrease in non-current liabilities of $6.5 million due mainly

to a decrease in closed store accruals. Refer to Working Capital below for discussion of changes in working capital items. Net cash flow provided by operating activities of $20.3 million for the 28 weeks ended September 6, 2003 primarily reflected our net loss of $71.7 million adjusted for non-cash charges of $150.3 million for depreciation and amortization and $8.0 million for the cumulative effect of a change in accounting principle - FIN 46-R, and the decrease in inventories of $15.3 million, partially offset by the gain on sale of discontinued operations of $75.8 million. Net cash flow used in investing activities of $87.3 million for the 28 weeks ended September 11, 2004 primarily reflected property expenditures totaling $97.4 million, which included 9 new supermarkets and 11 major remodels partially offset by cash received from the sale of our assets of $10.1 million. For the remainder of fiscal 2004, we have planned capital expenditures of approximately $150 to $175 million, which relate primarily to opening approximately 1 to 3 new supermarkets, converting approximately 2 to 5 stores to new banners, and enlarging or remodeling approximately 60 supermarkets. However, year-to-date we are spending at a rate below our plan and we may choose not to complete all projects in this fiscal year. We currently expect to close approximately 5 - 10 stores during the remainder of fiscal 2004. Net cash flow provided by investing activities of $66.2 million for the 28 weeks ended September 6, 2003 primarily reflected $142.1 million in proceeds from property disposals (most of which related to discontinued operations), partially offset by $75.9 million used for property expenditures, which included 11 new supermarkets and 2 major remodels or enlargements. Net cash flow provided by financing activities of $10.9 million for the 28 weeks ended September 11, 2004 primarily reflected an increase in book overdrafts of $11.0 million and proceeds from long term borrowings of $7.4 million partially offset by principal payments on capital leases of $6.5 million and a decrease in deferred financing fees of $1.0 million. Net cash flow used in financing activities of $112.3 million for the 28 weeks ended September 6, 2003 primarily reflected $135.0 million in payments on our revolving lines of credit and principal payments on capital leases of $7.2 million partially offset by proceeds from long term borrowings of $16.0 million and an increase in book overdrafts of $15.4 million. In the short term, we believe that our present cash resources, including invested cash on hand, available borrowings from our revolving credit agreement and other sources, are sufficient to meet our needs. We operate under an annual operating plan which is reviewed and approved by our Board of Directors and incorporates the specific initiatives we expect to pursue and the anticipated financial results of our SBU's and our Company. The annual operating plan is generally consistent with the first year of a longer term strategic plan that is approved each year, and identifies specific initiatives and financial results, including sales, profits and cash flow, to be achieved over a three year period. The Fiscal 2004 annual operating plan anticipates limited profit growth from Fiscal 2003, and calls for increased capital investment to support a focused program of remodeling existing conventional grocery stores in the U.S. and Canada and converting certain stores to the Food Basics banner. We anticipate that we will incur net losses and have negative operating cash flow as a result of this plan. We also have $2.3 million of current debt maturities in Fiscal 2004. We believe that proceeds from asset sales completed in Fiscal 2003 and our present financing plans, including, among other things, the 4 year revolving credit agreement completed in Fiscal 2003 and planned sale-leaseback transactions, will provide for sufficient cash availability to ensure that we have the resources to pursue our Fiscal 2004 annual operating plan. Our longer term strategic plan anticipates improved performance in Fiscal 2005 and Fiscal 2006. This plan also calls for higher levels of capital investment in Fiscal 2005 and 2006, and we anticipate that, while profitability may improve, operating cash flow after investing activities will remain negative as we continue to make investments to strengthen our store base. We believe that the funds currently available, combined with additional funds from improved profitability and financing and operating actions, which we believe we can pursue but which are uncertain at this time, could be sufficient to pursue these plans and programs, and to refinance the $218.8 million bonds maturing in 2007 which, under the terms of our revolving credit agreement, must be refinanced six months prior to maturity. Profitability and cash flow can be impacted by certain external factors such as unfavorable economic conditions, competition, labor relations and fuel and utility costs which could have a significant impact on cash generation. If our profitability and cash flow do not improve in line with our plans, or if they otherwise provide sufficient resorces to operate effectively, we anticipate that we will be able to modify the plan, by reducing capital investments and through other contingency actions, in order to ensure that we have appropriate resources. However, there is no assurance that we will pursue such contingency actions or that they will be successful in generating the resources necessary to operate the business. WORKING CAPITAL --------------- We had working capital of $52.2 million at September 11, 2004 compared to working capital of $113.5 million at February 28, 2004. We had cash and cash equivalents aggregating $276.8 million at September 11, 2004 compared to $297.0 million at February 28, 2004. The decrease in

working capital was attributable primarily to the following: o A decrease in cash and cash equivalents as detailed in the Consolidated Statements of Cash Flows; o A decrease in accounts receivable due to the timing of receipts; o An increase in accounts payable (inclusive of book overdrafts) due to timing and seasonality; and o An increase in other accruals mainly due to timing. Partially offset by the following: o An increase in inventories mainly due to seasonality and the favorable impact of the Canadian exchange rate; and o An increase in prepaid expenses and other current assets mainly due to the amortization of prepaid rent. REVOLVING CREDIT AGREEMENT ------------------------- During fiscal 2003, we amended and restated our Secured Credit Agreement (the "Amended and Restated Credit Agreement") and decreased our borrowing base to $400 million. Thus, at September 11, 2004, we had a $400 million secured revolving credit agreement with a syndicate of lenders enabling us to borrow funds on a revolving basis sufficient to refinance short-term borrowings and provide working capital as needed. This facility provides us with greater operating flexibility and provides for increased capital spending. Under the terms of this agreement, should availability fall below $50 million, a borrowing block will be implemented which provides that no additional borrowings be made unless we are able to maintain a fixed charge coverage ratio of 1.0 to 1.0. Although we do not meet the required ratio at this time, it is not applicable as availability at September 11, 2004 totaled $232.9 million. In the event that availability falls below $50 million and we do not maintain the ratio required, unless otherwise waived or amended, the lenders may, at their discretion, declare, in whole or in part, all outstanding obligations immediately due and payable. The Amended and Restated Credit Agreement is comprised of a U.S. credit agreement amounting to $330 million and a Canadian credit agreement amounting to $70 million (C$90.4 million at September 11, 2004) and is collateralized by inventory, certain accounts receivable and certain pharmacy scripts. Borrowings under the Amended and Restated Credit Agreement bear interest based on LIBOR and Prime interest rate pricing. This agreement expires in December 2007. As of September 11, 2004, there were no borrowings under these credit agreements. As of September 11, 2004, after reducing availability for outstanding letters of credit and borrowing base requirements, we had $232.9 million available under the Amended and Restated Credit Agreement. Under the Amended and Restated Credit Agreement, we are permitted to make bond repurchases and may do so from time to time in the future. PUBLIC DEBT OBLIGATIONS ---------------------- Outstanding notes totaling $637 million at September 11, 2004 consisted of $200 million of 9.375% Notes due August 1, 2039, $217 million of 9.125% Senior Notes due December 15, 2011 and $220 million of 7.75% Notes due April 15, 2007. Interest is payable quarterly on the 9.375% Notes and semi-annually on the 9.125% and 7.75% Notes. The 7.75% Notes are not redeemable prior to their maturity. The 9.375% notes can be redeemed after August 11, 2004, and the 9.125% Notes may be redeemed after December 15, 2006. All of the notes outstanding are unsecured obligations and were issued under the terms of our senior debt securities indenture, which contains among other provisions, covenants restricting the incurrence of secured debt. In addition, the 9.125% Notes contain additional covenants, including among other things, limitations on asset sales, on the payment of dividends, and on the incurrence of liens and additional indebtedness. None of our notes are guaranteed by any of our subsidiaries. Our notes are effectively subordinate to our secured revolving credit agreement and do not contain cross default provisions. OTHER ----- We currently have active Registration Statements dated January 23, 1998 and June 23, 1999, allowing us to offer up to $75 million of debt and/or equity securities as of September 11, 2004 at terms contingent upon market conditions at the time of sale. Our Company's policy is to not pay dividends. As such, we have not made dividend payments in the previous three years and do not intend to pay dividends in fiscal 2004. In addition, our Company is prohibited, under the terms of our Revolving Credit Agreement, to pay cash dividends on common shares. We are the guarantor of a loan of $2.1 million related to a shopping center, which will expire in 2011. Our existing senior debt rating was Caa1 with negative implications with Moody's Investors Service ("Moody's") and B with negative implications with Standard & Poor's Ratings Group ("S&P") as of September 11, 2004. Our liquidity rating was SGL3 with Moody's as of September 11, 2004. Our recovery rating was 1 with S&P as of September 11, 2004 indicating a high expectation of 100% recovery of our senior debt to our lenders. Future rating changes could affect the availability and cost of financing to our Company. CRITICAL ACCOUNTING ESTIMATES ---------------------------- Critical accounting estimates are those accounting estimates that we believe are important to the portrayal of our financial condition and results of operations and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the

financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Self-Insurance Reserves ----------------------- Our Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. We estimate the required liability of such claims on a discounted basis, utilizing an actuarial method, which is based upon various assumptions, which include, but are not limited to, our historical loss experience, projected loss development factors, actual payroll and other data. The required liability is also subject to adjustment in the future based upon the changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity). Long-Lived Assets ----------------- We review the carrying values of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Such review is primarily based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets is recoverable from their respective cash flows. If such review indicates an impairment exists, we measure such impairment on a discounted basis using a probability weighted approach and a risk free rate. Such review may also be based upon appraisals of or offers for our long-lived assets we receive in the normal course of business. During both the 12 and 28 weeks ended September 11, 2004, we recorded an impairment loss of $0.9 million related to certain idle property that, based upon new information received about such assets, including an appraisal and an offer, was impaired and written down to its net realizable value. This amount was included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations during the 12 and 28 weeks ended September 11, 2004. We also 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 both the 12 and 28 weeks ended September 11, 2004, we recorded impairment losses on property, plant and equipment of $0.8 million related to United States stores that were or will be closed in the normal course of business and are included in "Store operating, general and administrative expense" in our Consolidated Statements of Operations. The effects of changes in estimates of useful lives were not material to ongoing depreciation expense. If current operating levels and trends continue, there may be additional future impairments on long-lived assets, including the potential for impairment of assets that are held and used. Closed Store Reserves --------------------- For stores closed that are under long-term leases, we record a discounted liability using a risk free rate for the future minimum lease payments and related costs, such as utilities and taxes, from the date of closure to the end of the remaining lease term, net of estimated probable recoveries from projected sublease rentals. If estimated cost recoveries exceed our liability for future minimum lease payments, the excess is recognized as income over the term of the sublease. We estimate future net cash flows based on our experience in and our knowledge of the market in which the closed store is located. However, these estimates project net cash flow several years into the future and are affected by variable factors such as inflation, real estate markets and economic conditions. While these factors have been relatively stable in recent years, variation in these factors could cause changes to our estimates. As of September 11, 2004, we had liabilities for future minimum lease payments of $124 million, which related to 70 closed stores and 49 subleased or assigned stores. Of this amount, $22 million relates to stores closed in the normal course of business, $84 million relates to stores closed as part of the asset disposition initiative (see Note 7 of our Consolidated Financial Statements), and $18 million relates to stores closed as part of our exits of the northern New England and Kohl's businesses (see Note 6 of our Consolidated Financial Statements). Employee Benefit Plans ---------------------- The determination of our obligation and expense for pension and other postretirement benefits is dependent, in part, on our selection of certain assumptions used by our actuaries in calculating these amounts. These assumptions include, among other things, the discount rate, the expected long-term rate of return on plan assets and the rates of increase in compensation and health care costs. In accordance with U.S. GAAP, actual results that differ from our Company's assumptions are accumulated and amortized over future periods and, therefore, affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and our future expense. Inventories ----------- We evaluate inventory shrinkage throughout the year based on actual physical counts in our stores and distribution centers and record reserves based on the results of these counts to provide for estimated shrinkage between the store's last inventory and the balance sheet date. ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk MARKET RISK ----------- Market risk represents the risk of loss from adverse market changes that may impact our consolidated financial position, results of operations or cash flows. Among other possible market risks, we are exposed to such risk in the areas of interest rates

and foreign currency exchange rates. From time to time, we may enter hedging agreements in order to manage risks incurred in the normal course of business including forward exchange contracts to manage our exposure to fluctuations in foreign exchange rates. Interest Rates ------------- Our exposure to market risk for changes in interest rates relates primarily to our debt obligations. We do not have cash flow exposure due to rate changes on our $635.4 million in notes as of September 11, 2004 because they are at fixed interest rates. However, we do have cash flow exposure on our committed bank lines of credit due to our variable floating rate pricing. Accordingly, during the 12 and 28 weeks ended September 11, 2004, a presumed 1% change in the variable floating rate would not have impacted interest expense as there were no borrowings on our committed bank lines of credit. Foreign Exchange Risk -------------------- We are exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. During the 12 and 28 weeks ended September 11, 2004, a change in the Canadian currency of 10% would have resulted in a fluctuation in net income of $1.5 million and $0.9 million, respectively. We do not believe that a change in the Canadian currency of 10% will have a material effect on our financial position or cash flows. ITEM 4 - Controls and Procedures Our Company maintains a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of our Company's published consolidated financial statements and other disclosures included in this report. Within the 90-day period prior to the date of this report, the Company's Chairman of the Board, President and Chief Executive Officer, and Senior Vice President, Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chairman of the Board, President and Chief Executive Officer, and Senior Vice President, Chief Financial Officer concluded that our Company's disclosure controls and procedures, which we designed to ensure that our Company is able to collect, process and disclose required information within the time periods specified in the Commission's rules and forms, were effective as of the end of the period covered by this quarterly report on 10-Q. Since the date of the most recent evaluation of our Company's internal controls over financial reporting by our Chairman of the Board, President and Chief Executive Office, and Senior Vice President, Chief Financial Officer, there have been no significant changes in such controls or in other factors that could have significantly affected those controls, including any corrective actions with regard to significant deficiencies and material weaknesses. CAUTIONARY NOTE -------------- This presentation may contain forward-looking statements about the future performance of our Company, and is based on our assumptions and beliefs in light of information currently available. We assume no obligation to update this information. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including but not limited to: competitive practices and pricing in the food industry generally and particularly in our principal markets; our relationships with our employees; the terms of future collective bargaining agreements; the costs and other effects of lawsuits and administrative proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect our cost of capital or the ability to access capital; supply or quality control problems with our vendors; and changes in economic conditions, which may affect the buying patterns of our customers. PART II. OTHER INFORMATION ITEM 1 - Legal Proceedings On October 1, 2004, our Company announced that we had reached a settlement, subject to court approval, of the previously disclosed Canadian class action lawsuit, captioned 1176560 Ontario Limited, 1184883 Ontario Inc. and 1205427 Ontario Limited vs. The Great Atlantic & Pacific Company of Canada Limited; Ontario Superior Court of Justice, Court File No. 02 CV-227777CP, which was filed by certain franchisees of our Food Basics discount grocery operations in Ontario, Canada. The settlement was approved by the Canadian court on October 4, 2004. Under the terms of the settlement, A&P Canada will pay approximately $32 million (pre-tax), representing payment for damages as well the repurchase of the franchise shares. The transaction is scheduled to be completed during the third quarter of this fiscal year and the estimated pre-tax loss is approximately $24.7 million ($19.4 million after-tax). The estimated loss has been included in SG&A for the 12 and 28 weeks ended September 11, 2004. As previously disclosed, the dismissal by the United States District Court for the District of New Jersey of the amended securities class action Complaint filed against our Company and certain of our officers and directors in In re The Great Atlantic & Pacific Tea Company, Inc. Securities Litigation, No. 02 CV 2674 (D.N.J.) (FSH), was affirmed in July 2004 by the United States Court of Appeals for the Third Circuit. The deadline by which plaintiffs could have filed with the United States Supreme Court a petition seeking a writ of certiorari challenging the Third Circuit's ruling expired in early October 2004 without plaintiffs having made such a filing. ITEM 2 - Changes in Securities None ITEM 3 - Defaults Upon Senior Securities None ITEM 4 - Submission of Matters to a Vote of

Security Holders At our annual meeting of shareholders, held July 13, 2004, there were 35,855,456 shares or 93.0% of the 38,520,530 shares outstanding and entitled to vote represented either in person or by proxy. The nine (9) directors nominated to serve on the Board of for a one-year term were all elected, with each receiving an affirmative vote of at least 77.6% of the shares present. Eighty-one percent (81%) of the total shares cast voted for the approval of the Company's 2004 Non-Employee Director Compensation Plan. The Stockholder Proposal for a Stockholder Vote on Annual Meeting Locations was voted against by 80.3% of the total shares cast. 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 NO. DESCRIPTION ---------- ----------- 3.1 Articles of Incorporation of The Great Atlantic & Pacific Tea Company, Inc., as amended through July 1987 (incorporated herein by reference to Exhibit 3(a) to Form 10-K filed on May 27, 1988) 3.2 By-Laws of The Great Atlantic & Pacific Tea Company, Inc., as amended through July 2, 2002 (incorporated herein by reference to Exhibit 3.2 to Form 10-K filed on July 5, 2002) 4.1 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), as trustee (the "Indenture") (incorporated herein by reference to Exhibit 4.1 to Form 8-K) 4.2 First Supplemental Indenture, dated as of December 4, 2001, to the Indenture, dated as of January 1, 1991 between our Company and JPMorgan Chase Bank, relating to the 7.70% Senior Notes due 2004 (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on December 4, 2001) 4.3 Second Supplemental Indenture, dated as of December 20, 2001, to the Indenture between our Company and JPMorgan Chase Bank, relating to the 9 1/8% Senior Notes due 2011 (incorporated herein by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2001) 4.4 Successor Bond Trustee (incorporated herein by reference to Exhibit 4.4 to Form 10-K filed on May 9, 2003) 10.1 Employment Agreement, made and entered into as of the 11th day of November, 2002, by and between our Company and Eric Claus, and Offer Letter dated the 22nd day of October, 2002 (incorporated herein by reference to Exhibit 10.1 to Form 10-Q filed on January 10, 2003) 10.2 Employment Agreement, made and entered into as of the 1st day of November, 2000, by and between the Company and William P. Costantini (incorporated herein by reference to Exhibit 10 to Form 10-Q filed on January 16, 2001) ("Costantini Agreement") 10.3 Amendment to Costantini Agreement dated April 30, 2002 (incorporated herein by reference to Exhibit 10.7 to Form 10-K filed on July 5, 2002) 10.4 Employment Agreement, made and entered into as of the 16th day of June, 2003, by and between our Company and Brenda Galgano (incorporated herein by reference to Exhibit 10.9 to Form 10-Q filed on October 17, 2003) 10.5 Employment Agreement, made and entered into as of the 24th day of February, 2002, by and between our Company and Mitchell P. Goldstein (incorporated herein by reference to Exhibit 10.8 to Form 10-K filed on July 5, 2002) 10.6 Employment Agreement, made and entered into as of the 2nd day of October, 2002, by and between our Company and Peter Jueptner (incorporated herein by reference to Exhibit 10.26 to Form 10-Q filed on October 22, 2002) 10.7 Offer Letter dated the 18th day of September 2002, by and between our Company and Peter Jueptner (incorporated herein by reference to Exhibit 10.10 to Form 10-Q filed on January 10, 2003) 10.8 Employment Agreement, made and entered into as of the 14th day of May, 2001, by and between our Company and John E. Metzger, as amended February 14, 2002 (incorporated herein by reference to Exhibit 10.13 to Form 10-K filed on July 5, 2002) 10.9 Employment Agreement, made and entered into as of the 28th day of October, 2002, by and between our Company and Brian Piwek, and Offer Letter dated the 23rd day of October, 2002 (incorporated herein by reference to Exhibit 10.14 to Form 10-Q filed on January 10, 2003) 10.10 Supplemental Executive Retirement Plan effective as of September 30, 1991 (incorporated herein by reference to Exhibit 10.B to Form 10-K filed on May 28, 1993) 10.11 Supplemental Executive Retirement Plan effective as of September 1, 1997 (incorporated herein by reference to Exhibit 10.B to Form 10-K filed on May 27, 1998) 10.12 Supplemental Retirement and Benefit Restoration Plan effective as of January 1, 2001 (incorporated herein by reference to Exhibit 10(j) to Form 10-K filed on May 23, 2001) 10.13 1994 Stock Option Plan (incorporated herein by reference to Exhibit 10(e) to Form 10-K filed on May 24, 1995) 10.14 1998 Long Term Incentive and Share Award Plan (incorporated herein by reference to Exhibit 10(k) to Form 10-K filed on May 19, 1999) 10.15 2004 Non-Employee Director Compensation effective as of July 14, 2004 (incorporated herein by reference to Exhibit 10.15 to Form 10-Q filed on July 29, 2004) 10.16 Credit Agreement dated as of February 23, 2001, among our Company, The Great Atlantic & Pacific Company of Canada, Limited and the other Borrowers party hereto and the Lenders party hereto, The Chase Manhattan Bank, as U.S. Administrative Agent, and The Chase Manhattan Bank of Canada, as Canadian Administrative Agent ("Credit Agreement") (incorporated herein by reference to Exhibit 10 to Form 10-K filed on May 23, 2001) 10.17 Amendment No. 1 and Waiver, dated as of November 16, 2001 to Credit Agreement (incorporated herein by reference to Exhibit 10.23 to Form 10-K filed on

July 5, 2002) 10.18 Amendment No. 2 dated as of March 21, 2002 to Credit Agreement (incorporated herein by reference to Exhibit 10.24 to Form 10-K filed on July 5, 2002) 10.19 Amendment No. 3 dated as of April 23, 2002 to Credit Agreement (incorporated herein by reference to Exhibit 10.25 to Form 10-K filed on July 5, 2002) 10.20 Waiver dated as of June 14, 2002 to Credit Agreement (incorporated herein by reference to Exhibit 10.26 to Form 10-K filed on July 5, 2002) 10.21 Amendment No. 4 dated as of October 10, 2002 to Credit Agreement (incorporated herein by reference to Exhibit 10.27 to Form 10-Q filed on October 22, 2002) 10.22 Amendment No. 5 dated as of February 21, 2003 to Credit Agreement (incorporated herein by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2003) 10.23 Amendment No. 6 dated as of March 25, 2003 to Credit Agreement (incorporated herein by reference to Exhibit 10.28 to Form 10-K filed on May 9, 2003) 18 Preferability Letter Issued by PricewaterhouseCoopers LLP (incorporated herein by reference to Exhibit 18 to Form 10-Q filed on July 29, 2004) 23 Consent of Independent Accountants from PricewaterhouseCoopers LLP (incorporated herein by reference to Exhibit 23.1 to Form 10-K filed on May 21, 2004) 31.1* Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 31.2* Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 32* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * Filed with this 10-Q (b) Reports on Form 8-K On July 23, 2004, our Company filed a Form 8-K pursuant to which it furnished the SEC with a copy of the July 23, 2004 press release, which announced the Company's financial results for the quarter ended June 19, 2004. The Great Atlantic & Pacific Tea Company, Inc. SIGNATURES ---------- Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. Dated: October 19, 2004 By: /s/ Brenda M. Galgano -- Brenda M. Galgano, Vice President, Corporate Controller (Chief Accounting Officer) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER Section 302 Certification I, Christian W.E. Haub, certify that: 1. I have reviewed this quarterly report on Form 10-Q of The Great Atlantic & Pacific Tea Company, Inc.; 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have: a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. /s/ Christian W. E. Haub Date: October 19, 2004 ------------------------ Christian W. E. Haub Chairman of the Board, President and Chief Executive Officer CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER Section 302 Certification I, Mitchell P. Goldstein, certify that: 1. I have reviewed this quarterly report on Form 10-Q of The Great Atlantic & Pacific Tea Company, Inc.; 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements

were made, not misleading with respect to the period covered by this quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report; 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have: a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. /s/ Mitchell P. Goldstein Date: October 19, 2004 ------------------------ Mitchell P. Goldstein Senior Vice President, Chief Financial Officer Certification Accompanying Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350) The undersigned, Christian W. E. Haub, Chairman of the Board, President and Chief Executive Officer of The Great Atlantic & Pacific Tea Company, Inc. ("Company"), and Mitchell P. Goldstein, Senior Vice President and Chief Financial Officer of the Company, each hereby certifies that (1) the Quarterly Report of the Company on Form 10-Q for the period ended September 11, 2004 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company. Dated: October 19, 2004 /s/ Christian W. E. Haub ------------------------ Christian W. E. Haub Chairman of the Board, President and Chief Executive Officer Dated: October 19, 2004 /s/ Mitchell P. Goldstein ------------------------ Mitchell P. Goldstein Senior Vice President, Chief Financial Officer