Institutional Distressed Debt Research

Performance Plus Advisors, Inc. **Distressed Debt Research**
12/27/10 **Stephen P. Vlahos**

The Great Atlantic & Pacific Tea Co. Inc.

A & P's parent The Great Atlantic & Pacific Tea Co. Inc., filed Chapter 11 Bankruptcy on 12/12/10. Great Atlantic & Pacific is an operator of supermarkets, combination food and drug stores, and discount food stores in 8 states with 395 stores. The company operates in three major reporting segments; Fresh, Pathmark and Gourmet.

The Tengelman group owns 39% of the company and Yucaipa Companies, notably Ron Burkle, owns 28%, if preferred stock that they own were to be converted to common stock. Mr. Burkle is thought to have bought a significant amount of A & P's senior debt in the past few months leading up to the bankruptcy filing.

A & P has faced increased competition from mass merchandisers, warehouse clubs, drug stores, dollar stores. The company has a high level of legacy obligations including "dark store" leases that A & P has been unable to fully assign, sublease, or terminate. A & P has struggled with unfavorable supply, services and logistics contracts. A & P is also party to collective bargaining agreements which require significant pension and health care related contributions.

The Bankruptcy Court has approved a $800 million Dip facility. The Dip Facility is secured by the collateral securing the pre petition Senior Credit Facility plus unencumbered property, including non residential real property leases The Company will have $200 million in cash available through a new term loan, and $450 million in additional borrowing capacity.

A & P Capital Structure

The 11.375% senior secured notes due 8/4/15, have a secondary lien, guaranteed by all of A & P's domestic subsidiaries. The senior position of these notes in the company's capital structure should make these securities very attractive to distressed debt investors.

There are four series of unsecured notes.

- 5.125 % conv. senior notes due 6/15/11
- 9.125 % senior notes due 12/15/11
- 6.75 % conv. senior notes due 12/15/12
- 9.375 % notes due 8/1/39

See Important Disclosures

Recent Results:

For the 2nd quarter ending September 11, 2010 comparable store sales declined $226 million or 6.6%. Sales were $1.9 billion verses $2.1 billion. Loss from operations was $143 million verses last year's second quarter loss of $62 million.

Sales (in thousands)

Fresh	$976,952
Pathmark	816,304
Gourmet	55,122
Other	69,901
Total	$1,918,000

Results of operations for the 28 weeks (millions) ended September 11, 2010

Sales	$4,483
Loss from operations	(258)
Loss from dis. operations	(18)
Net Loss	(276)
Net loss per share	(5.34)
Net loss per diluted share	(15.34)
Adjusted EBITDA	$26

Balance Sheet Data (millions) as of September 11, 2010

Cash	$94
Other current assets	685
Total current assets	779
Property	1,365
Other assets	387
Total assets	2,531
Preferred stock (A)	136
Stock holders deficit	(816)
Book value per share	(14.50)

Long Term Outstanding Debt

5.125 conv. senior notes due 6/15/11	$157,677
Related party promissory note 8/18/11	10,000
9.125 sr. notes due 12/15/11	12,840
6.75 conv. sr. notes due 12/15/12	226,741
11.375 sr. sec. notes due 8/4/15	253,928
9.375 notes due 8/1/39	200,000
Borrowings under credit agreement	132,900
Other	2,702
	$996,788
Current maturities	157,944
Long Term Debt	$838,844

Other Long Term Liabilities

Long term capital leases	130,368
Long term real estate liabilities	329,064
Deferred real estate income	85,598
Other financial liabilities	5,669
Other non current liabilities	914,907
Total Debt & Other Liabilities	$2,304,450

Summary and Recommendations

We rate the 11.375 % second lien bonds due 2015, currently priced at approximately 80 cents on the dollar as a Buy. These securities are undervalued in relation to our estimation of possible recovery values. Our recommendation is based on the senior position this security has in the capital structure of the company. The risk reward ratio makes sense at this time.

Investors in the unsecured debt of A & P will be speculating that after a reorganization, bondholders will receive a higher valuation than the current market. Investors may wish to wait for a "Disclosure Statement" to get a clearer picture of the new restructured company and for court evaluation and approval. As the specifics unfold the price of A & P's unsecured debt should begin to reflect more accurately the amount of equity that will be distributed in the new company to bond holders, if any. We rate the four series of unsecured notes priced at approximately 30 to 35 cents on the dollar as **Neutral**. We expect continued erosion in A & P results. The economy was not to blame for A & P's recent poor performance. Rather consumers are choosing to buy their groceries elsewhere because of A & P's poor value proposition and underinvestment in its store base. The protection afforded by a Chapter 11 Bankruptcy filing should allow A & P to correct many of its problems and its overleveraged balance sheet.

Discloser – Certification

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Buy: We generally expect "**Buy**" rated investment returns to be greater than or equal to plus +20% from date of the original recommendation.

Neutral: We generally expect "**Neutral**" rated investment returns to deviate plus or minus + or – 20% from the date of the original recommendation.

Sell: We generally expect "**Sell**" rated investments returns to be equal to or greater than minus -20% from the date of the original recommendation.

Analyst Rating Distribution as of 2/28/2010

	Number of Companies	Percent of Total
Buy	3	68%
Neutral	2	32%
Sell	0	0%
Total	5	100%