

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

FORM 10-K

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

For the fiscal year ended February 3, 2007

OR

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

For the Transition Period from _____ to _____

Commission file number: 0-8858

THE PENN TRAFFIC COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

25-0716800
(IRS Employer Identification No.)

1200 State Fair Blvd., Syracuse, New York 13221-4737
(Address of principal executive offices)

(315) 453-7284
(Telephone Number)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___ NO X

Indicate by check mark if the registrant is not required to file reports pursuant to, Section 13 or 15(d) of the Act. YES ___ NO X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ___ NO X

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act: Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

The aggregate market value of the registrant's voting stock held by nonaffiliates of the registrant was approximately \$89,806,019 as of July 29, 2006, the last business day of the registrant's most recently completed second fiscal quarter.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES ___ NO X

Common Stock, par value \$.01 per share: 8,297,697 shares outstanding as of October 22, 2007

FORM 10-K INDEX

			PAGE
<hr/> PART I. <hr/>			
Item	1.	Business	4
Item	1A.	Risk Factors	14
Item	1B.	Unresolved Staff Comment's	23
Item	2.	Properties	24
Item	3.	Legal Proceedings	24
Item	4.	Submission of Matters to a Vote of Security Holders	25
<hr/> PART II. <hr/>			
Item	5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item	6.	Selected Financial Data	27
Item	7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item	7A.	Quantitative and Qualitative Disclosures About Market Risk	48
Item	8.	Financial Statements and Supplementary Data	48
Item	9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	82
Item	9A.	Controls and Procedures	83
Item	9B.	Other Information	87
<hr/> PART III. <hr/>			
Item	10.	Directors, Executive Officers of Registrant and Corporate Governance	88
Item	11.	Executive Compensation	94
Item	12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	119
Item	13.	Certain Relationships and Related Transactions and Director Independence	119
Item	14.	Principal Accounting Fees and Services	121
<hr/> PART IV. <hr/>			
Item	15.	Exhibits and Financial Statement Schedules	122

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Form 10-K, including without limitation, statements included in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are not statements of historical fact, are intended to be, and are hereby identified as, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, reflecting management's current analysis and expectations, based on what management believes to be reasonable assumptions. These forward-looking statements include statements relating to our anticipated financial performance and business prospects. Statements preceded by, followed by or that include words such as "believe," "anticipate," "estimate," "expect," "could," and other similar expressions are to be considered such forward-looking statements. Forward-looking statements may involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from those projected, stated or implied, depending on such factors as: our ability to improve operating performance and effectuate business plans; our ability to operate pursuant to the terms of our credit facilities and to comply with the terms of our lending agreements or to amend or modify the terms of such agreements as may be needed from time to time; our ability to generate cash; our ability to attract and maintain adequate capital; our ability to refinance our indebtedness; increases in prevailing interest rates; our ability to obtain trade credit, and shipments and terms with vendors and service providers for current orders; our ability to maintain contracts that are critical to our operations; potential adverse developments with respect to our liquidity or results of operations; general economic and business conditions; competition, including increased capital investment and promotional activity by our competitors; availability, location and terms of sites for store development; the successful implementation of our capital expenditure program; labor relations; labor and employee benefit costs including increases in health care and pension costs and the level of contributions to our sponsored pension plans; the result of our pursuit of strategic alternatives; economic and competitive uncertainties; our ability to pursue strategic alternatives; economic and competitive uncertainties; changes in strategies; changes in generally accepted accounting principles; adverse changes in economic and political climates around the world, including terrorist activities and international hostilities; and the outcome of pending, or the commencement of any new, legal proceedings against, or governmental investigations of us, including the previously announced SEC and U.S. Attorney's Office investigations. We caution that the foregoing list of important factors is not exhaustive. Accordingly, there can be no assurance that we will meet future results, performance or achievements expressed or implied by such forward-looking statements, which are generally required to be publicly revised as circumstances change, and which we do not intend to update.

EXPLANATORY NOTE

This Annual Report on Form 10-K is for the fiscal year ended February 3, 2007 and, except as expressly indicated otherwise, information in this report speaks as of such date. This report does not include all of the audited financial information required to be included in a Form 10-K under applicable SEC rules. This report includes audited financial information for the 53-week period ended February 3, 2007 and the 41-week period ended January 28, 2006 and unaudited financial information for the 11-week period ended April 16, 2005 and the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003, as well as management's discussion of our results of operations since 2006. This report does not include, and we have not otherwise filed or furnished to the SEC, audited financial information for the fiscal year ended January 29, 2005, the 11-week period ended April 16, 2005, the fiscal year ended January 31, 2004 or the fiscal year ended February 1, 2003. As discussed further in this report, we emerged from Chapter 11 bankruptcy reorganization effective April 13, 2005.

PART I

ITEM 1. BUSINESS

General

We are one of the leading food retailers in the northeastern United States. We operate 106 supermarkets in Pennsylvania, upstate New York, Vermont and New Hampshire under the “Bi-Lo” (20 stores), “P&C” (58 stores) and “Quality” (28 stores) trade names. We also operate a wholesale food distribution business serving 73 independent supermarket and 46 other independent wholesale accounts and Penny Curtiss Bakery, a Syracuse-based commercial bakery. We classify our businesses in two primary segments: (i) Retail Food Business and (ii) Wholesale Food Distribution Business. Our consolidated revenues for the fiscal period ended February 3, 2007 were approximately \$1.3 billion.

Our Retail Food Business currently operates in communities with diverse economies and demographics. The average revenue per store for the 53-week period ended February 3, 2007 was approximately \$9.6 million. Our stores are generally clustered geographically within our marketing area to provide economies of scale in advertising, distribution and operations management.

Our supermarkets offer a wide variety of fresh foods within our meat, seafood, produce, deli, and bakery departments. Complementing our grocery, frozen food and dairy offerings is a full line of health and beauty care and general merchandise items. Many of our locations feature pharmacies and full-service floral departments which add convenience and value to our customers’ shopping experience. Our stores’ strong ties to their communities and their full service offering position them to meet their customers’ needs.

Our supermarkets, which average approximately 36,000 square feet, are conveniently located and generally modern. We tailor the size and product assortment of each store to local demographics.

Our Wholesale Food Distribution Business supplies independently operated supermarkets with a wide variety of food and nonfood products from our distribution centers in New York and Pennsylvania. Customers of the Wholesale Food Distribution Business are primarily located in upstate New York and western Pennsylvania.

Revenues for our Wholesale Food Distribution Business for the 53-week period ended February 3, 2007 were approximately \$217.3 million, which represented 16.6% of our revenues for the period.

On May 30, 2003, The Penn Traffic Company and certain of its subsidiaries filed petitions for relief (the “Bankruptcy Cases”) under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). On February 2, 2005, we filed the First Amended Joint Plan of Reorganization with the Bankruptcy Court. The Plan was confirmed on March 17, 2005 and became effective on April 13, 2005 (the “2005 Effective Date”). See “Reorganization” and Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Penn Traffic Company was incorporated in the State of Delaware on April 22, 1992. Our principal executive offices are at 1200 State Fair Boulevard, Syracuse, New York, 13221, telephone (315) 453-7284.

Our fiscal year ends each year on the Saturday closest to January 31. In addition, in connection with our emergence from Chapter 11 bankruptcy protection, on April 16, 2005 we commenced fresh-start financial reporting. As a result, fiscal year 2007 consists of the 53-week period from January 29, 2006 to February 3, 2007 (“fiscal year 2007”); fiscal year 2006 consists of two fiscal periods, the 41-week period from April 17, 2005 to January 28, 2006 (“period ended January 28, 2006”) and the 11-week period from January 30, 2005 to April 16, 2005 (“period ended April 16, 2005.”)

Business Strategy

Through October 2006, we were focused on executing our strategic plan outlined in our Form 10-K for fiscal year 2006. That strategic plan was developed during the fall of calendar year 2005. We believe that the initiatives in our plan interrelate with each other, such that improvement in one area would have a benefit on the other areas. To summarize, the initiatives previously outlined included:

- increasing same store sales and customer counts
- providing superior and differentiable customer service
- attracting, developing and retaining the best people
- utilizing effective communication to enhance morale and motivation

Fiscal year 2007 was a year of significant and fundamental change for us. Between August 2006 and December 2006, a new leadership team was put in place, including a new President and Chief Executive Officer and Executive Vice-President and Chief Operating Officer. In addition, between November 2006 and May 2007, we appointed a new Chief Financial Officer, Chief Information Officer and General Counsel and recruited new executives in our human resources, merchandising and operations departments. As a result, while our prior strategic direction consisted of numerous appropriate goals for the business, our new senior management team identified a compelling need to modify our direction. Our new team engaged in a thorough reassessment of our human and capital resources, our operating practices, our culture, our competitive landscape and our customers’ perceptions of our brand/banner images. This reassessment led to the development and implementation of numerous key tactical initiatives aimed at significantly increasing our focus on basic operational discipline and improved business practices resulting in an enhanced shopping experience for our customers and total shareholder returns. Each tactical initiative has an Executive Committee member who is the sponsor for the initiative, which helps increase the monitoring, emphasis and, ultimately, the results of the various initiatives.

The key initiatives that management developed and implemented include:

- reduce center store and fresh shrink
- optimize product pricing and promotions
- aggressive use of e-Auction efforts for not-for-resale items
- administrative staffing changes
- signature product sales initiative
- reclamation process management
- supply initiative
- private label plan

Reduce Center Store and Fresh Shrink

Implement best practices and improvements in technology to reduce shrinkage in our center store (grocery, general merchandise, health and beauty care, dairy and frozen departments) and fresh (produce, floral, meat, seafood, bakery and deli departments) areas to improve total margin. Identify key performance metrics and controls to reduce the frequency of loss to improve profitability.

Optimize Product Pricing and Promotions

Monitor competitor pricing of products we sell to optimize our prices and enhance our revenues and margins and to set appropriate sales goals. This will be done in a phased approach across center store product categories.

Further develop and refine software that allows us to select the optimum promotional method and retail price for various goods we sell. This software allows the merchant to identify the optimal point for sales, number of units to sell and projected margin in order to optimize our return.

Aggressive Use of e-Auction Efforts for Not-for-Resale Items

With our TOPCO Associates, Inc. membership, we have access to the Topsource network of E-sourcing. Participating as a TOPCO member creates a formal bid process to acquire lower cost of not-for-resale goods and services (including equipment, supplies and third party services) through E-Auctions.

Administrative Staffing Changes

As part of our ongoing cost reduction initiative, we completed an administrative staffing review during fiscal year 2007. The primary focus of this initiative was to eliminate redundant functions or activities and improve operational efficiency and communication. As a result, several administrative functions were consolidated in conjunction with a reduction in work force to achieve our cost reduction objective. A restructured operational reporting alignment, with the addition of regional store support teams, streamlined management, and the reallocation of several functions to support store operations, will allow us to achieve a greater overall operational efficiency.

Signature Product Sales Initiative

Development of fresh category products that are store produced or exclusively produced for us so that each stores' fresh department becomes a destination point for the customer. Signature products enhance the total store freshness and quality image, thereby increasing incremental sales and customer loyalty. Examples of these items are store prepared and packaged cut fruit, gourmet beef patties, vegetable kabobs, deli store baked turkey breast, old fashioned ham and artisan store baked bread.

Reclamation Process Management

Through process improvement, reduce expenses associated with excess center store category product reclamation. Product reclamation is the process of returning out dated or damaged product to the vendor for credit. With improvements in product handling and product integrity, we believe profitability and margin contribution for center store category products will increase.

Supply Initiative

We have been working to reduce costs throughout our operations. The supply initiative focuses on the containment of supply cost by standardizing items, which reduces repetitious inventory. In addition, our co-managers have taken on the role of "supply captain", verifying store orders and inspecting supply areas.

Private Label Plan

In recent years we have shown a declining trend in Private Label penetration throughout the center store category departments. This initiative is designed to leverage our existing Private Label items, as well as target the rollout of an expanded line of our Value Time line of products and our Full Circle line of natural/organic items.

Financial Information About Industry Segments

Our businesses are classified by our management into two primary industry segments: Retail Food Business and Wholesale Food Distribution Business (both described below). Financial information about our industry segments for the 53-week period ended February 3, 2007 is found in Note 14 to the Consolidated Financial Statements.

Retail Food Business

We are one of the leading supermarket retailers serving the northeastern United States. We operate 106 supermarkets in Pennsylvania, upstate New York, Vermont and New Hampshire under the P&C (58 stores), BiLo (20 stores), and Quality (28 stores) tradenames. We have identified and commenced the implementation of a two tier strategy across all three tradenames in order to segment our stores into two distinct formats (Conventional and Fresh). Our Conventional format offers many of the conveniences that our customers have grown to expect within a traditional supermarket. Our Fresh format offers all of the features of our Conventional format with an enhanced offering to meet the needs of today's more time-pressed consumer with an emphasis on value-added services and meal solutions.

Our Fresh stores have unique features, including distinctively branded floral shops, expanded service departments, cafés offering gourmet sandwiches and high quality meal solutions, and expanded in-store bakeries offering a wide array of gourmet breads and pastries. In several stores, we have also added an in-store chef and a professionally staffed child-care center which provides safe and friendly care for shoppers' children.

Our supermarkets average approximately 36,000 square feet in size. Many of our locations have provided decades of service in their respective markets. Additionally, our retail tradenames have established strong corporate citizenship ties to their communities.

We offer a wide variety of fresh foods within our meat, seafood, produce, deli, and bakery departments. Complementing our grocery, frozen food, and dairy offer, is a full line of health and beauty care and general merchandise items. Many of our locations feature pharmacies and full-service floral departments which add convenience and value to our customers' shopping experience.

Our stores' strong ties to their local communities and their full service offering, which are tailored to the local demographics of each store also helps position them to meet customers' needs for high quality, fresh food products in a pleasant and clean retail environment.

Wholesale Food Distribution Business

We supply 119 independently operated supermarkets and other independent accounts with a wide variety of food and nonfood products from our distribution centers in New York and Pennsylvania. These customers of our Wholesale Food Distribution Business are primarily located in upstate New York and western Pennsylvania.

As part of our Wholesale Food Distribution Business, we license on a royalty-free basis, the use of our “Riverside,” “Bi-Lo” and “Big M” names to 73 of these independently owned supermarkets that in turn are required to maintain certain quality and other standards. These licensed independent stores use us as their primary wholesaler and also receive advertising, accounting, merchandising and retail counseling services from us. We also act as a food distributor to 46 other independent accounts. We receive rent from 27 of the licensed independent operators that sublease their supermarkets from us. In addition to contributing to our operating income, our Wholesale Food Distribution Business enables us to leverage fixed and semi-fixed procurement and distribution costs over additional revenues.

Other

We own and operate Penny Curtiss, a bakery processing plant in Syracuse, New York. Penny Curtiss manufactures and distributes fresh and frozen bakery products to our stores and third parties, including customers of our Wholesale Food Distribution Business.

Purchasing and Distribution

We are a large-volume purchaser of products. Our purchases are generally of sufficient volume to qualify for minimum price brackets for most items. We purchase brand name grocery merchandise directly from national manufacturers. We also purchase private label products, other food products and certain goods not for resale through TOPCO Associates, Inc., a national product purchasing cooperative comprising 63 regional supermarket chains and other food distributors. For the fiscal year ended February 3, 2007, the 11-week period ended April 16, 2005, the 41-week period ended January 28, 2006 and the fiscal year ended January 29, 2005, purchases of goods for resale from TOPCO Associates, Inc. accounted for approximately 15.5%, 19.4%, 19.5% and 20.9%, respectively, of our total purchases of goods during those periods.

Our primary New York distribution facility is a leased 514,000 square foot dry grocery facility in Syracuse, New York. We also lease a 241,000 square foot distribution center for perishable products in Syracuse, and a 274,000 square foot distribution center for general merchandise and health and beauty care items in Jamestown, New York.

Our primary Pennsylvania distribution facility is a leased 390,000 square foot dry grocery facility in DuBois, Pennsylvania. We also lease a 195,000 square foot distribution center for perishable products in DuBois.

In January 2007, we announced the closing of a leased distribution center used for the distribution of general merchandise and health and beauty products. At the same time, we entered into a five-year supply agreement with a third party to provide the merchandise previously distributed from the distribution center. We ceased use of the facility in March 2007, at which time we recorded a liability of \$1.9 million representing the present value of the remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the distribution center. In addition, in March 2007, we sold our remaining inventory located in the distribution center to the third party at current cost. The carrying value of such inventory at February 3, 2007 was approximately \$4.8 million.

Approximately three-fourths of the merchandise offered in our retail stores is distributed from our warehouses by our fleet of tractors, refrigerated trailers and dry trailers. Merchandise not delivered from our warehouses is delivered directly to the stores by manufacturers, distributors, vendor drivers and sales representatives for such products as beverages, snack foods and bakery items.

Competition

The food retailing business is highly competitive and may be affected by general economic conditions. The number of competitors and the degree of competition encountered by our supermarkets vary by location. We compete with several multi-regional, regional and local supermarket chains, convenience stores, stores owned and operated and otherwise affiliated with large food wholesalers, unaffiliated independent food stores, warehouse clubs, discount drug store chains, discount general merchandise chains, “supercenters” (combination supermarket and general merchandise stores) and other retailers.

Employees

Labor costs and their impact on product prices are important competitive factors in the supermarket industry. As of February 3, 2007, we had approximately 7,600 hourly employees and 700 salaried employees.

Approximately 85.8% of our hourly employees belong to the United Food and Commercial Workers Union. An additional 7.9% of our hourly employees (principally employed in our distribution function and in our bakery plant) belong to a total of four other unions. All salaried employees and 6.3% of the hourly employees do not belong to a union.

Government Regulation

Our food and drug business requires us to hold various licenses and to register certain of our facilities with state and federal health, drug and alcoholic beverage regulatory agencies. By virtue of these licenses and registration requirements, we are obligated to observe certain rules and regulations. A violation of such rules and regulations could result in a suspension or revocation of these licenses or registrations, which could require us to close the affected stores until the violation is remedied. Most of our licenses require periodic renewals. We have experienced no material difficulties with respect to obtaining, retaining or renewing our licenses and registrations.

Seasonality, Customers and Suppliers

Our supermarket business is generally not seasonal in nature. During the past three fiscal years, no single customer or group of customers under common control accounted for 10% or more of our consolidated revenues. Groceries, general merchandise and raw materials are available from many different sources. During the past three fiscal years, no single supplier accounted for 10% or more of our cost of sales except TOPCO Associates, Inc., which accounted for approximately 15.5%, 19.4%, 19.5% and 20.9% of purchases of goods for resale for the fiscal year ended February 3, 2007, the 11-week period ended April 16, 2005, the 41-week period ended January 28, 2006 and the fiscal year ended January 29, 2005, respectively.

Reorganization - 2005 Effective Date

On May 30, 2003 we and all of our subsidiaries filed petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. On April 13, 2005 our Chapter 11 Plan of Reorganization became effective.

While operating under Chapter 11, we reorganized our business operations, including the cessation of business in Ohio and West Virginia under the Big Bear name, the implementation of cost reduction and cost containment initiatives, which included consolidation and closing of warehouses, the closing of unprofitable stores and the rejection of certain executory contracts and unexpired leases. Additionally, we disposed of a number of non-core real estate properties.

Pursuant to the terms of our plan of reorganization the following transactions occurred:

1. Administrative claims, priority tax claims and our debtor-in-possession loan were paid in full, in cash.
2. The Penn Traffic Company Cash Balance Pension Plan was terminated in accordance with the terms and conditions of a settlement agreement between The Pension Benefit Guaranty Corporation, or the "PBGC," and us. The PBGC settlement agreement provided for, among other things,
 - an initial partial cash settlement payment to the PBGC of \$155,378;
 - funding of PBGC allowed administrative claims of \$3.5 million to be paid in four equal installments bi-annually over a two-year period commencing six months after the 2005 Effective Date; and
 - an allowed PBGC unsecured claim in the amount of \$60.0 million.

The PBGC settlement agreement also required us to maintain all remaining retirement plans in accordance with their terms and all requirements of ERISA and the Internal Revenue Code.

3. We issued 8,279,800 new shares of our common stock to satisfy senior note claims, trade claims and other unsecured claims.
4. Unsecured claim holders with claims of \$5,000 or less who elected to be classified as convenience claims received 15% of their allowed claim in cash.
5. Our existing common stock and other equity interests were canceled and received no distributions under our plan of reorganization.

On April 13, 2005, in connection with the consummation of our plan of reorganization, we entered into a \$136.0 million senior credit facility comprised of a \$130.0 million revolving loan and a \$6.0 million term loan. Concurrent with the senior credit facility, we entered into a \$28.0 million supplemental real estate facility consisting of a term loan on a multi-draw basis. The credit facility and the supplemental real estate facility provide us with aggregate credit facilities of \$164.0 million. Additionally, pursuant to our plan of reorganization, we entered into a sale-leaseback transaction pursuant to which we sold our five owned distribution centers located in New York and Pennsylvania for \$37.0 million and leased the distribution centers back for a period of 15 years from emergence. The lenders under the credit facility have a first priority perfected security interest in substantially all of our assets, with a second lien on a substantial number of our leasehold assets. The supplemental real estate facility is secured by a first lien on such leasehold interests and a second lien on substantially all of our remaining properties. Proceeds from the two credit facilities and the sale-leaseback transaction were used to satisfy our obligations under our plan of reorganization, including payment of our debtor-in-possession financing. Additionally, the credit facilities continue to provide funds to satisfy our ongoing working capital and capital expenditure requirements.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act.

You may read and copy our filings at the Public Reference Room of the SEC, Room 1024, 100 F Street NE, Washington, D.C. 20549. You may obtain information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically through the EDGAR (Electronic Data Gathering, Analysis and Retrieval) System, available on the SEC's website (www.sec.gov).

ITEM 1A. RISK FACTORS

The supermarket industry is highly competitive. If we are unable to compete effectively, our financial condition and results of operations could be materially affected.

The supermarket industry is highly competitive and characterized by high inventory turnover, high capital intensity and narrow profit margins. The number and type of competitors vary by location and include:

- multi-regional and regional supermarket chains;
- independent and specialty grocers;
- drug and convenience stores; and
- "alternative format" food stores, such as specialty food stores, retail drug stores, national general merchandisers and discount retailers, membership clubs, warehouse stores and supercenters.

We also face increasing competition from restaurants and fast food chains due to the increasing proportion of household food expenditures for food prepared outside the home. In addition, certain of our stores also compete with florists, pharmacies and convenience stores.

Our principal competitors include national and regional supermarket chains, which compete with us on the basis of location, quality of products, service, price, product variety and store condition. An overall lack of inflation in food prices and increasingly competitive markets has made it difficult generally for grocery store operators to achieve comparable store sales gains. Because sales growth has been difficult to attain, our competitors have attempted to maintain market share through increased levels of promotional activities and discount pricing, creating a more difficult environment in which to consistently increase year-over-year sales gains.

In addition, most of our "traditional" and "nontraditional" competitors are not unionized and have lower labor costs, which allows them to take measures that could adversely affect our competitive position.

We face increased competitive pressure in a number of our markets from existing competitors and from the threatened entry by one or more major new competitors. Some of our competitors have greater financial resources and have less indebtedness than us, and could use these resources to take measures which could adversely affect our competitive position.

Our business, financial condition or results of operations could be adversely affected by competitive factors, including product mix and pricing changes that may be made in response to competition from existing or new competitors. From time to time, the relative strength of our competitors changes depending on prevailing market conditions.

Our business and results of operations may be sensitive to economic conditions that impact consumer spending.

Our business and results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, energy prices, business conditions, interest rates and tax rates could reduce consumer spending or cause consumers to shift their spending away from our product quality and service offering, to a more focused price-based offering. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability.

We may experience significant fluctuations in our comparable store sales.

Our comparable store sales in the future could fluctuate or be lower than our historical average for many reasons, including increased competition, price changes in response to competitive factors, shifts in demographic patterns and local economic conditions, changes in traffic patterns and possible supply shortages. Our results of operations may be materially impacted by fluctuations in our comparable store sales as it becomes more difficult to leverage expenses at a lower level of sales.

Our stores are concentrated in the Northeastern United States, making us susceptible to economic downturns, natural disasters and other adverse conditions or catastrophic events in that region.

Our stores are located in Pennsylvania, upstate New York, Vermont and New Hampshire. As a result, we are vulnerable to economic downturns in those areas, in addition to those that may affect the country as a whole, as well as natural and other catastrophic and terrorist events that may impact these regions. In addition, we may be adversely affected by these events to a greater extent than our competitors whose operations extend outside of these regions. These events may adversely affect our sales, which may lead to lower earnings, or even losses, and may also adversely affect our future growth and expansion.

Our distribution and bakery business could be negatively affected if we fail to retain existing customers or attract significant numbers of new customers.

Increasing the growth and profitability of our distribution and bakery business is dependent in large measure upon our ability to retain existing customers and capture additional customers through our existing network of distribution centers, enabling us to more effectively leverage and utilize the fixed assets in our distribution and bakery businesses. Our ability to achieve these goals is dependent, in part, upon our ability to continue to provide a high level of customer service, offer competitive products at low prices, maintain high levels of productivity and efficiency, particularly in the process of integrating new customers into our distribution system and manufacturing process, and offer marketing, merchandising and ancillary services that provide value to our independent distribution customers. If we are unable to execute these tasks effectively and at a competitive price, we may not be able to attract significant numbers of new customers and attrition among our existing customer base could increase, either or both of which could have an adverse impact on our revenue and profitability.

Changes in vendor promotions or allowances, including the way vendors target their promotional spending, and our ability to effectively manage these programs could significantly impact our margins and profitability.

We engage in a wide variety of promotional programs cooperatively with our vendors. The nature of these programs and the allocation of funds among them evolve over time as the parties assess the results of specific promotions and plan for future promotions. These programs require careful management in order for us to maintain or improve margins while at the same time increasing sales for us and for our participating vendors. A reduction in overall promotional spending or a shift in promotional spending away from certain types of promotions that we have historically utilized could have a significant impact on our gross profit margin and profitability. Our ability to anticipate and react to changes in promotional spending by, among other things, planning and implementing alternative programs that are expected to be mutually beneficial to our vendors and us, will be an important factor in maintaining or improving margins and profitability. If we are unable to effectively manage these programs, it could have a material adverse effect on our results of operations and financial condition.

Our debt instruments include financial and other covenants that may limit our operating flexibility and may affect our future business strategies and operating results.

Covenants in the documents governing our outstanding or future debt, including our credit facilities, or our future debt levels, could limit our operating and financial flexibility. Our ability to respond to market conditions and opportunities as well as capital needs could be constrained by the degree to which we are leveraged, by changes in our availability or cost of capital, and by contractual limitations on the degree to which we may, without the consent of our lenders, take actions such as engaging in mergers, acquisitions or divestitures, incurring additional debt, making capital expenditures, rationalizing underperforming assets and making investments, loans or advances. If needs or opportunities were identified that would require additional financial resources, obtaining those additional resources could increase our borrowing costs, further reduce financial flexibility, require alterations in our strategies and affect future operating results.

Substantial operating losses may occur if the customers to whom we extend credit or for whom we sublease properties fail to repay us or honor their lease obligations.

In the ordinary course of business, we extend credit, including loans, to our food distribution customers. We also sublease store sites to independent retailers. Generally, our loans and other subleases are extended to small businesses that are unrated and may have limited access to conventional financing. As of February 3, 2007 we had lease obligations for properties sublet to food distribution customers totaling \$6.7 million. In the normal course of business, we also sublease retail properties to third parties. While we seek to obtain security interests and other credit support in connection with the financial accommodations we extend, such collateral may not be sufficient to cover our exposure.

If a significant number of these customers or lease counterparties fail to repay us or honor their lease obligations to us, our operating results may be adversely affected.

A significant portion of our employees are covered under collective bargaining agreements and our relationships with our employees, including the possibility of labor disputes or work stoppages in connection with future negotiations, could have an adverse impact on our financial results.

Labor costs, which are largely an extension of the results of collective bargaining negotiations with our unions, traditionally have had a significant impact upon the pricing of our products in the highly competitive supermarket industry. Of our hourly workforce, 93.7% participate in unions. All salaried employees and 6.3% of the hourly workforce, are not members of a collective bargaining unit.

Because we are party to approximately 18 collective bargaining agreements, a number of which will expire in 2008, it is anticipated that the unions which are parties to these agreements will seek improvements for their members with respect to, among other things, healthcare benefits, pension benefits, and wage rates. As a result, operating costs concerning our unionized employees may increase over the next several years. Further, our ability to control pension costs will be impacted by the Pension Protection Act of 2006, which might require additional funding costs into the multi-employer pension plans into which we contribute.

We may experience technology failures which could have a material adverse effect on our business.

We use large, complex information technology systems that are important to our business operations. Although we have a disaster-recovery plan and have installed security programs and procedures, the security of our technology systems could be compromised and technology failures and system disruptions could occur. Any of these events could result in a loss of sales or profits or cause us to incur significant costs, including payments to third parties for damages.

Losses as a result of our owning, leasing and developing real estate may impair our ability to focus on and expand our core business as desired.

As a result of our real estate holdings and leases, we are subject to varying degrees of risk and liability generally incident to the ownership, use and development of real estate. These risks and liabilities include, among other things:

- fluctuations in value caused by adverse changes in national, regional and local economic condition and local real estate market conditions (such as an oversupply of or a reduction in demand for retail space in the area);
- costs of compliance with zoning, environmental, tax and other laws and regulations;
- real estate development risks, such as incorrect cost and occupancy estimates, non-availability of financing and the need for mortgage lender or property partner approvals for certain expansion activities;
- the perceptions of customers and tenants and prospective tenants of the safety, convenience and attractiveness of our properties;
- the lack of liquidity of real estate investments and our ability to sell, lease or sublease any of our properties for cash in a timely fashion;
- failure to promptly renew leases;
- competition from comparable properties;
- the occupancy rate of our properties;
- tenant and subtenant defaults and the costs of enforcing our rights;
- the effects of any bankruptcies or solvencies of major tenants or subtenants;
- increasing operating costs (including increased real estate taxes) which may not be passed through fully to tenants or subtenants; and
- fluctuations in mortgage interest and lease rates.

A failure to adequately manage these risks and liabilities could adversely affect our revenues, profits and available cash and could have a material adverse effect on our business, financial condition or results of operations.

Several portions of our properties are mortgaged to secure payment of indebtedness outstanding under our credit facilities. If we are unable to meet our debt obligations, we could sustain losses as a result of foreclosures on the properties by our lenders. In addition, if it becomes necessary or desirable for us to dispose of one or more of the mortgaged properties, we might not be able to obtain a release of the lien on such mortgaged properties without payment of the associated debt. The foreclosure of a mortgage or default of a loan on a property or the inability to sell a property could adversely affect our business, financial condition or results of operations. These considerations could make it difficult for us to sell properties, even if a sale were in our best interests.

We maintain property insurance, difference in conditions insurance, national flood insurance (where applicable), general liability insurance, directors' and officers' insurance and excess insurance coverage. At leased and mortgaged locations we maintain any of these lines of coverage that we are contractually obligated to maintain. At owned locations we maintain all of these lines of coverage. We maintain large deductibles and/or large layers of self-insurance on several of these lines of coverage.

We are subject to federal, state and local laws and regulations relating to zoning, land use, environmental protection, work place safety, public health, beer and wine sales and pharmaceutical sales. A number of states and local jurisdictions regulate the licensing of supermarkets, including beer license grants. In addition, under certain local regulations, we are prohibited from selling beer in certain of our stores.

We are affected by fluctuating utility and fuel costs.

Fluctuating fuel costs adversely affect our operating costs for our fleet of tractors and trailers that distribute goods from our warehouses and distribution facilities to all of our stores and our monthly store utility expenses. We may not be able to recover these rising utility and fuel costs through increased prices charged to our customers.

We may be held liable for environmental damages with regard to our current and former properties, regardless of the lawfulness of our activities on such properties.

Our operations subject us to various laws and regulations relating to the protection of the environment, including those governing the management and disposal of hazardous materials and the cleanup of contaminated sites. Under some environmental laws, such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as CERCLA or the Superfund law, and similar state statutes, responsibility for the entire cost of cleanup of a contaminated site can be imposed upon any current or former site owners or operators, or upon any party who sent waste to the site, regardless of the lawfulness of the original activities that led to the contamination. From time to time we have been named as one of many potentially responsible parties at Superfund sites, although to date our share of liability has typically been small. We believe we are currently in substantial compliance with applicable environmental requirements.

However, future developments such as more aggressive enforcement policies, new laws or discovery of unknown conditions may require expenditures that may have a material adverse effect on our business and financial condition.

Customer concerns regarding food safety may adversely affect our business.

We could be adversely affected if our customers lose confidence in the quality and safety of certain products in our stores. Negative publicity regarding these concerns, whether valid or not, may discourage customers from buying our products. Any loss of confidence on the part of our customers would be difficult and costly to reestablish. As such, any issue regarding the safety of our products could have a substantial and adverse effect on our operations.

Our operating results may be impacted by variability in self-insurance liability estimates.

We are self-insured for workers' compensation and general liability claims up to set retention amounts, after which we maintain excess insurance coverage. Liabilities are maintained based on independent actuarial estimates of aggregate liability claims incurred and an estimate for incurred but not reported claims. Our insurance accruals reflect certain actuarial assumptions and management judgments that are made based on factors that are subject to change. Any significant variation in these factors could cause a material change in our self-insurance liabilities and our operating results.

We have not recently filed periodic reports with the Securities and Exchange Commission.

We did not complete an audit for the periods between February 1, 2003 through April 16, 2005. Additionally, we have not made any required periodic filings with the SEC for any period since our Annual Report on Form 10-K for the fiscal year ended February 2, 2002, except our Annual Report on Form 10-K for period ended January 28, 2006 (see our explanatory note on page 3 of that report regarding the financial information contained therein), and our most recent quarterly reports on Form 10-Q for the quarter ended November 2, 2002. Because of our failure to make timely periodic filings with the SEC, we could be subject to civil penalties and other administrative proceedings by the SEC. In addition, until we have completed such updated filings, it is unlikely that our common shares will be approved for listing on any national securities exchange. The failure of our common shares to be so listed may adversely affect their liquidity and trading price.

We have not recently filed local, state or federal income tax returns with the appropriate governmental authorities.

As a result of our inability to definitively determine our taxable income, and as a result of our operating losses over the years, we have not filed any of our federal, state or local income tax returns following fiscal year 2003. In addition, we have not made any estimated tax payments during that period. Because of our failure to file timely annual income tax returns with the appropriate local authorities, we could be subject to failure to file penalties, as well as other penalties.

There is no existing trading market for our common stock.

Our common shares are currently quoted on the Pink Sheets and there is no assurance that an active trading market for our common shares will develop. We are not currently applying for a listing on any national securities exchange. Accordingly, no assurance can be given that a holder of common shares will be able to sell such securities in the future or as to the price at which any such sale would occur. If a trading market were to develop, the liquidity of the market for such securities and the prices at which such securities would trade will depend upon many factors, including the number of holders, investor expectations and other factors beyond our control. In addition, our common shares have been issued to certain pre-petition creditors as part of our plan of reorganization. Some of these holders may prefer to liquidate their investment rather than to hold it on a long-term basis, which may create an initial imbalance in the market if and when one were to develop.

The results of the ongoing governmental investigations regarding our promotional allowance practices and policies may have an adverse effect on us.

We are currently the subject of ongoing investigations by the United States Attorney's Office for the Northern District of New York and by the SEC regarding our promotional allowance practices and policies. These investigations began prior to our emergence from Chapter 11 bankruptcy protection in April 2005. We are cooperating with these investigations and have produced documents and made our employees available for interviews as requested. At present, we are unable to predict the outcome of either of these investigations. However, an unfavorable resolution of these investigations could ultimately result in damage claims, fines or penalties to us. Any such claims, fines or penalties could adversely affect our business or results of operations.

On September 17, 2007, the SEC filed civil fraud charges against our former Chief Marketing Officer and former Vice-President, Non-Perishables Marketing, alleging that such individuals orchestrated a scheme to inflate our income and other financial results by prematurely recognizing promotional allowances received from vendors from approximately the second quarter of fiscal year 2001 through at least the fourth quarter of fiscal year 2003. The complaint further alleges that the individuals deceived our accounting personnel to carry out their fraudulent scheme and aided and abetted violations of the Securities Exchange Act of 1934 and the rules thereunder. In addition, on the same date, the United States Attorney for the Northern District of New York announced that a federal grand jury had returned an indictment against the abovementioned individuals on related criminal charges. Both the SEC and the United States Attorney indicated that their investigations are continuing.

Our disclosure controls and procedures were ineffective as of February 3, 2007, and these weaknesses could have a materially adverse effect on us.

As discussed in more detail in Item 9A below, as a result of changes in our financial condition and operations immediately preceding, during and after our reorganization under Chapter 11 bankruptcy protection, including the appointment of our current President and Chief Executive Officer to such position on October 1, 2007, and the appointment of our current Senior Vice-President and Chief Financial Officer to such position on May 9, 2007, other changes in our senior management and our external auditors, as well as our failure to make periodic reports on a timely basis to the SEC during such periods, our present management has concluded that our disclosure controls and procedures were not effective as of February 3, 2007 in providing reasonable assurance that material information requiring disclosure was brought to management's attention on a timely basis and that our financial reporting was reliable.

As discussed in more detail in Item 9A below, our current management has taken steps to correct deficiencies and weaknesses in our disclosure controls and procedures. However, it is probable that we may not be able to remediate all deficiencies and weaknesses before the conclusion of fiscal year 2008.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We follow the general industry practice of leasing the majority of our retail supermarket locations. We own 19 and lease 87 of the supermarkets that we operate. The leased supermarkets are held under leases expiring from 2007 to 2020, excluding option periods. We lease 27 supermarkets which are subleased to independent operators.

We own two shopping centers that contain company-owned or licensed supermarkets. We also lease distribution centers in Syracuse and Jamestown, New York; and DuBois, Pennsylvania; and a bakery plant in Syracuse, New York.

Also see Item 1 - "Business - Retail Food Business" and "Business - Purchasing and Distribution" for additional information concerning our properties.

ITEM 3. LEGAL PROCEEDINGS

The United States Attorney for the Northern District of New York and the SEC have been conducting investigations relating to our promotional allowance practices and policies. Such investigations began prior to our emergence from bankruptcy in April 2005. We have been cooperating with these investigations and have produced documents and made our employees available for interviews as requested.

On June 1, 2006, we announced that the Audit Committee of the Board of Directors had completed its internal investigation of our promotional allowance practices. The Audit Committee hired independent counsel to perform the investigation. The Audit Committee found that we had engaged in certain improper practices principally relating to the premature recognition of promotional allowances and that these practices had largely ceased by the time of our Chapter 11 filing in May 2003. On February 3, 2006, we announced that we had terminated the employment of our Chief Marketing Officer and our Vice-President, Non-Perishables Marketing following an interim report to the Audit Committee on the findings of the investigation.

On September 17, 2007, the SEC filed civil fraud charges against our former Chief Marketing Officer and former Vice-President, Non-Perishables Marketing alleging that such individuals orchestrated a scheme to inflate our income and other financial results by prematurely recognizing promotional allowances received from vendors from approximately the second quarter of fiscal year 2001 through at least the fourth quarter of fiscal year 2003. The complaint further alleges that the individuals deceived our accounting personnel to carry out their fraudulent scheme and aided and abetted violations of the Securities Exchange Act of 1934 and the rules thereunder. In addition, on the same date, the United States Attorney for the Northern District of New York announced that a federal grand jury has returned an indictment against the abovementioned individuals on related criminal charges. Both the SEC and the United States Attorney indicated that their investigations are continuing.

In connection with these matters, we could be subject to damage claims, fines or penalties. At present, we are unable to estimate the likelihood of an unfavorable outcome or the amount of any damage claims, fines or penalties in the event of an unfavorable outcome and, accordingly, no liability has been recorded for this contingency.

Also see Item 1 - "Business - Reorganization - 2005 Effective Date" for a description of the consummation of our plan of reorganization and see Note 12 to our consolidated financial statements, included in this report, regarding legal proceedings relating to the consummation of our plan of reorganization.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fiscal year ended February 3, 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Since August 23, 2005, our common shares have been quoted on an unsolicited basis on the Pink Sheets under the symbol "PTFC.PK." All of our common shares that were outstanding prior to April 13, 2005, the effective date of our plan of reorganization, were cancelled as part of our emergence from Chapter 11 bankruptcy protection.

The following table sets forth the quarterly high and low bid information for our common shares since August 23, 2005. Such over-the-counter market quotations reflect inter-dealer prices, without retail markup, mark-down or commission and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
Quarter Ended February 3, 2007	\$ 15.50	\$ 11.50
Quarter Ended October 28, 2006	17.20	13.00
Quarter Ended July 29, 2006	17.00	15.00
Quarter Ended April 29, 2006	17.50	14.90
Quarter Ended January 28, 2006	17.00	12.00
Quarter Ended October 29, 2005	22.25	15.00

Our common shares were held by 689 stockholders of record on October 22, 2007.

There have been no repurchases of our common shares during the fiscal year ended February 3, 2007.

We have not paid a cash dividend to common stockholders since we emerged from bankruptcy and we do not anticipate paying a cash dividend in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

Consolidated Five-Year Financial Summary

Set forth below is our selected historical consolidated financial data for the five fiscal years ended February 3, 2007. As a result of the consummation of our plan of reorganization we adopted fresh-start reporting as of April 16, 2005. The accounting periods ended on or prior to April 16, 2005 have been designated "Predecessor Company" and the periods subsequent to April 16, 2005 have been designated "Successor Company."

In accordance with the implementation of fresh-start reporting, our assets, liabilities and stockholders' equity have been revalued as of April 16, 2005. In addition, as a result of the consummation of our plan of reorganization, the amount of our indebtedness was substantially reduced. Accordingly, our financial statements for periods after April 16, 2005 are not comparable to our financial statements for periods ended on or prior to such date.

The selected historical consolidated financial data for the 53-week period ended February 3, 2007 and the 41-week period ended January 28, 2006, are derived from our consolidated financial statements, which have been audited by Eisner LLP, independent accountants. The Predecessor Company's selected historical consolidated financial data for the 11-week period ended April 16, 2005, and the 52-week periods ended January 29, 2005, January 31, 2004 and February 1, 2003 are derived from our unaudited consolidated financial statements. In addition, the selected historical consolidated financial data for the Successor Company should be read in conjunction with our consolidated financial statements and related notes included elsewhere herein.

(In thousands of dollars, except per share data)	(Audited) Successor Company		(Unaudited) Predecessor Company			
	53 Weeks Ended February 3, 2007	41 Weeks Ended January 28, 2006	11 Weeks Ended April 16, 2005	52 Weeks Ended January 29, 2005	52 Weeks Ended January 31, 2004	52 Weeks Ended February 1, 2003
	Revenues	\$ 1,310,905	\$ 1,015,893	\$ 265,260	\$ 1,285,148	\$ 1,307,977
Costs and Operating Expenses:						
Cost of sales (1)	981,419	754,995	195,533	955,609	973,393	999,880
Selling and administrative expenses (2)	345,874	255,780	71,414	312,826	325,388	319,118
Loss on store closings	1,308	520	-	-	-	-
Amortization of goodwill (4)	-	-	-	-	-	-
Asset impairment charge (3)	-	-	-	-	1,002	17,858
Goodwill impairment charge (4)	-	-	-	-	22,832	28,397
Operating (Loss) Income	(17,696)	4,598	(1,687)	16,713	(14,638)	(16,816)
Interest expense (5)	9,357	8,289	1,755	12,365	32,018	35,479
Gain on extinguishment of debt (6)	-	-	(182,831)	-	-	-
Reorganization expenses (7)	1,020	1,023	71,117	19,060	30,818	-
(Loss) income from Continuing Operations Before Income Taxes and Discontinued Operations	(28,073)	(4,714)	108,272	(14,712)	(77,474)	(52,295)
(Benefit) provision for income taxes (8)	(6,848)	(903)	(23,945)	251	755	(8,565)
(Loss) Income from Continuing Operations before Discontinued Operations	(21,225)	(3,811)	132,217	(14,963)	(78,229)	(43,730)
Loss from discontinued operations, net of tax (9)	-	-	3,133	8,994	84,163	4,337
Net (Loss) Income	\$ (21,225)	\$ (3,811)	\$ 129,084	\$ (23,957)	\$ (162,392)	\$ (48,067)
Net Loss Per Share (Basic and Diluted)	\$ (2.50)	\$ (0.45)				

No dividends on common stock have been paid during the past five fiscal years. Per share data is not presented for the periods ended on or prior to April 16, 2005 because of a general lack of comparability as a result of our revised capital structure.

Balance Sheet Data:

Total assets	311,985	329,207	418,086	394,225	454,417	739,974
Total debt (including capital leases)	65,154	51,252	67,473	156,201	164,555	356,925
Stockholders' equity (deficit)	100,337	119,686	-	(133,606)	(99,021)	61,739

Other Data:

EBITDA (10)	11,317	25,130	3,100	39,511	31,596	53,506
Depreciation and amortization	27,485	19,075	4,712	21,985	21,697	26,173
LIFO (benefit) provision	1,528	1,457	75	813	703	(2,106)
Capital expenditures	22,926	20,533	4,148	21,244	6,377	56,439
Cash interest expense	8,398	7,222	1,753	10,520	27,542	32,858

Notes

- 1) During the fourth quarter of fiscal year 2003 we adopted Emerging Issues Task Force Issue No. 02-16 “Accounting by a Reseller for Cash Consideration Received from a Vendor”, or EITF 02-16. EITF 02-16 requires that vendor allowances, including slotting allowances, be categorized as a reduction of cost of sales unless they are a reimbursement of costs incurred to sell the vendor’s products, in which case, the cash consideration should be characterized as a reduction of that cost. EITF 02-16 also requires that rebates or refunds payable be recognized as a reduction of cost of sales based on a systematic and rational allocation over the purchase period if the customer completes a specified cumulative level of purchases from the vendor. Adoption of this standard did not materially affect our net loss for fiscal year 2003.
- 2) During the fourth quarter of fiscal year 2003, we recorded a \$3.6 million reduction of selling and administrative expenses associated with an adjustment to reserves for group health and general liability insurance. The reserve balance for our sponsored group health insurance was reduced due to improved claims processing that decreased the claims incurred but not reported. The increase in costs associated with the fiscal year ended February 3, 2007 and the fiscal periods ended January 28, 2006 and April 16, 2005 are primarily due to increases in professional fees. In addition, fiscal year 2007 includes severance payments to prior management and employees of the closed Jamestown facility.
- 3) We adopted Statement of Financial Accounting Standard No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”, or SFAS 144, during fiscal year 2003. SFAS 144 requires us to perform a review of the recorded value of our long-lived assets whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. During the fourth quarter of fiscal year 2003, we recorded a non-cash charge of \$17.9 million related to the write-down of 16 of our operating retail stores and three closed stores to estimated fair market value. In fiscal year 2004, we recorded a non-cash charge of \$1.0 million for four retail stores. The impairment charges under SFAS 144 resulted from lower estimated future cash flows that were due to a combination of factors, including the changes in the economic environment and a more challenging competitive environment during fiscal year 2003 and fiscal year 2004. These factors reduced the profitability of our stores and caused us to conclude that the profitability of certain of our stores would not increase to a level that would enable the carrying value to be recovered.
- 4) We adopted Statement of Financial Accounting Standard No. 142 “Goodwill and Other Intangible Assets,” or SFAS 142, in fiscal year 2003 and performed a transitional goodwill assessment, which resulted in no impairment. SFAS 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite useful lives not be amortized but tested at least annually for impairment. Since the adoption of SFAS 142, we no longer record amortization of goodwill in our Consolidated Statement of Operations. During the fourth quarter of fiscal years 2003 and 2004, we completed an annual impairment review, which was further necessitated by the change in the economic and competitive environment, and we recorded non-cash charges for the impairment of goodwill of \$28.4 million and \$22.8 million, respectively.

- 5) As a result of our Chapter 11 filing on May 30, 2003, no principal or interest payments were made on or after such date on our formerly outstanding senior and senior subordinated notes. Accordingly, no interest expense for these obligations has been accrued on or after such date. Had such interest been accrued, interest expense would have increased by \$7.4 million, \$11.0 million and \$2.3 million for fiscal years 2004, 2005 and the 11-week period ended April 16, 2005, respectively.
- 6) The gain on extinguishment of debt for the 11-week period ended April 16, 2005 consists of our extinguishment of the (i) allowed claims of our unsecured creditors, including trade claims, and (ii) Cash Balance Pension Plan assumed by Pension Benefit Guaranty Corporation and the former senior notes, which were exchanged primarily for shares of our common stock.
- 7) During the 53-week period ended February 3, 2007 and the 41-week period ended January 28, 2006, reorganization expense consisted of \$1.0 million for professional fees. During the 11-week period ended April 16, 2005, reorganization expense primarily consisted of \$10.4 million of professional fees and \$60.0 million of losses included in accumulated other comprehensive loss related to the Cash Balance Pension Plan, which was recognized in income on termination of the plan upon assumption thereof by the PBGC. For fiscal year ended January 29, 2005, the reorganization expenses consisted of \$17.9 million for professional fees related to the bankruptcy filing, \$0.2 million loss on asset disposals and \$0.9 million related to severances paid in connection with the reorganization. For fiscal year 2004, the reorganization expenses were primarily for professional fees related to our plan of reorganization.
- 8) At February 3, 2007, we had a net operating loss carryforward for federal and state income tax purposes of approximately \$13.2 million available to offset future taxable income through 2027. Prior net operating loss carry forwards were entirely eliminated effective January 29, 2006 principally as a result of cancellation of debt in the Chapter 11 proceedings. Further, we lost a portion of the tax basis of its long-lived assets, reducing the amount of tax depreciation and amortization that we will be able to utilize on its tax returns. A valuation allowance of \$5.1 million was established at February 3, 2007 to offset the net operating loss carryforward and other deferred tax assets to the extent it is more likely than not, based upon available evidence, that the recorded value will not be realized. Realization is dependent on the existence of sufficient taxable income within the carryforward period, including future reversals of certain taxable temporary differences. In providing the valuation allowance, no reversal of the taxable temporary difference arising from a portion of LIFO inventory was considered to occur during such period as the period in which such reversal may occur is not presently determinable.

The tax benefit from continuing operations for the 11-week period ended April 16, 2005 is not recorded at statutory rates principally due to the gain on the extinguishment of debt not being included in taxable income and a \$24.0 million tax benefit related to losses from the Cash Balance Pension Plan, which benefit had previously been credited to accumulated other comprehensive loss. The tax provision for fiscal years 2004 and 2005 was not recorded at statutory rates due to the recording of a valuation allowance for all of the income tax benefits generated. A valuation allowance is required when it is more likely than not that the recorded value of a deferred tax asset will not be realized. The tax (benefit) for fiscal year 2003 is not recorded at statutory rates due to differences between income calculations for financial reporting and tax reporting purposes that result primarily from nondeductible amortization of goodwill.

- 9) The loss from discontinued operations reflects operating results and (gains) losses on disposals of Big Bear Stores and other stores, which were closed or sold in connection with our reorganization during the fiscal years of 2004 and 2005 and the 11-week period ended April 16, 2005. The losses (gains) for these periods are \$33.6 million, (\$1.9) million and (\$0.3) million, respectively.
- 10) EBITDA is earnings from continuing operations before interest, taxes, depreciation, amortization, amortization of goodwill, asset impairment charge, goodwill impairment charge, and LIFO provision. EBITDA should not be interpreted as a measure of operating results, cash flow provided by operating activities or liquidity, or as an alternative to any generally accepted accounting principle measure of performance. We report EBITDA as it is an important measure utilized by management to monitor the operating performance of our business. We also believe that EBITDA assists investors and other interested parties in evaluating our capacity to service our debt. Our reported EBITDA may not be comparable to similarly titled measures used by other companies. Below is a table that sets forth the reconciliation of operating (loss) income to EBITDA.

(In thousands of dollars)	(Audited) Successor Company		(Unaudited) Predecessor Company			
	53 Weeks Ended February 3, 2007	41 Weeks Ended January 28, 2006	11 Weeks Ended April 16, 2005	52 Weeks Ended January 29, 2005	52 Weeks Ended January 31, 2004	52 Weeks Ended February 1, 2003
	Operating (Loss) Income	\$ (17,696)	\$ 4,598	\$ (1,687)	\$ 16,713	\$ (14,638)
Depreciation and amortization	27,485	19,075	4,712	21,985	21,697	26,173
Amortization of goodwill	-	-	-	-	-	-
Asset impairment charge	-	-	-	-	1,002	17,858
Goodwill impairment charge	-	-	-	-	22,832	28,397
LIFO provision (benefit)	1,528	1,457	75	813	703	(2,106)
EBITDA	\$ 11,317	\$ 25,130	\$ 3,100	\$ 39,511	\$ 31,596	\$ 53,506

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

As discussed in Note 2 to the accompanying Consolidated Financial Statements, we emerged from our Chapter 11 proceedings on April 13, 2005. For financial reporting purposes, we accounted for the consummation of our plan of reorganization as of the close of business on April 16, 2005. In accordance with the American Institute of Certified Public Accountant's Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" we have applied fresh-start reporting as of the close of business on April 16, 2005, which has resulted in significant changes to the valuation of certain of our assets and liabilities, and to our stockholders' equity. In connection with the adoption of fresh-start reporting, a new entity has been deemed to be created for financial reporting purposes. The periods ended on or prior to April 16, 2005 have been designated "Predecessor Company" and the periods subsequent to April 16, 2005 have been designated "Successor Company." For purposes of the discussion of the unaudited Results of Operations, the 11-week period ended April 16, 2005 and the audited 41-week period ended January 28, 2006 have been deemed noncomparable to prior fiscal years.

Results of Operations

The following table sets forth certain Consolidated Statement of Operations components expressed as percentages of revenues for the 53-week period ended February 3, 2007 and the 41-week period ended January 28, 2006.

	<u>(Audited)</u> <u>53-Weeks</u> <u>Ended</u> <u>February 3,</u> <u>2007</u>	<u>(Audited)</u> <u>41-Weeks</u> <u>Ended</u> <u>January 28,</u> <u>2006</u>
Revenues	100.0%	100.0%
Gross profit (1)	25.1	25.7
Selling and administrative expenses	26.4	25.2
Loss on store closings	0.1	0.1
Operating (loss) income	(1.3)	0.5
Interest expense	0.7	0.8
Reorganization expenses	0.1	0.1
Income tax benefit	(0.5)	(0.1)
Net loss	(1.6)	(0.4)

(1) Revenues less cost of sales.

Fiscal Year 2007 (the audited 53-week period ended February 3, 2007) and the Fiscal Period 2006 (the audited 41-week period ended January 28, 2006)

Revenues

Revenues for the 53-week period ended February 3, 2007 increased 29.0% to \$1.3 billion from \$1.0 billion in the 41-week period ended January 28, 2006. The increase in revenues was mainly attributed to the difference in the number of weeks in each period. For the unaudited 52-week period ended January 28, 2006, revenues were approximately \$1.3 billion.

Same store sales for the 52-week period ended January 27, 2007 decreased 1.7% compared to the unaudited 52-week period ended January 28, 2006.

Wholesale food distribution revenues for the 53-week period ended February 3, 2007 increased 26.4% to \$217.3 million or 16.6% of total revenues from \$171.9 million or 16.9% of total revenues for the 41-week period ended January 28, 2006. The fiscal year 2007 increase in the wholesale food distribution revenues was attributable to the difference in the number of weeks in each period. During the unaudited 52-week period ended January 28, 2006, our wholesale food distribution revenues would have been approximately \$216.8 million, or 16.9% of revenues.

Gross Profit

Gross profit was 25.1% of revenues for the 53-week period ended February 3, 2007, compared to 25.7% of revenues, for the 41-week period ended January 28, 2006. The decrease in gross profit as a percent of revenues in the 53-week period was primarily due to higher product costing.

Selling and Administrative Expenses

Selling and administrative expenses for the 53-week period ended February 3, 2007, were 26.4% of revenues, compared to 25.2% of revenues, for the 41-week period ended January 28, 2006. The increase in selling and administrative expenses as a percentage of revenues was principally due to non-recurring expenses, totaling \$11.4 million, which consisted principally of \$4.1 million of SEC investigation related legal fees, \$2.8 million in severance payments to prior management and employees of the closed Jamestown facility, \$1.5 million in professional fees, and \$0.8 million of costs associated with obtaining new management.

Depreciation and Amortization

Depreciation and amortization expense was 2.1% of revenues, for the 53-week period ended February 3, 2007 compared to 1.9% of revenues, for the 41-week period ended January 28, 2006. The increase in depreciation and amortization as a percent of revenues in the 53-week period was primarily due to depreciation of additions in fiscal year 2007 of approximately \$22.9 million.

Operating (Loss) Income

Operating loss for the 53-week period ended February 3, 2007 was 1.3% of revenues, compared to the operating income of 0.5% of revenues, for the 41-week period ended January 28, 2006. The change in operating (loss) income for the 53-week period included \$11.4 million of non-recurring expense, explained in Selling and Administrative Expenses above.

Interest Expense

Interest expense for the 53-week period ended February 3, 2007 was 0.7% of revenues, compared to 0.8% of revenues, for the 41-week period ended January 28, 2006. The decrease in interest expense as a percentage of revenues for the 53-week period was due to a decrease in our average borrowings.

Income Tax Benefit

Income tax benefit for the 53-week period ended February 3, 2007 was 0.5% of revenues. Income tax benefit for the 41-week period ended January 28, 2006 was 0.1% of revenues.

During fiscal year 2006 we provided for only minimal state taxes and capital/franchise tax and reset our deferred tax liability due to our emergence from bankruptcy.

At February 3, 2007, we had a net operating loss carryforward for federal and state income tax purposes of approximately \$13.2 million available to offset future taxable income through 2027. Prior net operating loss carryforwards were entirely eliminated effective January 29, 2006 principally as a result of cancellation of debt in our Chapter 11 proceedings. Further, we lost a portion of the tax basis of our long-lived assets, reducing the amount of tax depreciation and amortization that we will be able to utilize on our tax returns. A valuation allowance of \$5.1 million was established at February 3, 2007 to offset the net operating loss carryforward and other deferred tax assets to the extent it is more likely than not, based upon available evidence, that the recorded value will not be realized. Realization is dependent on the existence of sufficient taxable income within the carryforward period, including future reversals of certain taxable temporary differences. In providing the valuation allowance, no reversal of the taxable temporary difference arising from a portion of LIFO inventory was considered to occur during such period as the period in which such reversal may occur is not presently determinable.

Reorganization Expense

During the 53-week period ended February 3, 2007 and the 41-week period ended January 28, 2006, we recorded reorganization expense totaling 0.1% of revenues, in each period. These expenses were primarily professional fees.

Net Loss

Net loss for the 53-week period ended February 3, 2007 was 1.6% of revenues, compared to a net loss of 0.4% of revenue during the 41-week period ended January 28, 2006. The increase in net loss as a percentage of revenues in the 53-week period is primarily due to an \$8.4 million increase in depreciation and amortization and the recording of \$11.4 million in non-recurring expenses during fiscal year 2007.

Results of Operations (continued)

The following table sets forth certain Consolidated Statement of Operations components expressed as percentages of revenues for the 41-week period ended January 28, 2006 and the 11-week period ended April 16, 2005.

	(Audited) Successor Company	(Unaudited) Predecessor Company
	41-Weeks Ended January 28, 2006	11-Weeks Ended April 16, 2005
Revenues	100.0%	100.0%
Gross profit (1)	25.7	26.3
Selling and administrative expenses	25.2	26.9
Loss on store closings	0.1	0.0
Operating income	0.5	(0.6)
Interest expense	0.8	0.7
Extinguishment of debt	0.0	(68.9)
Reorganization item	0.1	26.8
Income tax benefit	(0.1)	(9.0)
Discontinued operations	0.0	1.2
Net (loss) income	(0.4)	48.7

(1) Revenues less cost of sales.

Fiscal Year 2006 (the audited 41-week period ended January 28, 2006 and the unaudited 11-week period ended April 16, 2005)

Revenues

Revenues for the 41-week period ended January 28, 2006 and the 11-week period ended April 16, 2005 were \$1.0 billion and \$265.3 million, respectively.

Same store sales for the 41-week period ended January 28, 2006 decreased 1.6% compared to the 41-week period ended January 29, 2005 and the same store sales for the 11-week period ended April 16, 2005 decreased by 0.5% compared to the 11-week period ended April 17, 2004.

Wholesale food distribution revenues were \$171.9 million, or 16.9% of revenues, for the 41-week period ended January 28, 2006 and \$28.7 million, or 10.8% of revenues, for the 11-week period ended April 16, 2005.

Gross Profit

Gross profit was \$260.9 million, or 25.7% of revenues, for the 41-week period ended January 28, 2006 and \$69.7 million, or 26.3% of revenues, for the 11-week period ended April 16, 2005.

Selling and Administrative Expenses

Selling and administrative expenses for the 41-week period ended January 28, 2006 were \$256.3 million, or 25.2% of revenues, and for the 11-week period ended April 16, 2005 were \$71.4 million, or 26.9% of revenues.

Depreciation and Amortization

Depreciation and amortization expense was \$19.1 million, or 1.9% of revenues, for the 41-week period ended January 28, 2006 and \$4.7 million, or 1.8% of revenues, for the 11-week period ended April 16, 2005. Depreciation and amortization expense increased in fiscal year 2006 primarily due to the shortening of the asset life for our property, equipment and machinery, an increase in carrying value of favorable leases and the addition of two new intangible assets (Pharmacy Scripts and Software) with the implementation of fresh-start reporting in connection with our reorganization. The increase in depreciation and amortization expense was partially offset by the recording of unfavorable leases associated with the implementation of fresh-start reporting in connection with our reorganization.

Operating Income (Loss)

Operating income for the 41-week period ended January 28, 2006 was \$4.6 million, or 0.5% of revenues, and for the 11-week period ended April 16, 2005 operating loss was \$1.7 million, or 0.6% of revenues.

Interest Expense

Interest expense for the 41-week period ended January 28, 2006 was \$8.3 million, or 0.8% of revenues, and was \$1.8 million, or 0.7% of revenues, for the 11-week period ended April 16, 2005. We eliminated our existing interest rate swap in connection with our reorganization. We obtained a more favorable interest rate under our credit facility and cancellation of our debtor-in-possession facility.

Income Tax Benefit

Income tax benefit for the 41-week period ended January 28, 2006 was \$0.9 million, or 0.1% of revenues, and \$23.9 million, or 9.0% of revenues, for the 11-week period ended April 16, 2005.

During fiscal year 2006 we provided for only minimal state taxes and capital/franchise tax and reset our deferred tax liability due to our emergence from bankruptcy.

At January 29, 2005, we had approximately \$59.8 million of federal net operating loss carryforwards, as well as certain state net operating loss carryforwards. On January 29, 2006 \$85.0 million of net operating loss and tax credit carryforwards were eliminated due to the implementation of our plan of reorganization. In addition, as the result of the implementation of our plan of reorganization we lost 55.6% of the tax basis of our long lived assets (approximately \$38.4 million as of January 29, 2006).

Reorganization Item

During the 41-week period ended January 28, 2006 we recorded reorganization item expense of \$1.0 million, or 0.1% of revenues, and for the 11-week period ended April 16, 2005 we recorded reorganization item expense of \$71.1 million, or 26.8% of revenues. These expenses were primarily due to PBGC assumption of our Cash Balance Plan and consulting fees paid to various bankruptcy professionals.

Discontinued Operations

Loss from discontinued operations for the 11-week period ended April 16, 2005 was \$3.1 million. This loss was primarily attributable to our closure of unprofitable stores during this period.

Net (Loss) Income

Net loss for the 41-week period ended January 28, 2006 was \$3.8 million, or 0.4% of revenues, and net income for the 11-week period ended April 16, 2005 was \$129.1 million, or 48.7% of revenues. The change in the net income (loss) was primarily attributable to recognition of a gain from the extinguishment of debt of \$182.8 million in the 11-week period ended April 16, 2005.

Liquidity and Capital Resources

On April 16, 2005, upon emergence from Chapter 11 proceedings, we entered into a revolving credit and term loan facility with a group of financial institutions providing for a \$130.0 million revolving credit facility and a \$6.0 million term loan. Also on April 16, 2005, we entered into a supplemental real estate credit facility with another group of lenders, providing for term loan borrowings of up to \$28.0 million. Availability under both credit facilities is dependent on levels of accounts receivable, inventory and certain other assets. Interest rates on borrowings under the revolving credit facility vary depending upon the amount of availability. At February 3, 2007, outstanding borrowings under both facilities aggregated \$48.5 million. At such date, availability in excess of outstanding borrowings and letters of credit was approximately \$42.0 million. Borrowings under the revolving credit and term loan facility are secured by substantially all of our assets, subject to first liens on certain properties by other lenders. Borrowings under the real estate facility are secured by a first lien on substantially all of our leasehold interests and a second lien on substantially all of our remaining assets. During fiscal year 2007, we had stand-by letters of credit of approximately \$48.4 million. Many of these stand-by letters of credit were required upon emergence from bankruptcy and as a result of our inability to file financial statements.

Provisions of both credit facilities, among other things, require the maintenance of certain financial covenants (when availability under the credit facilities is less than \$35.0 million for four consecutive days or less than \$30.0 million for any one day), and limit the amount of capital expenditures, our assumption of additional debt and our payment of dividends. At no time through February 3, 2007 had we been subject to compliance with these financial covenants because the annual available for borrowing had not dropped to these levels. However, had such an event occurred, we would not have been in compliance with the financial covenants and would have been in default under the terms of the loan agreement at February 3, 2007. Pursuant to our plan of reorganization, we entered into a collateral trust agreement with the collateral trustee in connection with the secured trade lien program. The secured trade lien program is with certain of our vendors and allows us to maintain trade terms. This program has been extended until April 13, 2008.

On December 26, 2006 and on August 1, 2007, both the revolving credit and term loan facility and the supplemental real estate credit facility were amended to provide us with additional liquidity by lowering the excess availability thresholds for purposes of determining compliance with certain financial covenants in the credit facilities and to permit the disposal of assets in connection with the closing of certain stores.

We also have borrowings under mortgages secured by the related properties.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Contractual Obligations and Commitments

The table below presents our significant contractual obligations at February 3, 2007 (in thousands of dollars):

Commitment expires during the Fiscal Year Ending	Long-term Debt (1)	Capital Lease Obligations (2)(3)	Operating Leases (3)	Other Long-term Liabilities (4)	Total Contractual Cash Obligations
February 2, 2008	\$ 314	\$ 2,855	\$ 20,092	\$ 8,633	\$ 31,894
January 31, 2009	48,778	2,855	20,020	5,062	76,715
January 30, 2010	296	2,781	16,158	3,068	22,303
January 29, 2011	321	1,944	14,459	2,043	18,767
January 28, 2012	259	1,496	12,299	1,680	15,734
Thereafter	2,758	11,269	59,116	672	73,815

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- (1) The balance for the fiscal year ending January 31, 2009 includes repayment of \$48.5 million under the revolving credit facility, term loan and supplemental real estate loan.
- (2) Includes amounts classified as imputed interest.
- (3) See Note 7 to the Consolidated Financial Statements.
- (4) Other long-term liabilities include workers compensation, general liability, asset retirement obligations, store closing costs and the PBGC settlement.

We have also made certain contractual commitments that extend beyond February 3, 2007 as shown below (in thousands of dollars):

	Stand-by Letters of Credit (1)	Surety Bonds (2)
Total amounts committed	\$ 48,349	\$ 7,495

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- (1) Letters of credit are primarily associated with supporting workers' compensation obligations and are renewable annually.
- (2) We are required to maintain surety bonds for varying periods of up to three years from the date of issuance.

Impact of New Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,” or FIN 48, effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in tax positions. FIN 48 requires financial statement recognition of the impact of a tax position when it is more likely than not, based on its technical merits, that the position will be sustained upon examination. We are currently evaluating the effect of adopting FIN 48.

In June 2006, the FASB ratified Emerging Issues Task Force Issue No. 06-3, “How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross Versus Net Presentation)”, or EITF 06-3, effective for periods beginning after December 15, 2006. EITF 06-3 allows taxes assessed by various governmental authorities that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales and some excise taxes, to be presented on either a gross or net basis. We record sales net of applicable sales taxes and intend to continue such policy. Therefore, the adoption of EITF 06-3 will have no effect on the presentation of our revenues and expenses.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurement,” or SFAS 157, effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. We are currently evaluating the effect of adopting SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” – Including an amendment of FASB Statement No. 115, or SFAS 159, effective for fiscal years ending after November 15, 2007. SFAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to distinguish on the face of the statement of financial position the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We are currently evaluating the effect of adopting SFAS 159.

Critical Accounting Policies

Critical accounting policies are those accounting policies that are very important to the portrayal of our financial condition and which require management's 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. Our significant accounting policies are summarized in Note 3 to the consolidated financial statements.

We believe the following accounting policies to be critical and could result in materially different amounts being reported under different conditions or using different assumptions:

Reserve for Store Closures

Reserves for closed stores are recorded in accordance with Statement of Financial Accounting Standard No. 146, "Accounting for Costs Associated with Exit and Disposal Activities," or SFAS 146. We record a liability for the estimated future cash flows (including future lease commitments, net of estimated cost recoveries) and miscellaneous closing costs. Future cash flows are estimated based on our knowledge of the market in which the closed stores are located. The estimates of future cash flows are then discounted to the present, based on the interest rate of our real estate facility term loan. These estimates of discounted future cash flows could be affected by changes in real estate markets, other economic conditions and the interest rate used in such calculations.

Impairment of Long-lived Assets

Annually or whenever changes in circumstance indicate that the carrying value of an asset may not be recoverable, we review our long-lived assets for impairment at the individual store level based on estimated future undiscounted cash flows attributable to such assets. This review is in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", or SFAS 144.

In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, such assets are written down to their fair value. In estimating future cash flows, management considers historical performance and assesses the effect of projected changes in competition, maturation of new stores and store remodels, merchandising and marketing strategies and general market conditions. Fair values were determined either by management, based on management's knowledge of local real estate markets and the value of equipment utilized in the supermarket industry, or by an independent third party valuation firm. No assurance can be given that the actual future cash flows will be sufficient to recover the carrying value of long-lived assets. Any reductions in the carrying value resulting from the application of this policy are reflected in the Consolidated Statement of Operations as "Asset impairment charge."

Inventories

Our inventories are stated at the lower of cost or market. We follow the link-chain, dollar-value LIFO method when calculating our LIFO charge or credit. Vendor allowances, including early payment discounts, volume rebates, and funds for product placement and advertising, are generally recorded as a reduction of inventory cost based on average inventory turnover rates by product category.

We take physical counts of inventories throughout the year and record inventory shortages based on our physical counts. Where physical counts are not available we record an allowance for inventory shortages based on historical shrinkage percentages.

Intangible Assets

We have recorded intangible assets for favorable leases, pharmacy prescription files and computer software. We amortize our favorable leases over the remaining life of the lease including all favorable options. We amortize the pharmacy prescription files over five years and we amortize the computer software over five years. We consider these assets annually during our impairment testing.

Allowance for Doubtful Accounts

We evaluate the collectability of our accounts and notes receivable based on our analysis of past due accounts and historical loss trends. We record an allowance for doubtful accounts against the receivable based on the amount that we believe is reasonably collectable. It is possible that our estimation process could differ materially from the actual amounts collected.

Income Taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, various tax authorities audit our income tax returns. Although management believes these estimates are reasonable the actual results could differ resulting in a material effect on our consolidated financial statements.

Self-Insurance Liability

We are primarily self-insured for workers compensation and general liability. Self-insurance liabilities are primarily calculated based on claims filed and an estimate of claims incurred but not yet reported. Workers compensation and general liability reserves are determined based on historical loss history, industry development factors and trends related to actual payments. We have limited our total exposure related to self-insured liability claims incurred by maintaining stop-loss coverage with third party insurers, as defined in the applicable insurance policies, for claims incurred in excess of established stop-loss levels and policy deductibles. Projection of losses concerning these liabilities is subject to a high degree of variability due to factors such as claim settlement patterns, litigation trends, legal interpretations and future levels of health care. Should a greater amount of claims occur compared to what was estimated or costs of health care increase beyond what was anticipated, reserves recorded may not be adequate and additional expense could be required in the consolidated financial statements.

Pension Accounting

We currently are sole sponsors of four tax-qualified defined benefit pension plans. In accordance with the provisions of SOP 90-1, upon emergence from bankruptcy, we recorded the underfunded status of each of the defined benefit plans as a liability on our balance sheet. As of January 28, 2006, we adopted the provisions of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," or SFAS 158, and in accordance therewith reflected the underfunded status of the plans in our balance sheet at such date. Prospectively, we have adjusted the liability to reflect the current funded status of the plan. Any gains or losses that arise during the period but are not recognized as components of net periodic benefit cost will be recognized as a component of other comprehensive income. The adoption of SFAS 158 resulted in the recognition of \$8.3 million of unrecognized actuarial gains which arose during the period ended January 28, 2006 and a corresponding reduction in the defined benefit pension plan liability at January 28, 2006. Such unrecognized gains, net of deferred taxes of \$3.4 million were credited to accumulated other comprehensive income in the amount of \$4.9 million. The adoption of SFAS 158 had no effect on our consolidated statement of operations for the period ended January 28, 2006.

During the year ended February 3, 2007, we recorded \$3.2 million of net unrecognized actuarial gains which arose during the period and a corresponding reduction in the defined benefit pension plan liability at such date. Unrecognized gains, net of deferred taxes of \$1.3 million, were recognized as an element of comprehensive loss and credited to accumulated other comprehensive income in the amount of \$1.9 million. See Note 11 to the Consolidated Financial Statements for further discussion on pensions.

Pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on our pension plans' assets, a discount rate, and an assumed rate of compensation increase. After consultation with our actuaries, we determined these actuarial assumptions at our fiscal year end to calculate liability information as of that date and pension expense for the following year. The discount rate assumption is determined based on the internal rate of return for Citigroup Pension Liability Index with maturities that are consistent with projected future plan cash flows. The assumed discount rate used to determine pension expense for the period ended January 28, 2006 was 5.48%. The assumed discount rate at January 28, 2006 of 5.68% was used to determine pension expense for Fiscal 2007.

The assets of the plans consist of approximately 57% and 54% equity securities, 33% and 44% fixed income securities and 10% and 2% cash at February 3, 2007 and January 28, 2006, respectively. The expected long-term rates of return on plan assets is based on historical and projected average rates of return for current and planned asset classes in the plan investment portfolio. At February 3, 2007 and January 28, 2006 the expected long-term rate of return on plan assets to be used in the determination of pension expense was 7.5%.

Significant differences between our actual experience or significant changes in our assumptions, may materially affect the pension obligations and future expense. Additionally, changes in the fair value of plan assets at year end may materially affect our future pension expense. The fair value of plan assets can vary significantly from year to year.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our financial results are subject to risk from interest rate changes on debt that has variable interest rates. Total variable rate debt outstanding under our loan agreements at February 3, 2007 was \$48.5 million with a weighted average interest rate of 11.61%. A 1% change in interest rates would impact pre-tax income by \$0.5 million based on the debt outstanding at February 3, 2007. In addition to the variable rate debt we had \$4.2 million of fixed rate debt outstanding at February 3, 2007 with a weighted average interest rate of 6.59%. We view the fixed rate debt as a partial hedge against interest rate fluctuations which should minimize the potential impact on earnings from interest rate changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

<u>Index to Consolidated Financial Statements</u>	<u>Page</u>
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Consolidated Financial Statements as of February 3, 2007 and January 28, 2006 and for the year ended February 3, 2007 and the period from April 17, 2005 to January 28, 2006:

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements:

Balance Sheets	50
Statements of Operations	52
Statements of Cash Flows	53
Statements of Stockholders' Equity	54
Notes to Financial Statements	55

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
The Penn Traffic Company
Syracuse, New York

We have audited the accompanying consolidated balance sheets of The Penn Traffic Company (the "Company") as of February 3, 2007 and January 28, 2006, and the related consolidated statements of operations, cash flows and stockholders' equity for the year ended February 3, 2007 and the period from April 17, 2005 (effective date of plan of reorganization for accounting purposes) to January 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Penn Traffic Company as of February 3, 2007 and January 28, 2006, and the consolidated results of its operations and its cash flows for the year ended February 3, 2007 and the period from April 17, 2005 to January 28, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on May 30, 2003, the Company filed for voluntary bankruptcy protection and reorganization under Chapter 11 of the United States Bankruptcy Code. On April 13, 2005, the Company's amended plan of reorganization became effective and the Company emerged from bankruptcy and effective April 16, 2005 adopted fresh-start reporting which results in a new reporting entity and a new basis of accounting.

The Company has not presented the selected quarterly financial data specified in item 302(a) of Regulation S-K that the Securities and Exchange Commission requires as supplementary information to the basic financial statements.

We also were engaged to audit, in accordance with the standards of Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of February 3, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 6, 2007, disclaimed an opinion thereon.

/s/ Eisner LLP

New York, New York
September 6, 2007, except for the third paragraph of Note 12,
as to which the date is September 17, 2007

The Penn Traffic Company
Consolidated Balance Sheets
(In thousands, except share and per share data)

	February 3, 2007	January 28, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 24,661	\$ 12,432
Accounts and notes receivable (less allowance for doubtful accounts of \$3,736 and \$3,174, respectively)	35,112	36,970
Inventories (Note 3)	100,035	113,467
Prepaid expenses and other current assets	8,469	6,157
	<u>168,277</u>	<u>169,026</u>
Capital Leases:		
Capital leases	12,023	12,023
Less: Accumulated amortization	(2,168)	(1,026)
	<u>9,855</u>	<u>10,997</u>
Fixed Assets:		
Land	9,313	11,588
Buildings	13,214	13,621
Equipment and furniture	98,249	86,885
Vehicles	7,766	6,749
Leasehold improvements	9,050	5,062
	<u>137,592</u>	<u>123,905</u>
Less: Accumulated depreciation	(38,228)	(16,276)
	<u>99,364</u>	<u>107,629</u>
Other Assets:		
Intangible assets (Note 5)	30,451	36,220
Other assets	4,038	5,335
	<u>34,489</u>	<u>41,555</u>
Total Assets	<u>\$ 311,985</u>	<u>\$ 329,207</u>

The accompanying notes are an integral part of these statements.

The Penn Traffic Company
Consolidated Balance Sheets
(In thousands, except share and per share data)

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of obligations under capital leases (Note 4)	\$ 1,472	\$ 1,310
Current maturities of long-term debt (Note 6)	314	278
Accounts payable	34,704	36,695
Other current liabilities (Note 7)	49,653	46,294
Accrued interest expense	30	557
Deferred income taxes (Note 9)	7,816	7,900
Liabilities subject to compromise (Note 8)	2,696	2,871
	<u>96,685</u>	<u>95,905</u>
Non-current Liabilities:		
Obligations under capital leases (Note 4)	10,956	12,429
Long-term debt (Note 6)	52,412	37,235
Deferred income taxes (Note 9)	2,632	8,331
Defined benefit pension plan liability (Note 11)	22,150	27,600
Other non-current liabilities (Note 7)	26,813	28,021
	<u>114,963</u>	<u>113,616</u>
Total Liabilities	<u>211,648</u>	<u>209,521</u>
Commitments and Contingencies (Notes 4, 6, 11 and 12)		
Stockholders' Equity:		
Preferred stock - authorized 1,000,000 shares, \$.01 par value; none issued at both dates	-	-
Common stock - authorized 15,000,000 shares, \$.01 par value; issued and to be issued 8,498,752 shares at both dates	85	85
Capital in excess of par value	118,493	118,493
Deficit	(25,036)	(3,811)
Accumulated other comprehensive income	6,795	4,919
Total stockholders' equity	<u>100,337</u>	<u>119,686</u>
Total Liabilities and Stockholders' Equity	<u>\$ 311,985</u>	<u>\$ 329,207</u>

The accompanying notes are an integral part of these statements.

The Penn Traffic Company
Consolidated Statements of Operations
(In thousands, except share and per share data)

	<u>Year Ended February 3, 2007</u>	<u>Period from April 17, 2005 to January 28, 2006</u>
Revenues	\$ 1,310,905	\$ 1,015,893
Cost and Operating Expenses		
Cost of sales	981,419	754,995
Selling and administrative expenses	345,874	255,780
Loss on store closings	1,308	520
	<u>1,328,601</u>	<u>1,011,295</u>
Operating (Loss) Income	(17,696)	4,598
Interest expense	9,357	8,289
Reorganization expenses	1,020	1,023
	<u>(28,073)</u>	<u>(4,714)</u>
Loss Before Income Taxes	(28,073)	(4,714)
Income tax benefit	(6,848)	(903)
	<u>(6,848)</u>	<u>(903)</u>
Net Loss	<u>\$ (21,225)</u>	<u>\$ (3,811)</u>
Shares outstanding and to be issued	8,498,752	8,498,752
Net Loss Per Share (Basic and Diluted) (Note 3)	<u>\$ (2.50)</u>	<u>\$ (0.45)</u>

The Penn Traffic Company
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended February 3, 2007	Period from April 17, 2005 to January 28, 2006
Operating Activities:		
Net loss	\$ (21,225)	\$ (3,811)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,485	19,075
Amortization of deferred financing cost	1,201	1,066
Deferred income tax benefit	(7,079)	(1,164)
Loss (gain) on sale of fixed assets	542	(605)
Net change in operating assets and liabilities:		
Accounts and notes receivable, net	1,858	3,446
Prepaid expenses and other current assets	(2,312)	5,276
Inventories	12,996	3,051
Liabilities subject to compromise	(175)	(5,626)
Accounts payable and other current liabilities	841	(10,659)
Other assets	96	444
Defined benefit pension plan	(2,278)	(4,044)
Other non-current liabilities	<u>636</u>	<u>(1,799)</u>
Net Cash Provided by Operating Activities	<u>12,586</u>	<u>4,650</u>
Investing Activities:		
Acquisitions	(1,531)	-
Capital expenditures	(22,926)	(20,533)
Proceeds from sale of fixed assets	<u>10,271</u>	<u>605</u>
Net Cash Used in Investing Activities	<u>(14,186)</u>	<u>(19,928)</u>
Financing Activities:		
Payments of mortgages	(287)	(208)
Net borrowings (repayments) under credit facility	15,500	(500)
Reduction in capital lease obligations	<u>(1,384)</u>	<u>(886)</u>
Net Cash Provided by (Used In) Financing Activities	<u>13,829</u>	<u>(1,594)</u>
Net increase (decrease) in cash and cash equivalents	12,229	(16,872)
Cash and cash equivalents at the beginning of period	<u>12,432</u>	<u>29,304</u>
Cash and cash equivalents at end of period	<u>\$ 24,661</u>	<u>\$ 12,432</u>

The Penn Traffic Company
Consolidated Statement of Stockholders' Equity
For the year ended February 3, 2007 and the period from April 17, 2005 to January 28, 2006
(In thousands)

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
Common stock issued and to be issued in connection with plan of reorganization	\$ 85	\$ 118,493	\$ -	\$ -	\$ 118,578
Net loss for the 41-week period ended January 28, 2006	-	-	(3,811)	-	(3,811)
Unrecognized actuarial gain of pension plans, net of deferred taxes of \$3,396	-	-	-	4,919	4,919
Balance at January 28, 2006	85	118,493	(3,811)	4,919	<u>119,686</u>
Net loss for the year ended February 3, 2007	-	-	(21,225)	-	(21,225)
Unrecognized actuarial gain of pension plans, net of deferred taxes of \$1,296	-	-	-	1,876	<u>1,876</u>
Comprehensive loss	-	-	-	-	<u>(19,349)</u>
Balance at February 3, 2007	\$ 85	\$ 118,493	\$(25,036)	\$ 6,795	\$ 100,337

Note 1 – Description of Business

The Penn Traffic Company and its subsidiaries (the “Company”) are engaged in the retail food business and the wholesale food distribution business. As of February 3, 2007, the Company operated 106 supermarkets under the “P&C”, “Quality” and “Bi-Lo” banners in upstate New York, Pennsylvania, Vermont and New Hampshire, and supplied 119 independent supermarkets and other independent wholesale accounts. The Company services these owned and independent supermarkets and independent wholesale accounts through five distribution centers and a bakery.

Note 2 – Voluntary Bankruptcy Filing and Reorganization

On May 30, 2003, The Penn Traffic Company and all of its subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. The filing was made in response to pending defaults under the Company’s then-existing loan agreements and a lack of liquidity to continue operations. Under Chapter 11, the Company continued to operate its businesses as debtor-in-possession under court protection from its creditors and claimants, while using the Chapter 11 process to substantially reduce its debt obligations and implement a plan of reorganization.

On February 2, 2005, the Company filed the First Amended Joint Plan of Reorganization (the “Plan”) with the bankruptcy court. The Plan was confirmed on March 17, 2005 and became effective on April 13, 2005 (the “Effective Date”).

Pursuant to the terms of the Plan, the following transactions occurred on or around the Effective Date:

1. The Company entered into new credit agreements providing for borrowings of up to \$164 million (see Note 6). Proceeds from these new credit agreements provided funds sufficient to repay a debtor-in-possession credit facility and all administrative and priority claims to the extent provided for in the Plan.
2. The Company sold and leased back its five owned distribution facilities for a sales price of approximately \$37 million.
3. All shares of common stock and all stock options and warrants outstanding prior to the confirmation of the Plan were cancelled and the holders of such equity securities received no distributions under the Plan.
4. The reorganized Company was authorized to issue new shares of common stock to unsecured creditors, which included holders of \$100 million of senior notes, a claim by the Pension Benefit Guaranty Corporation or the “PBGC” of \$60 million (see Note 10) and trade claims, all of whom were eligible to receive pro rata distributions of new shares of common stock and the right to share in potential proceeds from certain causes of action.

Note 3 – Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements include the accounts of The Penn Traffic Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal year 2007 is the 53-week period ended February 3, 2007. Fiscal year 2006 is the 41-week period from April 17, 2005, the commencement of fresh-start reporting (see below), to January 28, 2006.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the provisions of Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7") issued by the American Institute of Certified Public Accountants. Pursuant to the provisions of SOP 90-7, upon emergence from Chapter 11 proceedings, the Company adopted fresh-start reporting which resulted in a new reporting entity and a new basis of accounting.

Although April 13, 2005 was the effective date of the Plan, the Company chose the close of business on April 16, 2005 as the effective date for accounting purposes to adopt fresh-start reporting because of the proximity of that date to the end of an accounting period. Applying fresh-start reporting as of April 16, 2005 rather than the actual effective date of April 13, 2005 did not have a material effect on the financial condition or results of operations of the Company.

The reorganization value of the Company upon emergence from the Chapter 11 proceedings was approximately \$195 million. The reorganization value represents the debt and equity value of the Company as of the effective date. Such value, which was determined with the assistance of the Company's financial advisors, was based upon various valuation methods, including discounted cash flow methodologies and analysis of comparable companies. The equity value of the Company upon reorganization amounting to approximately \$118 million, was determined after taking into account approximately \$77 million of debt, consisting of long-term debt, obligations under capital leases and defined benefit pension plan liabilities, net of related deferred taxes. In accordance with fresh-start reporting, all assets and liabilities were recorded at their respective fair values. The fair values of the Company's long-lived assets were determined, in part, using information provided by third-party appraisers. The excess of approximately \$31.7 million of the aggregate fair value of the Company's tangible and identifiable intangible assets less non-interest bearing liabilities over the total reorganization value has been recorded as a pro rata reduction of non-current assets.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 amounts could differ from those estimates.

Revenue Recognition

Revenue from the sale of products to retail customers is recognized at the time of sale. Discounts provided to customers through company sponsored loyalty programs are recognized as a reduction in sales as products are sold. Discounts provided through vendor coupons are not recognized as a reduction in sales to the extent the Company is reimbursed by the vendor. Pharmacy sales are recorded when prescriptions are picked up by the customer. Sales taxes are not recorded as a component of sales. Revenue from gift certificates is recognized upon redemption of the gift certificates for products.

Revenue from the sale of products to wholesale customers is recognized at the time of shipment.

Cost of Sales

Cost of sales includes the cost of product and related warehousing and freight costs. Vendor allowances are recorded as a reduction of cost of sales when the related product is sold in accordance with the provisions of Emerging Issues Task Force Issue 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Vendor allowances, including early payment discounts, volume rebates, and funds for product placement and advertising, are generally recorded as a reduction of inventory cost based on average inventory turnover rates by product category.

Vendor allowances recognized as a reduction of cost of sales for the year ended February 3, 2007 aggregated \$56.0 million and for the period ended January 28, 2006 aggregated \$43.8 million.

Advertising

Advertising costs are expensed as incurred and included in selling and administrative expenses. Advertising expense for the year ended February 3, 2007 aggregated \$12.6 million and for the period ended January 28, 2006 aggregated \$11.1 million.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with maturities of three months or less at the date of purchase to be cash equivalents.

Accounts and Notes Receivable

Accounts and notes receivable consist primarily of amounts due from wholesale customers, debit and credit card sales, third party insurance pharmacy sales and vendor allowances. The Company establishes an allowance for doubtful accounts based on an analysis of past due accounts and historical loss trends.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, trade accounts payable and accrued expenses approximate their fair values due to the relatively short maturities of the instruments. For other debt, carrying value approximates fair value because their interest rates approximate market rates.

Inventories

Inventories, consisting primarily of grocery and pharmacy products, are stated at the lower of cost or market. Cost is determined using the last-in, first-out method (“LIFO”) using the estimated fair value of inventory on April 16, 2005 upon adoption of fresh-start reporting to determine LIFO cost for financial reporting purposes. If cost had been determined using the first-in, first-out method (“FIFO”), inventories would have been \$3.0 million and \$1.5 million higher than reported at February 3, 2007 and January 28, 2006, respectively.

During the year ended February 3, 2007, inventory quantities were reduced, which resulted in a liquidation of certain LIFO inventory layers carried at lower costs prevailing in an earlier period. The effect was to reduce cost of sales by approximately \$0.5 million.

The Company takes physical counts of inventories throughout the year and records inventory shortage adjustments based on the physical counts. Throughout the year the Company is accruing for inventory shortages based on historical trends. Where physical counts are not taken at the year end, the Company establishes an allowance for inventory shortages based on historical shrinkage percentages.

Fixed Assets and Capital Leases

Major renewals and betterments are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, the shorter of the estimated useful lives of the assets or the lease term (which includes renewal periods that are reasonably assured).

Estimated useful lives are as follows:

Buildings	39 years
Capitalized leases	5 to 32 years
Equipment and furniture	3 to 10 years
Leasehold improvements	10 to 32 years
Vehicles	3 to 8 years

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when future undiscounted cash flows expected to result from the use of the asset and its eventual disposal are less than the carrying amount.

Intangible Assets

Identifiable intangible assets consist primarily of favorable leases and pharmacy prescription files (both established upon adoption of fresh-start reporting). Favorable operating leases represent the present value of the difference by which market value rent exceeds contract rent and are amortized on a straight-line basis over the remaining lease term, including renewal options ranging from 2 to 32 years. Pharmacy prescription files are amortized on a straight-line basis over 5 years. Computer software is amortized over 5 years.

Identifiable intangibles are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when future undiscounted cash flows expected to result from the use of the asset and its eventual disposal are less than the carrying amount.

Unfavorable Leases

Unfavorable operating leases (established upon adoption of fresh-start reporting) are reported in other non-current liabilities and represent the present value of the difference by which contract rent exceeds market value rent and are amortized on a straight-line basis over the remaining lease term, excluding renewal options, ranging from 2 to 13 years.

Income Taxes

Income taxes are provided based on the liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of net operating loss carryovers and temporary differences between the tax basis of assets and liabilities and their corresponding financial reporting amounts at each year-end.

Self-Insurance Liability

The Company self-insures certain insurable risks related to workers' compensation and general product liability claims. The Company accrues estimated losses for unpaid claims, including incurred but not reported losses, with the assistance of an external actuary and by factoring in pending claims and historical loss experience. The Company also maintains self-insured health benefits plans, which provide medical and dental benefits to employees electing coverage under the plans. The Company accrues estimated losses for unpaid claims, including incurred but not reported claims, based on historical experience and other assumptions. Commercial policies are obtained to provide for coverage of certain risk exposure above the self-insured retention limits. The estimated liability associated with settling unpaid claims is included in other current liabilities if expected to be settled within one year, or otherwise is included in other non-current liabilities.

Store Pre-Opening Costs

Store pre-opening costs are expensed as incurred.

Store Closing Costs

For operating leases related to closed stores, the Company records the fair value of the liability at the cease-use date, determined based on the discounted value of the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property. Any one-time termination benefits are recognized at the time the benefits are communicated to the employees. Other related costs are recognized in the period when the liability is incurred.

Shared-Based Payments

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”) which is a revision of FASB Statement No. 123 “Accounting for Stock-Based Compensation.” SFAS 123(R) supersedes APB Opinion No. 25 “Accounting for Stock Issued to Employees” and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) is required to be adopted in the first annual reporting period beginning after June 15, 2005. Accordingly, the Company adopted SFAS 123(R) effective January 29, 2006. The adoption of SFAS 123(R) did not have a material effect on the financial statements for year ended February 3, 2007 (see Note 13).

Per Share Data

Basic and diluted net loss per share is based on the number of common shares issued and estimated to be issued pursuant to the Plan. Common shares issued and estimated to be issued in settlement of claims filed in the Company’s Chapter 11 proceeding are treated as outstanding as of the effective date of the Plan. At both February 3, 2007 and January 28, 2006, 201,055 common shares are estimated to be issued in connection with the settlement of remaining claims (see Note 8).

Defined Benefit Pension Plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132R” (“SFAS 158”) effective for fiscal years ending after December 15, 2006 with early application encouraged. SFAS 158 requires financial statement recognition of the overfunded or underfunded status of a defined benefit postretirement plan or other postretirement plan as an asset or liability and recognition of changes in the funded status in comprehensive earnings in the year in which the changes occur. The Company elected early application and adopted SFAS 158 effective as of January 28, 2006. The adoption of the recognition provisions of SFAS 158 increased stockholders equity by \$4.9 million, reduced the defined benefit pension plan liability by \$8.3 million and increased the deferred tax liability by \$3.4 million at January 28, 2006 (see Note 11).

Recently Issued Accounting Standards Not Yet Adopted

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”) effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in tax positions. FIN 48 requires financial statement recognition of the impact of a tax position when it is more likely than not, based on its technical merits, that the position will be sustained upon examination. The Company is currently evaluating the effect of adopting FIN 48.

In June 2006, the FASB ratified Emerging Issues Task Force Issue No. 06-3, “How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross Versus Net Presentation)” (“EITF 06-3”) effective for periods beginning after December 15, 2006. EITF 06-3 allows taxes assessed by various governmental authorities that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales and some excise taxes, to be presented on either a gross or net basis. The Company records sales net of applicable sales taxes and intends to continue such policy. Therefore, the adoption of EITF 06-3 will have no effect on the presentation of the Company’s revenues and expenses.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurement” (“SFAS 157”) effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. The Company is currently evaluating the effect of adopting SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115” (“SFAS 159”) effective for fiscal years ending after November 15, 2007. SFAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the effect of adopting SFAS 159.

Note 4 – Leases

The Company leases store facilities for the operation of its retail food business and distribution facilities for its wholesale food distribution business. In accordance with the provisions of FASB Statement No. 13, "Accounting for Leases," certain of the leases meet the criteria to be recorded as capital leases. The remaining leases are recorded as operating leases. Most of the lease agreements provide for renewal options and require that the Company pay real estate taxes and other related expenses. Certain of the lease agreements also provide for contingent rent payments based on a percentage of sales.

The following is a summary of future minimum rent payments for operating leases and for capital leases as of February 3, 2007 (in thousands):

<u>Fiscal Year Ending</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
February 2, 2008	\$ 21,092	\$ 2,855
January 31, 2009	20,020	2,855
January 30, 2010	16,158	2,781
January 29, 2011	14,459	1,944
January 28, 2012	12,299	1,496
Thereafter	<u>59,116</u>	<u>11,269</u>
Total minimum lease payments	<u>\$ 143,144</u>	23,200
Less: Amount representing interest		<u>10,772</u>
Present value of net minimum lease payments		12,428
Less: Current portion		<u>1,472</u>
Long-term obligations under capital leases		<u>\$ 10,956</u>

Future minimum rent payments have not been reduced by minimum sublease rent income of \$8.6 million due in the future under non-cancelable subleases.

Rent expense under operating leases for the year ended February 3, 2007 was \$18.7 million and for the period ended January 28, 2006 was \$10.7 million as follows (in thousands):

	<u>Year Ended February 3, 2007</u>	<u>Period Ended January 28, 2006</u>
Minimum rent	\$ 21,791	\$ 13,115
Contingent rent	238	201
Less: sublease rent	<u>(3,281)</u>	<u>(2,625)</u>
Net rent expense	<u>\$ 18,748</u>	<u>\$ 10,691</u>

Note 5 – Intangible Assets

Intangible assets as of February 3, 2007 and January 28, 2006 consist of the following (in thousands):

	February 3, 2007			January 28, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:						
Favorable leases	\$ 26,156	\$ (2,918)	\$ 23,238	\$ 26,739	\$ (1,365)	\$ 25,374
Pharmacy prescription files	8,724	(3,172)	5,552	10,362	(1,657)	8,705
Computer software	<u>2,574</u>	<u>(913)</u>	<u>1,661</u>	<u>2,542</u>	<u>(401)</u>	<u>2,141</u>
Total	<u>\$ 37,454</u>	<u>\$ (7,003)</u>	<u>\$ 30,451</u>	<u>\$ 39,643</u>	<u>\$ (3,423)</u>	<u>\$ 36,220</u>

Aggregate amortization expense:

For the year ended February 3, 2007 \$ 4,236

For the period ended January 28, 2006 \$ 3,423

Future Amortization:

Fiscal Year Ending:

February 2, 2008	\$ 3,777
January 31, 2009	3,777
January 30, 2010	3,777
January 29, 2011	1,937
January 28, 2012	1,463
Thereafter	<u>15,720</u>
	<u>\$ 30,451</u>

Note 6 – Debt

Debt consists of the following as of February 3, 2007 and January 28, 2006 (in thousands):

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
Revolving credit facility, interest (7.82% at February 3, 2007 and 6.60% at January 28, 2006) at prime plus .50% to 1.25% or LIBOR plus 2.00% to 2.75%, maturing April 13, 2008	\$ 17,000	\$ 17,000
Term loan facility, interest (13.25% at February 3, 2007 and 12.25% at January 28, 2006) at prime plus 5.00%, maturing April 13, 2008	6,000	6,000
Supplemental real estate credit facility, interest (13.75% at February 3, 2007 and 12.75% at January 28, 2006) at prime plus 5.50%, maturing April 13, 2008	25,500	10,000
Mortgages payable, interest at 6.125% to 12%, maturing at various dates through May 1, 2021	<u>4,226</u>	<u>4,513</u>
Total debt	52,726	37,513
Less: Current portion of long-term debt	<u>314</u>	<u>278</u>
Total long-term debt	<u>\$ 52,412</u>	<u>\$ 37,235</u>

Maturities of debt over the next five years are as follows (in thousands):

Fiscal Year Ending:	
February 2, 2008	314
January 31, 2009	48,778
January 30, 2010	296
January 29, 2011	321
January 28, 2012	259
Thereafter	<u>2,758</u>
	<u>\$ 52,726</u>

On April 16, 2005, upon emergence from Chapter 11 proceedings, the Company entered into a revolving credit and term loan facility with a group of financial institutions providing for a \$130 million revolving credit facility and a \$6 million term loan. Also on April 16, 2005, the Company entered into a supplemental real estate credit facility with another group of lenders, providing for borrowings of up to \$28 million. Availability under both credit facilities is dependent on levels of accounts receivable, inventory and certain other assets. Interest rates on borrowings under the revolving credit facility vary depending upon the amount of availability. At February 3, 2007, outstanding borrowings under both facilities aggregated \$48.5 million and outstanding letters of credit under the revolving credit facility, which are primarily associated with supporting workers' compensation obligations, amounted to approximately \$48 million. At such date, availability in excess of outstanding borrowings and letters of credit was approximately \$42 million. Borrowings under the revolving credit and term loan facility are secured by substantially all the assets of the Company, subject to first liens on certain property by other lenders. Borrowings under the real estate facility are secured by a first lien on substantially all leasehold interests of the Company, and a second lien on realty owned by the Company.

Provisions of both credit facilities, among other things, require the maintenance of certain financial covenants (when availability under the credit facilities is less than \$35 million for four consecutive days or less than \$30 million for any one day), and limit the amount of capital expenditures, the assumption of additional debt and the payment of dividends. At no time through February 3, 2007 had the Company been subject to compliance with these financial covenants because the amount available for borrowing had not dropped to those levels. However, had such an event occurred, the Company would not have been in compliance with the financial covenants and would have been in default under the terms of the loan agreement at February 3, 2007.

On December 26, 2006, both the revolving credit and term loan facility and the supplemental real estate credit facility were amended to permit the disposal of assets in connection with the closing of five stores.

On August 1, 2007, both facilities were amended to permit the disposal of assets in connection with the closing of two additional stores. Further, the availability amount, which the Company is required to maintain under certain financial covenants, was reduced to less than \$27.5 million for four consecutive days or less than \$25 million for any one day.

The Company also has borrowings under mortgages secured by first liens on the related properties.

Note 7 – Other Current and Other Non-Current Liabilities

Other current and non-current liabilities as of February 3, 2007 and January 28, 2006 consist of the following (in thousands):

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
Other Current Liabilities:		
Payroll and related payroll taxes	\$ 5,622	\$ 2,938
Other taxes payable	2,837	2,627
Workers compensation	7,270	9,980
Vacation and other compensated absences	12,322	12,329
Reorganization costs	134	250
Employee benefits	4,364	5,310
Employee severance	2,546	-
State lottery	2,404	2,345
Utilities	2,196	2,195
Professional fees	373	1,680
Other accrued liabilities	<u>9,585</u>	<u>6,640</u>
Total	<u>\$ 49,653</u>	<u>\$ 46,294</u>
Other Non-Current Liabilities:		
Workers compensation	\$ 16,106	\$ 16,172
Unfavorable leases	3,475	5,767
General liability insurance	1,374	1,294
Asset retirement obligations	959	928
Step rent liability	2,180	705
PBGC settlement	869	2,500
Store closing costs	<u>1,850</u>	<u>655</u>
Total	<u>\$ 26,813</u>	<u>\$ 28,021</u>

Note 8 – Liabilities Subject to Compromise

In connection with the Chapter 11 proceeding, there are two pending matters involving claims for the payment of money or the transfer of property. In one matter, the Ohio Bureau of Workers' Compensation ("OBWC") has filed priority and administrative claims aggregating \$13.4 million for pre-petition unpaid workers' compensation premiums and for reserves to pay future claims arising from existing injuries. The OBWC has also filed claims aggregating \$1.8 million for alleged non-payment of post-petition premiums and for reserves to pay future claims arising from existing injuries. The Company disputes the amounts of the claims, and is attempting to negotiate a settlement.

In another matter, a claimant has filed a priority claim allegedly arising under an agreement for a sale-leaseback transaction seeking either damages of \$2.2 million or specific performance of the agreement. The Company disputes the merits of the claim and is defending against it.

During the year ended February 3, 2007 and the period ended January 28, 2006, the Company paid \$0.2 million and \$5.6 million, respectively, in settlement of disputed claims. The Company has established liabilities for the estimated cash payments required to settle the remaining claims outstanding in the Chapter 11 proceedings. Estimated shares of common stock to be issued in settlement of claims have been accounted for as stockholders' equity.

Note 9 – Income Taxes

The Company files a consolidated federal income tax return. The components of income tax benefit for the year ended February 3, 2007 and for the period ended January 28, 2006 are as follows (in thousands):

	<u>Year Ended February 3, 2007</u>	<u>Period Ended January 28, 2006</u>
Current tax provision		
Federal	\$ -	\$ -
State	228	261
Deferred tax (benefit)		
Federal	(5,522)	(908)
State	<u>(1,554)</u>	<u>(256)</u>
Total income tax (benefit)	<u>\$ (6,848)</u>	<u>\$ (903)</u>

The following is a reconciliation between the federal income tax benefit computed at the statutory federal income tax rate and actual income tax benefit (in thousands):

	<u>Year Ended</u> <u>February 3, 2007</u>	<u>Period Ended</u> <u>January 28, 2006</u>
Federal income tax benefit at statutory rate	\$ (9,825)	\$ (1,677)
State income taxes, net of federal income tax effect	(862)	172
Non-deductible expenses	14	602
Valuation allowance	<u>3,825</u>	<u>-</u>
Total income tax benefit	<u>\$ (6,848)</u>	<u>\$ (903)</u>

The significant components of deferred income tax assets and liabilities as of February 3, 2007 and January 28, 2006 are as follows (in thousands):

	<u>February 3,</u> <u>2007</u>	<u>January 28,</u> <u>2006</u>
Current deferred income tax assets / (liabilities)		
Reserves and accruals	\$ 11,409	\$ 11,295
Valuation allowance	<u>(1,343)</u>	<u>-</u>
Current deferred tax assets	10,066	11,295
Inventories	<u>(17,882)</u>	<u>(19,195)</u>
Net current deferred tax liabilities	<u>(7,816)</u>	<u>(7,900)</u> ⁽²⁾
Non-current deferred income tax assets / (liabilities)		
Reserves and accruals	8,288	7,781
Pensions	9,048	11,274
Goodwill (1)	4,218	5,695
Capital lease obligations	5,077	5,612
Net operating loss carryforward	5,409	-
Valuation allowance	<u>(3,772)</u>	<u>-</u>
Non-current deferred tax assets	<u>28,268</u>	<u>30,362</u>
Beneficial leases and other intangible assets	(10,994)	(12,427)
Fixed assets	(15,881)	(21,774)
Capital leases	<u>(4,025)</u>	<u>(4,492)</u>
Non-current deferred tax liabilities	<u>(30,900)</u>	<u>(38,693)</u>
Net non-current deferred tax liabilities	<u>(2,632)</u>	<u>(8,331)</u> ⁽²⁾
Net deferred income tax (liabilities)	<u>\$ (10,448)</u>	<u>\$ (16,231)</u>

- (1) Represents tax basis of deductible goodwill arising from acquisitions consummated in prior years.
- (2) Reflects an increase of \$7,781 in current liabilities and a correspondent decrease in non-current liabilities from amounts previously reported to reflect correction in classification of reserves and accruals.

At February 3, 2007, the Company had a net operating loss carryforward for federal and state income tax purposes of approximately \$13.2 million available to offset future taxable income through 2027.

Prior net operating loss carry forwards were entirely eliminated effective January 29, 2006 principally as a result of cancellation of debt in the Chapter 11 proceedings. Further, the Company lost a portion of the tax basis of its long-lived assets, reducing the amount of tax depreciation and amortization that the Company will be able to utilize on its tax returns.

A valuation allowance of \$5.1 million was established at February 3, 2007 to offset the net operating loss carryforward and other deferred tax assets to the extent it is more likely than not, based upon available evidence, that the recorded value will not be realized. Realization is dependent on the existence of sufficient taxable income within the carryforward period, including future reversals of certain taxable temporary differences. In providing the valuation allowance, no reversal of the taxable temporary difference arising from a portion of LIFO inventory was considered to occur during such period as the period in which such reversal may occur is not presently determinable.

Note 10 – Acquisitions and Dispositions

In March and April 2006, the Company acquired two retail stores for an aggregate purchase price of \$1.5 million. The cost of the acquisitions was allocated \$0.5 million to inventories and \$1.0 million to equipment.

During the year ended February 3, 2007, the Company disposed of five stores of which four were closed and one was sold. It is anticipated that revenues will continue to be generated from customers of three closed stores in Company stores located in the same vicinity. In addition, it is anticipated that the sold store will continue to be serviced from the Company's distribution centers thereby continuing to generate revenue for the Company. The revenues and operating results of the remaining closed store were not significant. During the period ended January 28, 2006, the Company closed one store for which the revenues and operating results were not significant. Accordingly, the operations of the stores have not been reported as discontinued operations in the accompanying financial statements. The Company incurred approximately \$1.3 million and \$0.5 million of store closing costs related to leases and terminated employees during 2007 and 2006, respectively.

In January 2007, the Company announced the closing of a leased distribution center used for the distribution of general merchandise and health and beauty products. At the same time, the Company entered into a five-year supply agreement with a third party to provide the merchandise previously distributed from the distribution center. In connection with the announced closing, in January 2007, the Company recorded a liability of \$1.4 million for termination benefits (included in selling and administrative expenses) which were communicated to the distribution center's employees at such time. The Company ceased use of the facility in March 2007, at which time the Company recorded a liability of \$1.9 million representing the present value of the remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the distribution center. In addition, in March 2007, the Company sold its remaining inventory located in the distribution center to the third party at current cost. The carrying value of such inventory at February 3, 2007 was approximately \$4.8 million.

Note 11 – Retirement Plans

The Company has four noncontributory defined benefit pension plans covering certain union personnel. The Company's policy is to fund pension benefits to the extent contributions are deductible for tax purposes and in compliance with federal laws and regulations. For the Company's plans, normal retirement age is either 62 or 65, but provisions are made for earlier retirement. Benefits are determined either on average annual compensation and years of service, or as a pre-determined amount for each year of service. Full vesting occurs upon completion of five years of service. Assets of the Company's pension plans primarily consist of investments in publicly traded equity and debt securities.

In accordance with the provisions of SOP 90-1, upon emergence from bankruptcy, the Company recorded the underfunded status of each of the defined benefit plans as a liability on the balance sheet. As of January 28, 2006, the Company adopted the provisions of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158") and in accordance therewith reflected the underfunded status of the plans in its balance sheet at such date. Prospectively, the Company will adjust the liability to reflect the current funded status of the plan. Any gains or losses that arise during the period but are not recognized as components of net periodic benefit cost will be recognized as a component of other comprehensive income (loss). The adoption of SFAS 158 resulted in the recognition of \$8.3 million of unrecognized actuarial gains which arose during the period ended January 28, 2006 and a corresponding reduction in the defined benefit pension plan liability at January 28, 2006. Such unrecognized gains, net of deferred taxes of \$3.4 million were credited to accumulated other comprehensive income in the amount of \$4.9 million. The adoption of SFAS 158 had no effect on the Company's consolidated statement of operations for the period ended January 28, 2006 and it will not effect the Company's operating results in future periods.

During the year ended February 3, 2007, the Company recorded \$3.2 million of net unrecognized actuarial gains which arose during the period and a corresponding reduction in the defined benefit pension plan liability at such date. Unrecognized gains, net of deferred taxes of \$1.3 million, were recognized as an element of comprehensive loss and credited to accumulated other comprehensive income in the amount of \$1.9 million.

Information as to the Company's four defined benefit pension plans as of February 3, 2007 and January 28, 2006, which are the measurement dates of the plans, and for the year/period then ended is as follows (in thousands):

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
Change in benefit obligation		
Benefit obligation at beginning of period	\$ (107,600)	\$ (108,766)
Service cost	(1,982)	(1,468)
Interest cost	(5,975)	(4,356)
Actuarial gain	3,757	2,836
Benefits paid	<u>5,002</u>	<u>4,154</u>
Benefit obligation at end of period	(106,798)	(107,600)
Change in plan assets		
Fair value of plan assets at beginning of period	80,000	68,824
Actual return on plan assets	5,391	9,459
Employer contributions	4,259	5,872
Benefits paid	<u>(5,002)</u>	<u>(4,155)</u>
Fair value of plan assets at end of period	84,648	80,000
Underfunded status	<u>\$ (22,150)</u>	<u>\$ (27,600)</u>

	Year Ended February 3, 2007	Period Ended January 28, 2006
Components of net periodic pension cost for the year ended February 3, 2007 and for the period ended January 28, 2006 are as follows:		
Service cost	\$ 1,982	\$ 1,468
Interest cost	5,975	4,356
Expected return on plan assets	(5,975)	(3,979)
Amount of recognized gains and losses	<u>-</u>	<u>-</u>
Net periodic pension cost	<u>\$ 1,982</u>	<u>\$ 1,845</u>

The weighted-average assumptions used to determine the net benefit obligations as of February 3, 2007 and January 28, 2006 are as follows:

	Year Ended February 3, 2007	Period Ended January 28, 2006
Discount rate	5.97%	5.68%
Rate of compensation increase	3.00%	3.00%

The weighted-average assumptions used to determine the net benefit cost for the year ended February 3, 2007 and for the period ended January 28, 2006 are as follows:

	Year Ended February 3, 2007	Period Ended January 28, 2006
Discount rate	5.68%	5.48%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	3.00%	3.00%

Amounts in accumulated other comprehensive income will be subsequently recognized as a component of net periodic pension cost pursuant to the Company's accounting policy for amortizing such amounts. Included in accumulated other comprehensive income at February 3, 2007 are unrecognized actuarial gains of \$11.5 million (\$6.8 million net of taxes), of which \$0.1 million is expected to be recognized as a component of net periodic pension cost for the year ending February 2, 2008.

Plan assets by major category as of February 3, 2007 and January 28, 2006 are as follows:

	February 3, 2007		January 28, 2006	
	Target Range	Actual Allocation	Target Range	Actual Allocation
Equity securities	50% to 60%	57%	50% to 60%	54%
Debt securities	40% to 50%	33%	40% to 50%	44%
Cash	0% to 10%	10%	0% to 10%	2%

The Company considers the actual asset categories of the invested assets and the historical rates of return of those categories as the basis for establishing the expected long-term rate of return (7.5% at both February 3, 2007 and January 28, 2006) on plan assets.

For the period ended January 28, 2006, the Company contributed \$5.9 million to the four defined benefit pension plans and for the year ended February 3, 2007, contributed \$4.3 million to these plans. For the year ending February 2, 2008, the Company expects to contribute \$3.7 million to these plans.

The amount of benefits expected to be paid over each of the next five years and in the aggregate for the following five-year period are as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2008	\$ 5,092
2009	5,080
2010	5,205
2011	5,434
2012	5,735
2013-2017	31,124

On May 20, 2004, a distress termination application was filed with the PBGC to terminate a cash balance pension plan sponsored by the Company. The PBGC filed various claims in bankruptcy court for payment of unfunded benefit liabilities. On February 4, 2005, the parties entered into a global settlement whereby the Company settled the PBGC claims by agreeing to pay the PBGC \$0.2 million upon emergence from bankruptcy and \$3.5 million over a two year period commencing six months after the emergence from bankruptcy. Further, the PBGC was permitted to retain a \$60 million unsecured claim in the bankruptcy proceeding which was settled through the issuance of common shares pursuant to the Plan.

The Company maintains a 401(k) savings plan for eligible employees. The plan provides for matching contributions by the Company for all employees not covered by other union pension plans. The Company's contributions aggregated \$1.4 million for the year ended February 3, 2007 and \$1.4 million for the period ended January 28, 2006.

The Company also participates in seventeen multiemployer collective bargaining agreements that provide for employer contributions to fund union-sponsored pension and other benefits. The Company's contributions aggregated \$5.2 million for the year ended February 3, 2007 and \$3.9 million for the period ended January 28, 2006. While the Company has not indicated an intention to withdraw from any multiemployer plan, such withdrawal could result in an obligation to the plans for a portion of unfunded benefit obligations of the particular plans. The Company's aggregate withdrawal liability at February 3, 2007 is approximately \$70 million.

Note 12 – Commitments and Contingencies

The United States Attorney for the Northern District of New York and the Securities and Exchange Commission ("SEC") have been conducting investigations relating to the Company's promotional allowance practices and policies. Such investigations began prior to the Company's emergence from bankruptcy in April 2005. The Company has been cooperating with these investigations and has produced documents and made Company employees available for interviews as requested.

On June 1, 2006, the Company announced that the Audit Committee of the Board of Directors had completed its internal investigation of the Company's promotional allowance practices. The Audit Committee hired independent counsel to perform the investigation. The Audit Committee found that the Company had engaged in certain improper practices principally relating to the premature recognition of promotional allowances and that these practices had largely ceased by the time of the Company's Chapter 11 filing in May 2003. On February 3, 2006, the Company announced that the employment of the Company's Chief Marketing Officer and the Company's Vice-President, Non-Perishables Marketing had been terminated following an interim report to the Audit Committee on the findings of the investigation.

On September 17, 2007, the SEC filed civil fraud charges against the Company's former Chief Marketing Officer and former Vice-President, Non-Perishables Marketing alleging that such individuals orchestrated a scheme to inflate the Company's income and other financial results by prematurely recognizing promotional allowances received from vendors from approximately the second quarter of fiscal year 2001 through at least the fourth quarter of fiscal year 2003. The complaint further alleges that the individuals deceived the Company's accounting personnel to carry out their fraudulent scheme and aided and abetted violations of the Exchange Act of 1934 and rules thereunder. In addition, on the same date, the United States Attorney for the Northern District of New York announced that a federal grand jury has returned an indictment against the abovementioned individuals on related criminal charges. Both the SEC and the United States Attorney indicated that their investigations are continuing.

In connection with these matters, the Company could be subject to damage claims, fines or penalties. At present, the Company is unable to estimate the likelihood of an unfavorable outcome or the amount of any damage claims, fines or penalties in the event of an unfavorable outcome and, accordingly, no liability has been recorded for this contingency.

The Company enters into various purchase commitments in the ordinary course of business. In the opinion of management, no losses are expected to result from these purchase commitments. In connection with the five-year supply agreement for general merchandise and health and beauty products (see Note 10), the Company is obligated to pay a fee of 1.5% of the amount by which purchases by the Company are less than \$20 million in each six month period during the term of the agreement.

See Note 6 with respect to commitments under outstanding stand-by letters of credit. At February 3, 2007, the Company is also committed under an aggregate of \$7.4 million of surety bonds which are required to be maintained for up to three years from the date of issuance.

Note 13 – Stock Award Plan

On December 15, 2006, the Company established the 2006 Omnibus Award Plan (the “Award Plan”). Pursuant to the provisions of the Award Plan, the Company can grant stock options, restricted stock, phantom stock and stock appreciation rights. The amount of shares of common stock that can be granted are limited to 902,268 in the aggregate.

On December 15, 2006, the Company granted an aggregate of 150,000 shares of phantom stock to two officers of the Company. The awards provide for a payment in cash on the settlement date of May 1, 2009, or earlier in certain circumstances, of the difference between the value of the Company’s common stock on the grant date and the settlement date. In accordance with SFAS 123(R) the awards are being accounted for as compensation expense and a corresponding liability over the period to settlement date based on changes in the value of the Company’s common stock. Compensation expense and a corresponding liability amounting to \$0.06 million was recognized during the year ended February 3, 2007 in connection with such grant.

On May 14, 2007, the Company granted an aggregate of 22,685 shares of phantom stock to five non-officer directors. The awards provide for a payment in cash on the settlement date, which is the earlier of when the individual ceases to be a member of the Company’s Board of Directors or upon the occurrence of a change in control, as defined, of the value of an equivalent number of shares of common stock. The award was fully vested upon the grant date, and the Company will record a compensation charge with a corresponding liability for the fair value of the awards at date of grant. The liability will be adjusted based on changes in value of the Company’s common stock, with a corresponding adjustment to compensation expense, at each period to settlement date.

Note 14 – Segment Information

The Company operates in two segments – the retail food business and the wholesale food distribution business. The retail food business consists of 106 supermarkets which the Company operates. The wholesale food distribution business supplies 119 independent operators with food and related products. In fiscal period 2006, the Company had allocated warehouse and transportation costs based on each segment's percentage of total shipments. In fiscal year 2007, the allocation method was changed to include order size and distance from the warehouse. The effect of this change was to increase the operating income of the retail food segment and decrease the operating income of the wholesale food distribution segment by \$4.9 million for the year ended February 3, 2007.

The Company's senior management utilizes more than one measurement to evaluate segment performance and allocate resources. However, the dominant measures utilized are revenues and operating income before depreciation and amortization and unallocated overhead expenses.

The accounting policies of the reportable segments are the same as those described in Note 3 except that the Company accounts for inventory on a FIFO basis at the segment level compared to LIFO basis at the consolidated level. The tables below present information for the year ended February 3, 2007 and the period ended January 28, 2006 with respect to operating segments as well as reconciliations to consolidated information (in thousands).

Year Ended February 3, 2007

	Retail Food	Wholesale Food Distribution	Reconciling Items		Total
Revenues	\$1,068,188	\$ 217,320	\$ 25,397	⁽¹⁾	\$1,310,905
Cost of sales	(755,524)	(206,017)	(15,596)	⁽²⁾	(977,137) ⁽⁴⁾
Selling and administrative expense	(257,910)	(5,429)	(59,332)	⁽³⁾	(322,671) ⁽⁴⁾
Loss on store closings	<u>-</u>	<u>-</u>	<u>(1,308)</u>		<u>(1,308)</u>
Operating income (loss) before depreciation and amortization	54,754	5,874	(50,839)		9,789
Depreciation and amortization	<u>(25,153)</u>	<u>(1,060)</u>	<u>(1,272)</u>	⁽⁵⁾	<u>(27,485)</u>
Operating income (loss)	29,601	4,814	(52,111)		(17,696)
Interest expense	-	-	-		(9,357)
Reorganization costs	-	-	-		<u>(1,020)</u>
Consolidated loss before income taxes					<u>\$ (28,073)</u>
Total assets as of February 3, 2007	\$ 240,875 ⁽⁶⁾	\$ 25,703 ⁽⁶⁾	\$ 45,407 ⁽⁷⁾		\$ 311,985
Capital expenditures for the year ended February 3, 2007	\$ 20,408	\$ -	\$ 2,518		\$ 22,926

- (1) Consists principally of approximately \$17.0 million for bakery sales primarily to customers other than those of the retail and wholesale segments and approximately \$6.3 million for trucking revenues.
- (2) Consists principally of approximately \$10.6 million for bakery sales and approximately \$1.5 million increase in cost of sales to reconcile segment inventories on FIFO to consolidated inventories on LIFO.
- (3) Consists principally of approximately \$32.0 million of payroll, benefits, and payroll taxes associated with the administrative staff, approximately \$6.1 million associated with selling and administrative costs of the bakery, approximately \$5.6 million of contract hauling costs associated with trucking revenue, approximately \$11.4 million of professional fees (including approximately \$4.1 million of legal costs associated with the internal and SEC investigation relating to the Company's practices regarding promotional discounts and allowances), approximately \$2.1 million for data processing maintenance and \$1.1 million for corporate insurance costs.
- (4) Excludes depreciation and amortization of \$4.3 million for cost of sales and \$23.2 million for selling and administrative expenses.
- (5) Consists of depreciation on bakery and corporate fixed assets.
- (6) The warehouse and transportation assets have been allocated using the same methodology as that which was used for the warehouse and transportation costs described above. The effect of the change in allocation method in fiscal year 2007 was to increase the assets of the wholesale food distribution segment and decrease assets of the retail food segment by \$4.3 million.
- (7) Consists principally of fixed assets and inventory of the bakery operation and general corporate assets (including cash and cash equivalents).

Period Ended January 28, 2006

	Retail Food	Wholesale Food Distribution	Reconciling Items	Total
Revenues	\$ 824,340	\$ 171,907	\$ 19,646	\$1,015,893 ⁽¹⁾
Cost of sales	(579,288)	(158,656)	(13,715)	(751,659) ⁽²⁾ ⁽⁴⁾
Selling and administrative expense	(207,260)	(6,438)	(26,343)	(240,041) ⁽³⁾ ⁽⁴⁾
Loss on store closings	<u>-</u>	<u>-</u>	<u>(520)</u>	<u>(520)</u>
Operating income (loss) before depreciation and amortization	37,792	6,813	(20,932)	23,673
Depreciation and amortization	<u>(16,568)</u>	<u>(1,337)</u>	<u>(1,170)</u>	<u>(19,075)</u> ⁽⁵⁾
Operating income (loss)	21,224	5,476	(22,102)	4,598
Interest expense				(8,289)
Reorganization costs				<u>(1,023)</u>
Consolidated loss before income taxes				<u>\$ (4,714)</u>
Total assets as of January 28, 2006	\$ 290,230 ⁽⁶⁾	\$ 23,744 ⁽⁶⁾	\$ 15,233 ⁽⁷⁾	\$ 329,207
Capital expenditures for the period ended January 28, 2006	\$ 16,649	\$ -	\$ 3,884	\$ 20,533

- (1) Consists principally of approximately \$12.2 million for bakery sales primarily to customers other than those of the retail and wholesale segments and approximately \$5.1 million for trucking revenues.
- (2) Consists principally of approximately \$10.8 million for bakery sales and approximately \$1.5 million increase in cost of sales to reconcile segment inventories on FIFO to consolidated inventories on LIFO.
- (3) Consists principally of approximately \$22.3 million of payroll, benefits, and payroll taxes associated with the administrative staff, approximately \$2.5 million of contract hauling costs associated with trucking revenue, and approximately \$2.2 million of legal costs associated with the internal and SEC investigation relating to the Company's practices regarding promotional discounts and allowances.
- (4) Excludes depreciation and amortization of \$3.3 million for cost of sales and \$15.7 million for selling and administrative expenses.
- (5) Consists of depreciation on bakery and corporate fixed assets.
- (6) The warehouse and transportation assets have been allocated using the same methodology as that which was used for the warehouse and transportation costs.
- (7) Consists principally of fixed assets and inventory of the bakery operation and general corporate assets (including cash and cash equivalents).

Note 15 – Allowance for Doubtful Accounts

An analysis of the changes to the allowance for doubtful accounts for the year ended February 3, 2007 and the period ended January 28, 2006 is as follows (in thousands):

Balance at April 16, 2005	\$ 3,243
Additions charged to costs and expenses	2,540
Accounts written off, net of recoveries	<u>(2,609)</u>
Balance at January 28, 2006	3,174
Additions charged to costs and expenses	1,324
Accounts written off, net of recoveries	<u>(762)</u>
Balance at February 3, 2007	<u>\$ 3,736</u>

Note 16 – Supplemental Cash Flow Information

	Year Ended February 3, 2007	Period Ended January 28, 2006
	<u> </u>	<u> </u>
Cash paid for interest	\$ 7,183	\$ 4,309
Cash paid for income taxes	\$ -	\$ -

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On September 6, 2006, Deloitte & Touche, LLP resigned as our independent registered public accounting firm.

Deloitte never rendered an audit report with respect to our financial statements for any period. During the fiscal years ended January 29, 2005 and January 28, 2006 and through Deloitte's resignation on September 6, 2006, there had been no disagreement between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Deloitte, would have caused it to make a reference to the subject matter of the disagreement in connection with its reports.

Except as described below, during the fiscal years ended January 29, 2005 and January 28, 2006 and through Deloitte's resignation on September 6, 2006, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K). In connection with its resignation, Deloitte informed us that it was unwilling to rely on representations from our former internal General Counsel. Further, as a result of the interim findings of the Audit Committee's investigation that we had engaged in certain improper practices principally relating to the premature recognition of promotional allowances, which has been previously disclosed, Deloitte had advised us that it would need to expand significantly the scope of its audit. However, due to its resignation, Deloitte did not expand the scope of its audit.

We furnished a copy of the above disclosure to Deloitte and requested that Deloitte furnish us with a letter addressed to the Securities and Exchange Commission stating whether or not it agreed with such disclosure. Deloitte subsequently furnished us with a letter addressed to the Securities and Exchange Commission in which Deloitte agreed with the disclosure statements made by us.

On September 22, 2006, we announced that we had hired the accounting firm of Eisner LLP to serve as our independent auditor.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Disclosure controls and procedures under Rule 13a-15(e) of the Exchange Act are those controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(e) under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures with the participation of our principal executive and principal financial officers. Mr. Panasuk, who was our President and Chief Executive Officer as of February 3, 2007, accepted that position in December 2006. Mr. Young, our current President and Chief Executive Officer, has been employed by us since July 2006 but did not become our President and Chief Executive Officer until October 2007. Our Senior Vice-President and Chief Financial Officer was not with us during fiscal year 2007. Based on their observations, combined with observations by members of management, members of the audit committee and external counsel, management concluded that our disclosure controls and procedures were ineffective as of February 3, 2007 in providing reasonable assurance that material information requiring disclosure was brought to management's attention on a timely basis and that our financial reporting was reliable.

(b) Management's Assessment of Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and the board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. It is the management's responsibility to establish and maintain adequate internal control over financial reporting.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our current President and Chief Executive Officer and Senior Vice President and Chief Financial Officer were not in these positions during fiscal year 2007 and our management during fiscal year 2007 did not conduct an assessment of our internal control over financial reporting. Based on our current management's current observations combined with observations by the disclosure committee, our current management has assessed that our internal control over financial reporting as of February 3, 2007 was not effective.

Eisner LLP, our registered independent public accounting firm, has issued a report in which they stated that they were unable to express an opinion on the effectiveness of our internal control over financial reporting as of February 3, 2007. As stated in Eisner LLP's report below, we lacked a sufficient complement of personnel possessing the appropriate knowledge, experience and training to timely prepare and file reliable year-end financial statements and an Annual Report on Form 10-K. This control deficiency affects substantially all financial statement accounts and could result in a material misstatement in our interim or annual consolidated financial statements that would not be prevented or detected.

We have taken several actions to remediate the material weakness. We are in the process of restructuring our finance functions to ensure that we optimize our personnel structure. We are also evaluating our current finance personnel to ensure competency for each position. Based upon that evaluation we will take the required actions necessary to remediate the deficiency. Furthermore, we are re-engineering our monthly closing process to not only increase the timeliness and efficiency of our closing process but also to improve our supporting analytics and documentation.

(c) Change in our Internal Control Over Financial Reporting

Management did not conduct an evaluation of the effectiveness of our internal control over financial reporting as of February 3, 2007. In May 2007, we hired an outside consulting firm to assist management in its evaluation of the effectiveness of our internal controls over financial reporting, including disclosure controls and procedures. They have since determined they will use the framework established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
The Penn Traffic Company
Syracuse, New York

We were engaged to audit management's assessment as to whether The Penn Traffic Company ("the Company") maintained effective internal control over financial reporting as of February 3, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

We were unable to complete an audit of the Company's internal control over financial reporting as of February 3, 2007, because, as described in Item 9A of this Form 10-K, management did not conduct an evaluation of the effectiveness of the Company's internal control over financial reporting as of such date. Further, management did not provide us with adequate documentation to support an evaluation of the effectiveness of the Company's internal control over financial reporting, including documentation with respect to the design of controls over all relevant assertions related to all significant accounts and disclosures in the financial statements. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Although we were unable to complete an audit of the Company's internal control, we have identified the following material weakness. The Company lacked a sufficient complement of personnel possessing the appropriate knowledge, experience and training in order to timely prepare and file reliable year-end financial statements and Annual Report on Form 10-K. This control deficiency affects substantially all financial statement accounts that could result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. The existence of one or more material weaknesses as of February 3, 2007 would preclude a conclusion that the Company's internal control over financial reporting was effective as of that date. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 consolidated financial statements, and this report does not affect our report dated September 6, 2007 on those financial statements.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Since management did not conduct an evaluation of the effectiveness of the Company's internal control over financial reporting as of February 3, 2007, and we were unable to apply other procedures to satisfy ourselves as to the effectiveness of the Company's internal control over financial reporting, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the effectiveness of the Company's internal control over financial reporting as of February 3, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of February 3, 2007 and January 28, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended February 3, 2007 and the period from April 17, 2005 to January 28, 2006, and our report dated September 6, 2007 expressed an unqualified opinion thereon.

/s/ Eisner LLP

New York, New York
September 6, 2007

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

As described in Part I, Item 1 of the Form 10-K, on May 30, 2003, we filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. Members of the Board of Directors following our emergence from Chapter 11 were included in our plan of reorganization and are listed below along with their age as of February 3, 2007 and biographical information. We have not held a meeting of stockholders to elect directors since we emerged from bankruptcy on April 13, 2005.

We held 21 board meetings during the 53-week period ended February 3, 2007. Each director attended at least 90% of the meeting of the Board of Directors, plus meetings of committees on which the particular director served.

Directors during fiscal 2007

Name and Age

Biographical Information

Robert J. Kelly
Age: 62
Director since April 2005

Mr. Kelly has been our Chairman of the Board since April 2005. Mr. Kelly was Chairman of the Board of Reorganized Eagle Food Center Inc. from 2003 to present. Prior to that, between 2000 and 2003, Mr. Kelly was the Chairman of the Board of Eagle Food Centers, Inc., during which time he led Eagle through a successful reorganization of their senior debt and an orderly liquidation of the company. Prior to that, from 1995 to 2000, Mr. Kelly was the Chairman, President and CEO of Eagle Food Centers, Inc. Prior to joining Eagle Food Centers, Mr. Kelly was employed by The Vons Companies, from 1963 to 1995 in various management positions, including Executive Vice-President of Retailing.

John E. Burke
Age: 66
Director since April 2005

Mr. Burke served as a consultant for Nestle USA through 2006, and has worked at Nestle since 1971. From 1991 through August, 2004, Mr. Burke was the Vice-President of Credit and Collections for Nestle USA in the United States. Prior to that, in 1979, Mr. Burke was appointed Assistant Treasurer of Nestle Corporation. Mr. Burke has chaired or served on a number of Official Unsecured Creditors' Committees, including that of Fleming Companies, Inc. Mr. Burke has also served as a Director of Cumberland Farms, the National Food Manufacturers Credit Group, the Delaware Valley Credit Management Association, and the New York Credit and Financial Management.

Kevin P. Collins
Age: 57
Director since 1999

Mr. Collins has been a member and a Principal of The Old Hill Company, LLC (financial advisory services company) since 1997. Mr. Collins was a Principal of JHP Enterprises, Ltd. (financial advisory services) from 1991 to 1997. Mr. Collins serves as a Director of Key Energy Services, Inc. (provider of oilfield services to the oil and gas industry), and Powersecure International Inc. (formally Metrotek Technologies, Inc. as provider of information services to the energy industry). Mr. Collins is a director of Contractors Holding Inc. and a CFA charterholder.

Ben Evans
Age: 77
Director since April 2005

Mr. Evans has served or is currently serving as a Director of Revco D.S., Inc., Kash n' Karry Food Stores, Inc., Jamesway Corporation, Megafood Stores, Inc., Furr/Bishop, Inc., Gibson's Discount Centers, Inc., Salant Corporation, Accord Financial Corp., Hampton Industries, Inc., Levitz Furniture, and Factory Card & Party Outlet. Mr. Evans is a CPA and is a member and chairman of various audit committees. Mr. Evans is our audit committee financial expert. Mr. Evans joined S.D. Leidesdorf & Company, predecessor firm to Ernst & Young in 1954, became a partner at that firm in 1968, and retired from Ernst & Whinney as a partner in 1989. From 1978 through 1989, Mr. Evans was a member of Ernst & Whinney corporate financial service group. From 1989 until 1999, Mr. Evans was a consultant for the firm of Ernst & Young in their corporate financial services group.

Alan C. Levitan
Age: 64
Director since April 2005

Mr. Levitan currently serves on the Board of the New Jersey Community Food Bank, the Academy of Food Marketing at St. Joseph's University, and the Arts Council of the Morris area in New Jersey. Mr. Levitan is a former Director of the Food Marketing Institute and former Vice Chairman of the New Jersey Food Council. Mr. Levitan was also employed by Kings Super Markets in New Jersey in various management positions, including President and CEO. Prior to that, Mr. Levitan was employed by Purity Supreme, Inc. for many years, progressing through a variety of positions, including Senior Vice-President of Marketing and Merchandising and Division General Manager.

Robert R. Panasuk
Age: 51
Director from December 2006

Mr. Panasuk was President & Chief Executive Officer, serving in this role from December 2006 through October 2007. Mr. Panasuk joined Penn Traffic in October 2006 as Senior Vice-President, Co-Chief Operating Officer. Mr. Panasuk was Executive Vice-President of A&P from 2004 to 2005 where he was responsible for Merchandising, Marketing and Distribution for U.S. Operations. From 2002 to 2004 he served as President of Waldbaum's Inc., and from 2001 to 2002 he was Executive Vice-President A&P Canada. Mr. Panasuk resigned from the Board in October 2007 in connection with his resignation as President and Chief Executive Office.

Gregory J. Young
Age: 51
Director since December 2006

Mr. Young is President and Chief Executive Officer, serving in this role since October 2007. Mr. Young was Senior Vice-President – Chief Marketing & Distribution Officer of the Company between July and December 2006 and Executive Vice-President and Chief Operating Officer between December 2006 and October 2007. From 2003 until he became associated with Penn Traffic, Mr. Young served as an executive with C&S Wholesale Grocers, first as Vice-President of Perishables and then as Vice-President/General Manager of C&S Retail. From 2001 to 2003 Mr. Young was Group Vice-President/General Manager for A&P Super Foodmart. From 2000 to 2001 he served as Vice-President of Store Operations and from 1999 to 2000 he served as Vice-President of Sales & Merchandising for A&P Super Foodmart. Prior to 1999, Mr. Young served for more than 25 years in a number of management and other positions at the Company and its subsidiary, P&C Foods.

Kurt M. Cellar
Age: 37
Director since June 2007

Mr. Cellar joined Bay Harbour Management in 1998. Mr. Cellar is a Chartered Financial Analyst. He is currently a director of Hardwood Lumber Manufacturing and a former director of Telcove.

Scott Sozio
Age: 27
Director since June 2007

Mr. Sozio joined Bay Harbour in November 2004. Prior to joining Bay Harbour, Mr. Sozio worked at CIBC World Markets in the Financial Restructuring Group.

There are no family relationships among our directors and executive officers.

The members of the Compensation Committee as of February 3, 2007 are Messrs. Burke and Kelly. Mr. Burke is Chairman of the Compensation Committee. During fiscal year 2007 Mr. Panasuk served as an advisor to the committee. The Compensation Committee reviews the annual recommendations of the Chief Executive Officer concerning the compensation of certain of our employees, including the compensation plans, retirement plans and fringe benefit plans in which such persons participate, and makes reports and recommendations with respect to such matters to our Board of Directors. The Compensation Committee, which held 9 meetings during fiscal year 2007, also administers our 2006 Omnibus Award Plan, see “Item 11. Executive Compensation – Compensation Discussion and Analysis” below.

The members of the Audit Committee as of February 3, 2007 are Messrs. Evans, Collins and Levitan. Mr. Evans is Chairman of the Audit Committee and our audit committee financial expert. The Audit Committee held 24 meetings during fiscal year 2007.

Executive Officers for Fiscal Year 2007

<u>Name</u>	<u>Age</u>	<u>Position Held</u>
Robert R. Panasuk	51	Chief Executive Officer and President
Charles C. Bostwick	57	Vice-President of Information Technology and Chief Information Officer
Gregory J. Young	51	Executive Vice-President – Chief Operating Officer
Randy P. Martin	51	Senior Vice-President-Finance
Daniel J. Mahoney	40	Vice-President, General Counsel and Secretary

Executive officers are appointed by the Board of Directors and hold office until their successors have been appointed or until their earlier resignation or removal from office. A brief biography of each executive officer is presented below.

Mr. Panasuk served as our President and Chief Executive Officer during fiscal year 2007 until his resignation in October 2007. Mr. Panasuk joined us in October 2006 as Senior Vice-President, Co-Chief Operating Officer. Mr. Panasuk was Senior Vice-President of A&P from 2004 to 2005 where he was responsible for Merchandising, Marketing and Distribution for U.S. Operations. From 2002 to 2004 he served as President of Waldbaums' Inc., and from 2001 to 2002 he was Executive Vice-President A&P Canada.

Mr. Bostwick held the position of Vice-President of Information Technology and Chief Information Officer with us between 1998 and 2007. From 1993 to 1998 Mr. Bostwick held top IT positions for various divisions of Whirlpool, Asian Division. Mr. Bostwick was Vice-President, MIS & Chief Information Officer, Long Drugstore, 1989 to 1993. Between 1986 and 1989 he was Director of Computing and Communication Services, Bekins.

Mr. Young was our Executive Vice-President & Chief Operating Officer, during fiscal year 2007. Upon Mr. Panasuk's resignation in October 2007, Mr. Young was promoted to President and Chief Executive Officer. Mr. Young was Senior Vice-President – Chief Marketing & Distribution Officer between July and December 2006. From 2003 until he became associated with us, Mr. Young served as an executive with C&S Wholesale Grocers, first as Vice-President of Perishables and then as Vice-President/General Manager of C&S Retail. From 2001 to 2003 Mr. Young was Group Vice-President/General Manager for A&P Super Foodmart. From 2000 to 2001 he served as Vice-President of Store Operations and from 1999 to 2000 he served as Vice-President of Sales & Merchandising for A&P Super Foodmart. Prior to 1999, Mr. Young served for more than 25 years in a number of management and other positions at P&C Foods and its subsidiaries.

Mr. Martin served as our Senior Vice-President-Finance from March 2005 until January 2007. From January 1999 until March 2005 Mr. Martin held the position of Vice-President-Finance and Chief Accounting Officer. From 1997 until January 1999, he served as our Vice-President of Strategic Planning and Treasurer. From 1993 to 1997, Mr. Martin served as our Director of Taxes. From 1984 to 1993, Mr. Martin was employed by Price Waterhouse in various positions, including Senior Tax Manager from 1991 to 1993.

Mr. Mahoney joined us in January 2007 as Vice-President and General Counsel. Previously Mr. Mahoney had been an attorney at the Boston, MA firm of Nutter, McClennen & Fish LLP (1994 – 2004), where his clients included Shaw's Supermarkets, Inc. and Shop Rite. He then moved to in house counsel roles for Shaw's Supermarkets (2004 – 2005) and C&S Wholesale Grocers (2006). Mr. Mahoney's legal practice has focused in the area of labor and employment law. He is a cum laude graduate of Harvard College and a magna cum laude graduate from Boston University School of Law.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Objectives

We structure our executive compensation programs in a manner that links them to our overall financial and strategic objectives and aligns the interests of our executives with the interests of our shareholders.

In support of these principal objectives, we designed our compensation strategy to:

- provide a competitive compensation package that enables us to attract, retain, and motivate highly talented executives necessary for our current and long-term success
- provide annual incentive compensation that is based on the attainment of pre-established financial and operational results and short and long-term strategic objectives
- reward individual performance as measured against individual functional area performance objectives
- create a culture of accountability and commitment to our core values of integrity, respect, responsibility, learning and ethics

Executive Compensation Process

To meet the objectives of our compensation strategy and to ensure that executive officer compensation does not exceed reasonable and competitive levels, our Compensation Committee approves annually the financial objectives and personal goals for each named executive officer. The achievement of financial objectives and personal goals determine the potential payout amount under our Management Performance Incentive Plan, as described in detail under “Management Performance Incentive Plan” as described below in the “Elements of Compensation” section.

I. President and Chief Executive Officer Compensation Process

Our Compensation Committee meets with our President and Chief Executive Officer at the beginning of each fiscal year to establish his financial and individual strategic performance objectives, as detailed under the “Fiscal Year 2007 Management Performance Incentive Plan Description by Position” section below. Our Compensation Committee conducts an annual performance review of our President and Chief Executive Officer assessing his achievement of the financial and individual business results against those set at the beginning of the fiscal year. Using the performance review and the competitive benchmark guidelines as discussed in the “Competitive Benchmarking” section below, our Compensation Committee makes a salary recommendation to our non-employee members of the Board of Directors for the salary and bonus levels of our President and Chief Executive Officer. After discussing the Compensation Committee’s recommendation and making any changes deemed necessary, our non-employee members of the Board of Directors then vote on the compensation.

II. Senior Executive Compensation Process

For each of our other executive officers, our President and Chief Executive Officer provides a recommendation for their salary and bonus levels to our Compensation Committee. Our President and Chief Executive Officer's recommendation assesses the achievement of the financial and individual functional area business results against the goals established by the Compensation Committee at the beginning of the fiscal year. Our Compensation Committee uses this recommendation in conjunction with their own assessment of the executive's performance to determine salary levels. No specific weight is assigned to any one factor; rather the Compensation Committee determines the executive's compensation at their discretion, based on overall performance. The Compensation Committee then presents their recommendation to the non-employee members of the Board of Directors. After discussing the Compensation Committee's recommendation and making any changes deemed necessary, our non-employee members of the Board of Directors then vote on the recommendation.

Our Compensation Committee relies on a report from the Stanton Group, our Compensation Committee's independent compensation consultant, to benchmark the compensation of our named executive officer's and other senior executives' compensation against our competitors and other relevant peer companies. This benchmarking process helps our Compensation Committee to make sure that the compensation packages they approve are competitive within the market. See "Competitive Benchmarking" and "Base Salary" under the "Elements of Compensation" sections below for the specific proxy peer group, salary surveys group and base salary targets information.

Competitive Benchmarking

Our Compensation Committee annually evaluates our named executive officers' specific compensation levels against competitive benchmark data. The Compensation Committee has retained the Stanton Group as an independent compensation consultant to provide competitive market data and outside knowledge in the development of executive compensation and retention strategies.

The Stanton Group uses two sources to establish the competitive benchmark salary levels: proxy data from a Peer Group and Salary Survey Groups.

We target the base salary compensation levels for our executives at twenty-five percent of the average executive compensation levels paid by the companies in our peer group and survey group, as identified below. We feel this is necessary to meet the objective of attracting and retaining the executive talent necessary for our success.

The salary level used to compare our executive compensation salaries is calculated as follows:

- calculate the twenty-fifth percentile for the proxy peer group
- calculate the twenty-fifth percentile for the salary survey groups
- average these two numbers resulting in one combined salary total

Fiscal Year 2007 Proxy Peer Group

We gathered proxy data for companies that we feel represent a key competitive group for executive talent, as determined by our Compensation Committee along with recommendations from the Stanton Group. The fiscal year 2007 proxy peer group consisted of:

Ingles Markets, Inc	Spartan Stores, Inc.
Weis Markets, Inc.	Marsh Supermarkets, Inc.
Wild Oats Markets, Inc.	Foodarama Supermarkets, Inc.

The proxy peer group reflects retail industry organizations with comparable sales, number of employees, and organizational structure.

Fiscal Year 2007 Salary Survey Groups

The published market surveys and their component companies used by Stanton Group for competitive benchmarking were as follows:

Watson Wyatt Executive Database

Alex Lee, Inc.	Price Chopper Supermarkets/ The Golub Corporation
Associated Food Stores, Inc.	Publix Super Markets, Inc
Big Y Foods, Inc.	Safeway, Inc.
Brookshire Grocery Company	Sears Holdings Corporation
C&S Wholesale Grocer, Inc.	Sprouts Farmers Market, LLC.
Fresh Market, Inc. (The)	Stop & Shop Supermarket Company
Giant Food Stores, LLC.	Supervalu, Inc.
Hannaford Brothers Company	Wegmans Food Markets, Inc.
Harris Teeter Supermarkets, Inc	Whole Foods Market, Inc.
Kroger Company (The)	Winn-Dixie Stores, Inc.
Minyard Food Stores, Inc.	

Stanton Group Wholesale-Retail Survey

Alex Lee, Inc	Marsh Supermarkets, LLC
Associated Grocers, Inc.	Nash Finch Company
Associated Wholesale Grocers, Inc.	Pathmark Stores, Inc.
BI-LO, LLC	Price Chopper/The Golub Corporation
Big Y Foods, Inc.	Safeway, Inc.
Brookshire Grocery Company	Spartan Stores, Inc.
Hy-Vee, Inc.	Stop and Shop Supermarket Company
Kroger Company (The)	Winco Foods, LLC

Custom Survey Conducted by Stanton Group for Harris Teeter (another retail grocer)

Golub Corporation	Pathmark Stores, Inc.
Harris Teeter, Inc.	Publix Super Markets
Ingles Markets, Inc.	Ukrop's Super Markets, Inc.
Nash Finch Company	

The Economic Research Institute Salary Assessor Database

The component companies are not available for this survey.

These sources cover a range of different size organizations in the retail industry. The selected companies were based on organizations of a reasonably similar size and operation with revenues between \$1.0 billion and \$2.1 billion and reflect the market in which we compete for executive talent.

The data from the salary surveys are then subjectively weighted to create a survey composite for each position. The weightings were determined based on the strength of the match between our job position and the salary survey job, the number of companies behind this data, the geographic similarities, and how strongly the data reflected our labor market.

Elements of Compensation

The elements of compensation for our executive officers are:

- base salary
- Management Performance Incentive Plan (short-term annual, non-equity performance based cash incentive pay)
- 2006 Omnibus Award Plan (long term equity based incentive program)
- perquisites (relocation)
- retirement and other employee benefits
- post employment benefits

Compensation Mix

Subject to final approval by the non-employee members of the Board of Directors, our Compensation Committee determines the value of our executive officer pay packages. We allocate each executive officer's total compensation among the various elements listed above, with a heavier weighting on short-term and long-term performance based elements.

Base Salary: As discussed in the "Base Salary" section below, we target executive pay at the twenty-fifth percentile of comparable positions at peer group and salary survey companies.

Short-Term (Annual) Non-Equity Performance Based Cash Incentive Compensation (Management Performance Incentive Plan): The cash incentive was targeted to be at the median (fiftieth percentile) of the market competitive benchmark as discussed in the "Competitive Benchmark" section below.

Long-Term Equity Based Compensation: The non-employee members of the Board of Directors determine this element of pay, using the fiftieth percentile proxy peer and survey groups competitive benchmark. We believe the long term equity award provides an incentive for our executives to increase our market value, as represented by our common stock price, since our long term equity incentive is directly tied to our fair value of the common stock.

Base Salary

Base salary is fixed compensation provided to our named executive officers and other executives. Base salaries provide our executives with a degree of financial certainty that is not based on financial performance and supports our Compensation Committee's objective of providing competitive compensation to attract and retain the highest quality talent necessary for our long term success.

The competitive benchmarking, as described above, provided by the Stanton Group, is the primary factor used by our Compensation Committee to determine the base salary level.

In general, we benchmarked the pay of all executive officers, as well as any new executive officer hired in fiscal year 2007, at the twenty-fifth percentile of companies with revenues between \$1.0 and \$2.1 billion. We feel this benchmark level is necessary to meet our objective of attracting and retaining executive talent necessary for our success.

Our Compensation Committee reviewed each of the salaries for fiscal year 2007 for our named executive officers. Based on their review of the competitive benchmarking data provided by the Stanton Group for our named executive officers, the Compensation Committee determined that the current compensation levels for several of the executive officer positions were below the twenty-fifth percentile benchmark. We put our executive officers who were below twenty percent or more of the twenty-fifth percentile benchmark on a six month salary increase schedule, each February and July, to incrementally bring their salaries up to the twenty-fifth percentile benchmark level. We have summarized the base salaries paid to our named executive officers for fiscal year 2007 in the following table:

Summary of the Annual Base Compensation for Fiscal Year 2007

Name	Date of Salary Change	Annual Salary	Comments
Robert R. Panasuk	10/03/2006	\$375,000	Hired as Senior Vice-President and Co-Chief Operating Officer
Robert R. Panasuk	12/12/2006	500,000	Promoted to President and Chief Executive Officer
Robert C. Chapman	1/29/2006	463,600	Benchmark increase
Robert C. Chapman	7/30/2006	477,611	Benchmark increase
Gregory J. Young (1)	7/17/2006	300,000	Hired as Senior Vice-President of Distribution and Chief Marketing Officer
Gregory J. Young	10/03/2006	375,000	Promoted to Senior Vice-President and Co-Chief Operating Officer
Gregory J. Young	12/12/2006	400,000	Promoted to Executive Vice-President and Chief Operating Officer
Randy P. Martin	1/29/2006	236,242	Benchmark increase
Francis D. Price	1/29/2006	176,667	Benchmark increase
Francis D. Price	7/30/2006	184,573	Benchmark increase
David A. Adamsen	1/29/2006	172,840	Benchmark increase
Charles C. Bostwick	1/1/2005	\$208,000	No increase given in fiscal year 2007, already at or above benchmark

- (1) On July 17, 2006 we hired Mr. Young at a salary higher than the twenty-fifth percentile benchmark. We believe it was appropriate to compensate Mr. Young above the twenty-fifth percentile benchmark due to the immediate business need to fill the vacant position of Senior Vice-President and Chief Marketing Officer, his previous 25 years of experience with us, and to provide succession planning for the positions of Executive Vice-President and Chief Operating Officer and President and Chief Executive Officer.

The fiscal year 2007 base salary paid to each of the named executive officers is listed in the “Summary Compensation Table for Fiscal Year 2007” below.

Management Performance Incentive Plan (Short-term Annual, Non-equity Performance Based Cash Incentive Pay)

We are committed to a compensation philosophy that rewards performance. The Management Performance Incentive Plan is an annual performance based plan designed to support our pay for performance philosophy by rewarding those employees who are instrumental in exceeding the established performance goals tied to our profitability.

Our named executive officers, other executive officers and other members of management participate in the Management Performance Incentive Plan. The President and Chief Executive Officer, along with our other named executive officers’ presents the upcoming fiscal year budget to the Board of Directors. The non-employee members of the Board of Directors reviews the budget, making any changes deemed necessary, which establishes the upcoming fiscal year targets for financial objectives under the Management Performance Incentive Plan.

We determined the potential incentive bonus amounts by position using the fiftieth percentile bonus compensation benchmark, as provided by Stanton, from our competitive proxy peer groups. We used this benchmark because we believe that executive compensation should correlate with financial performance. We give more weight to performance-based incentives when we establish total compensation levels for each executive officer. As a result, the executive officer has an element of risk attached to their total compensation that is dependent on our financial performance.

The personal goals for executive management are set after discussions between our Compensation Committee and our President and Chief Executive Officer. Our President and Chief Executive Officer then meets and communicates their personal goals to the named executive officers.

For fiscal year 2007, we based the Management Incentive Plan upon the achievement of net operating profit before taxes.

Net operating profit before taxes is defined as sales less the cost of product and operating expenses, such as payroll, benefits, supplies, utilities, repairs and maintenance, outside services, insurance, rent, and bad debt (see “Loss Before Income Taxes” on the “Consolidated Statement of Operations” in Item 8. “Financial Statements and Supplemental Data.”)

We must achieve 100% of budgeted net operating profit before taxes, as established by our Board of Directors, for there to be an incentive payment under any portion of the Management Performance Incentive Plan; there is no guarantee of a payment under any part of the Management Performance Incentive Plan.

We calculate the amount of the annual performance cash incentive as a percentage of the executive’s base salary. We believe correlating the base salary with the amount of the potential annual incentive compensation appropriately takes into account the varying levels of responsibility for each position. Thus, as a position takes on added responsibility the base salary increases, and the annual performance cash incentive component will increase as well.

Incentive Payout Formula Weighting

- 70% of the total potential incentive payment based on achievement of net operating profit before taxes
- 30% based on personal goals

The personal goals focused on implementation of strategic initiatives for each executive’s functional area, or in the case of the President and Chief Executive Officer, overall strategic initiatives. To determine the personal goal payout, the Compensation Committee would have analyzed each goal separately and determined through discussions with each named executive officer if the goal was achieved.

In fiscal year 2007 we did not achieve our targeted net operating profit before taxes, therefore no named executive officer received compensation under the Management Performance Incentive Plan. This is reflected under the “Non-Equity Incentive Plan Compensation” column in the “Summary Compensation Table for Fiscal Year 2007” below.

Fiscal Year 2007 Management Performance Incentive Plan Description by Position

Robert R. Panasuk and Gregory J. Young, Senior Vice-Presidents and Co-Chief Operating Officers: Effective 10/3/2006

Potential Incentive Bonus Payment: 45% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 90%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	31.5% Base Salary	13.5% Base Salary	45% Base Salary
150% Achievement of Net Operating Profit Before Taxes	63% Base Salary	27% Base Salary	90% Base Salary

Mr. Panasuk Individual Personal Goals	-Reduce number of non-performing stores -Conduct distribution center studies to identify and achieve financial targets -Complete rollout of "Fresh store" concept which is a combination of upgraded fresh departments in capital project stores and expanded fresh product offerings in all stores
Mr. Young Individual Personal Goals	-Achieve budgeted inventory goals -Reduce general administration costs -Complete rollout of "Fresh store" concept which is a combination of upgraded fresh departments in capital project stores and expanded fresh product offerings in all stores

Robert R. Panasuk, President and Chief Executive Officer: Effective 12/12/2006

Potential Incentive Bonus Payment: 75% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 150%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	52.5% Base Salary	22.5% Base Salary	75% Base Salary
150% Achievement of Net Operating Profit Before Taxes	105% Base Salary	45% Base Salary	150% Base Salary

Individual Personal Goals	-Reduce number of non-performing stores -Conduct distribution center studies to identify and achieve financial targets -Complete rollout of "Fresh store" concept which is a combination of upgraded fresh departments in capital project stores and expanded fresh product offerings in all stores
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Gregory J. Young, Executive Vice-President and Chief Operating Officer: Effective 12/12/2006

Potential Incentive Bonus Payment: 60% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 120%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	42% Base Salary	18% Base Salary	60% Base Salary
150% Achievement of Net Operating Profit Before Taxes	84% Base Salary	36% Base Salary	120% Base Salary

Individual Personal Goals	-Achieve budgeted inventory goals -Reduce general administration costs -Complete rollout of "Fresh store" concept which is a combination of upgraded fresh departments in capital project stores and expanded fresh product offerings in all stores
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Robert J. Chapman, Former President and Chief Executive Officer

Potential Incentive Bonus Payment: 50% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 100%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	35% Base Salary	15% Base Salary	50% Base Salary
150% Achievement of Net Operating Profit Before Taxes	70% Base Salary	30% Base Salary	100% Base Salary

Individual Personal Goals	-Reduce number of non-performing stores -Conduct distribution center studies to identify and achieve financial targets -Complete rollout of "Fresh store" concept which is a combination of upgraded fresh departments in capital project stores and expanded fresh product offerings in all stores
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Randy P. Martin, Former Senior Vice-President-Finance

Potential Incentive Bonus Payment: 45% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 90%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	31.5% Base Salary	13.5% Base Salary	45% Base Salary
150% Achievement of Net Operating Profit Before Taxes	63% Base Salary	27% Base Salary	90% Base Salary

Individual Personal Goals	-Reduce business cost through improved technology -Reduce general administration costs -Develop program to reduce energy costs
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Dave A. Adamsen, Vice-President of Manufacturing and Wholesale and Charles C. Bostwick, Former Vice-President of Information Technology and Chief Information Officer

Potential Incentive Bonus Payment: 40% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 80%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	28% Base Salary	12% Base Salary	40% Base Salary
150% Achievement of Net Operating Profit Before Taxes	56% Base Salary	24% Base Salary	80% Base Salary

Mr. Adamsen Individual Personal Goals	-Grow Penny Curtiss sales volume -Grow wholesale food distribution sales volume -Reduce bad debt reserve for Penny Curtiss and Wholesale
Mr. Bostwick Individual Personal Goals	-Complete computer based training in all stores -Complete IBM Point of Sale Systems in remaining stores -Implement electronic check processing

Francis D. Price, Former Vice-President, General Counsel, Secretary

Potential Incentive Bonus Payment: 40% of base salary, with an additional 5% bonus for every additional \$1.0 million of net operating profit before taxes, up to a maximum bonus rate of 90%.

Actual Net Operating Profit Before Taxes vs. Target Net Operating Profit Before Taxes	Total Net Operating Profit Before Taxes Incentive Payment Weighted (70%)	Personal Goals Incentive Payment Weighted (30%)	Total Percent Incentive Payment (100%)
Under 100% Achievement Net Operating Profit Before Taxes	0%	0%	0%
100% Achievement of Net Operating Profit Before Taxes	28% Base Salary	12% Base Salary	40% Base Salary
150% Achievement of Net Operating Profit Before Taxes	63% Base Salary	27% Base Salary	90% Base Salary

Individual Personal Goals	-Contain and reduce legal fees -Sell excess assets -Upgrade contract schedules for more detailed information for company-wide access
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2006 Omnibus Award Plan (Long Term Equity Based Incentive Program)

Our Board adopted the 2006 Omnibus Award Plan on December 15, 2006.

The purpose of the 2006 Omnibus Award Plan is to provide a means to attract and retain talented individuals and to provide a means for employees and directors to acquire and maintain common stock or be paid incentive compensation measured by the value of our common stock. This is intended to strengthen the commitment of our employees and our Board of Directors to our welfare and promote an identity of interest between these individuals and our shareholders.

We have granted phantom stock awards under the 2006 Omnibus Award Plan in fiscal year 2007 to Messrs. Panasuk and Young, as detailed in the “Summary Compensation Table for Fiscal Year 2007,” “Grants of Plan Based Awards for Fiscal Year 2007” tables and the accompanying narrative disclosure. The decision to grant these awards to Messrs. Panasuk and Young was made in conjunction with their respective promotions to the positions of President and Chief Executive Officer and Executive Vice-President and Chief Operating Officer. Additionally, we used phantom stock awards because they are directly tied to the value of our common stock and provide an incentive for our executives to increase our market value, as well as serving as a long-term retention tool.

Since the phantom stock is directly tied to the fair value of our common stock, we believe the phantom stock award provides an incentive for our executives to increase our market value through increases in our common stock price. Additionally, the phantom stock awards serve as a long term retention incentive and reward demonstrated and sustained superior performance.

Because we lack sufficient audited historical financial statements under SEC rules, we do not make awards that entitle our employees to receive shares. Instead, we make phantom awards that entitle the award recipient to receive a cash payment.

Perquisites (Relocation)

We do not offer our named executive officers substantial compensation in the form of perquisites. We offer an Enhanced Executive Relocation Plan covering the costs of purchasing and selling a primary residence. We feel it is important that our executives live in the geographical area in which we conduct business in. The amounts paid under our Enhanced Executive Relocation Plan in fiscal year 2007 are detailed in the “All Other Compensation for Fiscal Year 2007” table, below.

Retirement and Other Employee Benefits

We offer a defined contribution plan to assist our employees, including our named executive officers, in planning for retirement. The plan includes individual and company contributions.

1. 401(k) plan

We offer retirement benefits to our employees through a tax-qualified defined contribution 401(k) savings plan. This plan offers employees the opportunity to save towards retirement in a pretax account. The retirement benefits for our executive officers under the 401(k) savings plan are the same as those available to other eligible employees. If an employee contributes at least 3% of their weekly pay, we will match 50% of the first 3% of their pay, after one year of service. Individuals may contribute up to the maximum limit imposed by Section 402(g) of the Internal Revenue Service Code, currently \$15,500 a year.

2. Non-elective 401(k) contributions

Each year we make a non-elective contribution of 3% of total annual salary into the 401(k) savings plan for each eligible employee, including our executive officers. The 3% is based on gross salary paid in the calendar year and made the following year for employees with over 6 months of service at the end of the calendar year. This annual contribution allows our 401(k) savings plan to be qualified as a safe harbor plan, as defined by the Internal Revenue Service 401(k) regulations.

3. Health and other employee benefits

We also provide other customary employee benefits so that our overall compensation package is competitive. Medical, dental, vision, and disability insurance plans are offered, for which our executive officers are charged the same rates as all other employees. We do not offer separate medical or disability plans for our executive officers. The only additional executive employee benefit is travel life insurance, which is an enhanced life insurance and accidental death and dismemberment business travel coverage offered to executive officers with a maximum payable under the policy of \$1,000,000. Our costs of the premiums for this travel life insurance are included under “All Other Compensation for Fiscal Year 2007,” table below.

Employment Agreements

There are no employment agreements with any named executive officer or any other individual which constitute an employment contract offering a position for a guaranteed period of time. We do not have employment agreements since they would limit the right of our Board of Directors to terminate executives at their discretion, as determined by the current and future needs of the business. Terms of employment such as base salary, benefits, sign-on bonus (if applicable), eligibility for incentive plans, vacation, and severance are outlined in the employment offer letter sent to an individual when he or she is offered the position.

Post Employment Benefits

We have entered into Executive Change in Control Agreements, as approved by the Board of Directors on April 18, 2006, with our executives in order to assure the continuity of management during a change in control, and to make sure our executives can evaluate and respond to potential changes in control in the best interests of our shareholders, even if it means they work themselves out of their jobs. We also wish to provide certain financial assurances to our executive officers and other key employees who have had access to confidential information and have been instrumental in developing employee and customer relationships, all of which are valuable assets that we wish to protect in a change in control situation. The specifics of this plan, including potential payments on a change in control are discussed in the “Potential Payment Upon Termination or Change in Control” section below.

Tax Considerations

The Compensation Committee monitors changes in the regulatory environment when assessing the financial efficiency of the various elements of the executive compensation program.

Section 162(m) of the Internal Revenue Code generally limits the amount of compensation paid to the named executives which we can deduct on our taxes to \$1 million a year. However, performance-based compensation, as determined under tax regulations, in excess of \$1 million would still be tax deductible.

We consider the tax deductibility of any element of executive compensation when we structure our overall compensation program. Although we intend that all compensation paid to our named executive officers be deductible under Section 162(m) of the Internal Revenue Code, the Compensation Committee may, at its discretion, choose to pay compensation that does not qualify for deductibility if they determine that is in our best interest.

Compensation Committee Report

Following the fiscal year 2007 review, with guidance from the Stanton Group, our Compensation Committee believes that the elements of executive compensation were appropriate and reasonable.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis as required by Item 402(b) of the Regulation S-K with management, and based on the review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our annual report on Form 10-K.

John E. Burke, Chairman of the Compensation Committee
Robert J. Kelly, Non-Executive Chairman of the Board of Directors and Compensation Committee Member

Compensation Committee Interlocks and Insider Participation

During fiscal year 2007, Messrs. Burke and Kelly served as members of our compensation committee. None of the members of our compensation committee during such year had any relationships required to be disclosed under Item 407(e)(4) of Regulation S-K.

Tabular Disclosure of Executive and Director Compensation

Summary Compensation Table for Fiscal Year 2007

Name and Position	Salary \$ (1)	Bonus \$ (2)	Stock Awards \$ (3)	All Other Compensation \$ (4)	Total \$
Robert R. Panasuk President and Chief Executive Officer	\$ 149,038	\$ 75,000	\$ 32,643	\$ 92,628	\$ 349,309
Robert J. Chapman Former President and Chief Executive Officer	369,572	-	-	139,327	508,899
Randy P. Martin Former Senior Vice-President- Finance	240,785	-	-	21,514	262,299
Gregory J. Young President and Chief Executive Officer	197,115	75,000	16,322	162,256	450,693
Francis D. Price Jr. Former Vice-President, General Counsel, Secretary	152,224	-	-	50,756	202,980
David Adamsen Vice-President of Manufacturing and Wholesale	176,164	-	-	18,955	195,119
Charles C. Bostwick Vice-President of Information Technology and Chief Information Officer	\$ 212,000	\$ -	\$ -	\$ 18,362	\$ 230,362

- (1) Reflects base salary the named executive earned during fiscal year 2007. Messrs. Panasuk and Young's salaries represent the applicable portion for time worked, of their salaries documented in the "Offer Letters for Names Executive Officers Hired or With a Change of Position in Fiscal year 2007" table below.
- (2) Reflects Messrs. Panasuk and Young's sign-on bonus paid in increments based on the terms of the individual executive's offer letter.
- (3) Amounts set forth represent the dollar amount recognized for financial statement reporting purposes for fiscal year 2007 as computed in accordance with SFAS 123(R) which is a revision of FASB Statement No. 123 "Accounting for Stock-Based Compensation," disregarding estimates of forfeitures related to service-based vesting conditions. In accordance with SFAS 123(R) the awards are being accounted for as compensation expense and a corresponding liability over the period to settlement date based on changes in the value of our common stock using the Black-Scholes method. As of February 3, 2007 the following was used to calculate the fair market value of this compensation:

Valuation Date	12/15/2006
Expiration Date	5/1/2009
Stock Price	\$15.00
Grant Price	\$12.33
Term	2.4
Risk-free rate	4.96%
Volatility	40%
Dividend yield	0%

4) The amounts shown in this column are detailed in the additional table “All Other Compensation for Fiscal Year 2007,” below.

All Other Compensation For Fiscal Year 2007

Name	401(k) Employer Match \$	401(k) 3% Non-elective Contribution \$	Relocation \$ (1)	Income/Excise Tax Gross Up \$ (2)	Company Paid Health and Other Benefits \$	Severance \$ (3)	Total \$
Robert R. Panasuk	\$ -	\$ -	\$ 32,376	\$ 59,095	\$ 1,157	\$ -	\$ 92,628
Robert J. Chapman	3,315	14,131	-	-	11,663	110,218	139,327
Randy P. Martin	3,339	7,079	-	-	11,096	-	21,514
Gregory J. Young	-	10,421	68,789	77,106	5,940	-	162,256
Francis D. Price	2,337	5,407	-	-	11,067	31,945	50,756
David A. Adamsen	2,974	5,209	-	-	10,772	-	18,955
Charles C. Bostwick	\$ 3,180	\$ 6,281	\$ -	\$ -	\$ 8,901	\$ -	\$ 18,362

- (1) In fiscal year 2007, Messrs. Panasuk and Young each received a relocation bonus of \$15,000 in lieu of a company car, in accordance with their offer letters. In addition, Mr. Panasuk received \$17,376 for temporary living expenses. Mr. Young received \$22,389 for expenses incurred in the selling of his previous residence, \$25,140 for moving expenses and \$6,260 for the closing costs related to the purchase of his new residence.
- (2) Amounts shown include tax gross-ups provided in connection with the sign-on bonus and relocation expenses paid pursuant to the named executive officer’s offer letter.
- (3) Severance was paid to Messrs. Chapman and Price in fiscal year 2007 based on the terms of their severance agreements, as disclosed in the narrative to the “Summary Compensation for Fiscal Year 2007” table.

Payments for Former Named Executive Officers Fiscal Year 2007

In connection with the resignation of Mr. Chapman as our President and Chief Executive Officer, effective as of October 2, 2006, he is entitled to receive severance payments pursuant to his severance agreement, which entitles him to 78 weeks of severance pay based on an annualized salary of \$477,611. Additionally, Mr. Chapman will continue to receive health care, life insurance and 401(k) contributions through the severance payout period.

In connection with the resignation of Mr. Price as our Vice-President, General Counsel and Secretary, effective as of November 10, 2006, he is entitled to receive severance payments pursuant to his severance agreement, which entitles him to 52 weeks of severance pay based on an annualized salary of \$184,573. Additionally, Mr. Price will continue to receive health care, life insurance and 401(k) contributions through the severance payout period.

In connection with the resignation of Mr. Martin as our Senior-Vice-President-Finance, effective as of January 26, 2007, he is entitled to receive severance payments pursuant to his severance agreement, which entitles him to 52 weeks of severance pay based on an annualized salary of \$236,242. Additionally, Mr. Martin will continue to receive health care, life insurance and 401(k) contributions through the severance payout period.

In connection with the resignation of Mr. Bostwick as our Vice-President of Information Technology and Chief Information Officer, effective as of June 1, 2007, he is entitled to receive severance payments pursuant to his severance agreement, which entitles him to 52 weeks of severance pay based on an annualized salary of \$208,000. Additionally, Mr. Bostwick will continue to receive health care, life insurance and 401(k) contributions through the severance payout period.

Grants of Plan Based Awards For Fiscal Year 2007

Name	Grant Date (1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (b)			All Other Stock Awards, Number of Shares of Stock or Units #	Grant Date Fair Value of Stock and Option Awards \$
		Threshold	Target \$ (2)	Maximum \$ (2)		
Robert R. Panasuk						
Management Incentive Plan	-	-	\$ 95,192	\$ 190,384	-	\$ -
2006 Omnibus Award Plan	12/15/07	-	-	-	100,000	556,214
Robert J. Chapman						
Management Incentive Plan	-	-	235,302	470,605	-	-
Randy P. Martin						
Management Incentive Plan	-	-	106,308	212,616	-	-
Gregory J. Young						
Management Incentive Plan	-	-	87,032	174,064	-	-
2006 Omnibus Award Plan	12/15/07	-	-	-	50,000	278,107
Francis D. Price, Jr.						
Management Incentive Plan	-	-	72,248	144,496	-	-
David A. Adamsen						
Management Incentive Plan	-	-	69,136	138,272	-	-
Charles C. Bostwick						
Management Incentive Plan	-	-	\$ 83,200	\$ 166,400	-	\$ -

- (1) The grant date used for the phantom stock awarded in fiscal year 2007 is the date that our Board of Directors adopted and approved the 2006 Omnibus Award Plan.
- (2) The target amount shown potentially could have been paid if net operating profit before taxes had been achieved at 100% and personal goals had been achieved at 100%. The potential maximum amount would be payable upon achieving 200% of the targeted net operating profit before taxes and 100% of the personal goals. As reflected in the "Summary Compensation Table for Fiscal Year 2007," no named executive officer received a payout under this plan in fiscal year 2007.

Narrative Discussion to the Summary Compensation Tables and Grants of Plan Based Awards

Fiscal Year 2007 Management Performance Incentive Plan (short term annual, non-equity performance based cash incentive pay)

In fiscal year 2007 we did not achieve our targeted net operating profit before taxes, and no named executive officer received compensation under our Management Performance Incentive Plan. This is reflected under the “Non-Equity Incentive Plan Compensation” column in the “Summary Compensation Table for Fiscal Year 2007” above.

2006 Omnibus Award Plan (Long Term Equity Based Incentive Program)

Our Board of Directors adopted the 2006 Omnibus Award Plan on December 15, 2006.

So that the appropriate incentive can be provided, the plan provides for granting incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, phantom stock awards, stock bonuses, and performance compensation awards, or any combination of the above.

1. Phantom Stock Awards

On December 15, 2006, our Board of Directors approved a phantom stock award of 100,000 shares to Mr. Panasuk and 50,000 shares to Mr. Young. The decision to grant these awards to Messrs. Panasuk and Young was made in conjunction with their respective promotions to the positions of President and Chief Executive Officer and Executive Vice-President and Chief Operating Officer.

The phantom stock award granted to Messrs. Panasuk and Young is a cash award whose value is determined based on the positive excess, if any, of the fair market value of one share of common stock on the settlement date over the fair market value of such share on the effective date.

The phantom awards will settle on the earlier of (a) May 1, 2009, (b) a change in control, as such term is defined in the 2006 Omnibus Award Plan, or (c) the death or disability, as defined under section 409A of the Internal Revenue Code, of the reporting person.

The detailed amounts and values of the phantom stock incentive awarded for fiscal year 2007 are shown in the “Grants of Plan-Based Awards for Fiscal Year 2007” table.

2. Phantom Stock Award Grant Date and Price

Our Board of Directors is responsible for setting the grant dates and approving the amount and exercise price of any stock or option awards. Our executive officers are not involved in the process of granting equity awards or in setting the grant price.

Under the 2006 Omnibus Award Plan, the fair market value of our common stock on any given date is equal to the average of the high bid and low ask price of our common stock on the Pink Sheets, LLC as of the most recent trading day proceeding such date on which a sale of our common stock occurred.

We do not have a plan, program, or practice to time the grants of equity based awards granted to the named executive officers with the release of material nonpublic information. The grant date used for the equity awards is the date the award is extended.

Named Executive Officer Personnel Changes Fiscal Year 2007

In fiscal year 2007 a number of changes in personnel were made at the executive level. We made these changes in response to our financial performance.

The following are the named executive officer personnel changes during fiscal year 2007 to present:

- Robert J. Chapman resigned as President and Chief Executive Officer October 2, 2006.
- Robert R. Panasuk and Gregory Young were named Senior Vice-Presidents and Co-Chief Operating Officers on October 3, 2006.
- Robert R. Panasuk was named President and Chief Executive Officer on December 12, 2006.
- Gregory J. Young was named Executive Vice-President and Chief Operating Officer on December 12, 2006.
- Francis D. Price, Jr. resigned as Vice-President, General Counsel and Secretary on November 10, 2006.
- Daniel J. Mahoney was named Vice-President, General Counsel effective January 16, 2007.
- Randy P. Martin resigned as Senior Vice-President Finance as of January 26, 2007.
- Tod A. Nestor was named Senior Vice-President Chief Financial Officer on May 14, 2007.
- Charles C. Bostwick resigned as Vice-President of Information Technology and Chief Information Officer as of June 1, 2007.
- Lynn A. Leitzel was named Vice-President and Chief Information Officer on June 4, 2007.
- On September 30, 2007 Mr. Panasuk resigned as President and Chief Executive Officer for personal reasons. Mr. Young was named as President and Chief Executive Officer in a unanimous vote by the Board of Directors.

Offer Letter Summaries

We are using this additional table to summarize the terms of offer letters with named executive offices who were hired or changed position in fiscal year 2007

	Robert R. Panasuk	Robert R. Panasuk	Gregory J. Young	Gregory J. Young	Gregory J. Young
Effective Date of Position	10/02/2006	12/12/2006	7/5/2006	10/02/2006	12/12/2006
Position Title	Senior Vice-President and Co-Chief Operating Officer	President and Chief Executive Officer	Senior Vice-President and Chief Marketing Officer	Senior Vice-President and Co-Chief Operating Officer	Executive Vice-President and Chief Operating Officer
Salary	\$ 375,000	\$ 500,000	\$ 300,000	\$ 375,000	\$ 400,000
Sign On Bonus	100,000 (1)	-	100,000 (2)	-	-
Management Performance Incentive Plan	45% to 90% of Base Salary	75% to 150% of Base Salary	45% to 90% of Base Salary	45% to 90% of Base Salary	60% to 120% of Base Salary
Relocation	Enhanced Relocation Plan Grossed Up \$15,000 in lieu of company car	-	Enhanced Relocation Plan Grossed Up \$15,000 in lieu of company car	-	-
Vacation	4 weeks	-	4 weeks	-	-
Severance	52 weeks	-	52 weeks	-	-
Executive Change in Control Agreement	yes	-	yes	-	-
Equity (Phantom Shares)	-	100,000	-	-	50,000

- (1) A sign on bonus was paid to Mr. Panasuk for recruitment reasons. We paid a sign on bonus to attract and recruit Mr. Panasuk to us, taking into account the difficulty of recruiting high level talent to our geographical area and our financial history.
- (2) A sign on bonus was paid to Mr. Young for recruitment reasons. We paid a sign on bonus to attract and recruit Mr. Young to us, taking into account the difficulty of recruiting high level talent to our geographical area, our financial history, and to compensate him for the bonus compensation from his prior employer he gave up when he joined us.

We are using this additional table to summarize the material terms of offer letters with our named executive officers who were hired before fiscal year 2007, or who departed before the end of fiscal year 2007

	Robert J. Chapman	Randy P. Martin	Francis D. Price, Jr.	David A. Adamsen	Charles C. Bostwick
Effective Date of Position	03/29/2004	03/15/2005	2/22/1993	09/12/2005	03/16/1998
Position Title	President and Chief Executive Officer	Senior Vice-President Finance	Vice-President General Counsel, Secretary	Vice-President of Manufacturing and Wholesale	Vice-President of Information Technology and Chief Information Officer
Management Performance Incentive Plan	50% to 100% of Base Salary	As determined by the Board of Directors	-	As determined by the Board of Directors	As determined by the Board of Directors
Vacation	Company policy	Company policy	Company policy	5 weeks	Company policy
Severance	Company policy	Company policy	Company policy	9 months	Company policy
Executive Change in Control Agreement Date Signed	04/26/2006	04/26/2006	04/26/2006	04/26/2006	04/26/2006

Outstanding Equity Awards at Fiscal Year End 2007

Name	Stock Awards	
	Number of Shares or Units of Stock that have not Vested # (1)	Market Value of Shares or Units of Stock that have not Vested \$
Robert R. Panasuk Omnibus Award Plan	94,131	251,801
Gregory J. Young Omnibus Award Plan	47,066	125,900

- (1) The phantom awards will become vested on the earlier of (a) May 1, 2009, (b) a change in control, as such term is defined in the 2006 Omnibus Award Plan, or (c) the death or disability, as defined under section 409A of the Internal Revenue Code.

Director Compensation

The table below discloses non-employee director compensation for the fiscal year 2007. Our employee directors do not receive additional compensation for their service on the Board of Directors.

Each director receives an annual retainer of \$25,000. The non-executive Chairman of the Board receives an additional annual retainer of \$25,000. Each Chair of the Audit and Compensation Committees receives an additional \$5,000 per year. The fee received for personal attendance at Board meetings is \$1,500, committee meeting attendance is \$1,000, and for telephonic meetings is \$750. Additionally, we reimburse directors for travel and lodging expenses associated with attendance at our Board of Director meetings.

Our Board of Directors granted phantom stock awards under our 2006 Omnibus Award Plan on May 14, 2007 to Messrs. Burke, Collins, Evans, Levitan, and Kelly. Each recipient received a grant award of 4,537 shares of phantom stock. In addition, beginning in fiscal year 2009, non-employee members of the Board of Directors will receive an annual grant of phantom stock on the first Monday of our fiscal year. Each share of phantom stock entitles the individual to receive an amount in cash equal to the fair market value of one share of our common stock of the company on the settlement date of such share of phantom stock.

The settlement date is the earlier of (a) the business day following the date on which the reporting person ceases to be a member of our Board of Directors, (b) a change in control as defined in the 2006 Omnibus Award Plan, or (c) the death or disability (as defined under section 409A of the Internal Revenue Code) of the reporting person.

On June 29, 2006, we entered into a consulting agreement with Mr. Kelly, under which Mr. Kelly provided us consulting and advisory services. Mr. Kelly received \$3,000 for each day of service and reimbursement for reasonable expenses incurred in connection with the performance of duties. The amount of the consulting fees is shown in the "Director Compensation for Fiscal Year 2007" table below as "All Other Compensation." Mr. Kelly terminated his consulting agreement, and such payments ended, as of December 12, 2006.

Director Compensation For Fiscal Year 2007

Name	Fees Earned \$	All Other Compensation \$ (1)	Total \$
John E. Burke	\$ 57,344	\$ -	\$ 57,344
Kevin P. Collins	60,578	-	60,578
Ben Evans	71,078	-	71,078
Robert J. Kelly	38,594	207,000	245,594
Alan C. Levitan	\$ 62,336	\$ -	\$ 62,336

(1) Consulting fees paid to Mr. Kelly pursuant to the consulting agreement dated June 29, 2006

Potential Payments Upon Termination or Change in Control

The potential amounts payable to each named executive officer for the various termination scenarios are detailed.

1. Termination with no Change in Control

Pursuant to our written severance policy, in consideration for a release of claims, eligible Vice-Presidents and Senior Vice-Presidents are to be provided between 12 to 52 weeks salary and health care continuation after employment termination, and an eligible President and Chief Executive Officer is to be provided between 26 to 78 weeks of continued salary and health care coverage after employment termination. The severance policy defines eligibility and ineligibility criteria. An executive may be deemed ineligible for severance if the employment termination is a result of factors including one of the following: voluntary resignation, failure to meet performance goals, absenteeism, any violations of policy, or death.

3. Termination with Change in Control

We have entered into Executive Change in Control Agreements with Messrs. Panasuk, Young, Adamsen and Bostwick and the other members of the executive committee. Our Executive Change in Control Agreement is a double trigger agreement. A double trigger agreement means that two events, such as an involuntary termination (or voluntary termination for good reason) and a change in control, must occur for there to be any payment made under the agreement. Involuntary termination can occur without cause or voluntary resignation for good reason within two years following the effective date of a change in control. Good reason is defined as a material reduction in responsibilities, a reduction in salary, or a more than 50 mile change in location. Payments pursuant to a change in control take the place of, and are not supplemented by, amounts tied to the written severance policy described above.

Definition of change in control:

- an acquisition by any person of 50% or more of either the outstanding shares or combined voting power of our securities, excluding:
 - (a) acquisitions by us or any entity that is controlled by, controls or is under common control with us,
 - (b) acquisitions by an employee benefit plan we or an affiliate sponsors, or
 - (c) acquisitions by the individual executive who has signed the agreement,
- there is a change in the majority of the members of our board of directors which is not approved by our pre-change board of directors,
- our liquidation or dissolution
- a sale, transfer or other disposition of all or substantially all of our business or assets, or

- the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar transaction requiring shareholder approval, unless:
 - (a) the beneficial owners of more than 50% of the total voting power of our stock are the indirect beneficial owners of the voting stock of the resulting corporation in substantially the same proportions as their ownership before the transaction, and
 - (b) at least a majority of the members of the board of the resulting corporation were member of our board before the transaction.

The potential payments to our named executive officers under an involuntary termination or termination by key employee for good reason are:

- two times the higher of the annual rate of current base salary or the average annualized base salary of the prior 24 months;
- two times the average of the annual cash bonuses payable under the annual incentive plan for each of the three fiscal years prior to the effective date of the termination; and
- continuation of health and welfare benefits for one year

If any payments or benefits provided under our Executive Change in Control Agreement together with any other payments or benefits from us would cause the executive to be subject to the so-called “golden parachute excise tax” by operation of Internal Revenue Code Section 4999 (a tax levied on payments paid in connection with a change in control to certain officers, executives and other highly compensated employees which are unusually large in comparison to historic pay), the payments will be reduced if and to the extent necessary to avoid the imposition of the golden parachute excise tax. If we underwent a change in control on the last day of our 2007 fiscal year and Mr. Panasuk were terminated at that time, the payments to which he would have been entitled would have subjected him to the golden parachute excise tax. Although the severance formula would have delivered a \$1,000,000 payment to Mr. Panasuk, his payment would have been reduced by \$317,280 to avoid the golden parachute excise tax, and he would have only received \$682,720 in cash severance, as reflected in the table below.

The following table summarizes the potential payout amount for each listed scenario, assuming the change in control or termination event occurred on February 3, 2007, the last day of fiscal year 2007. Details of severance payments made to former named executive officers are shown in “All Other Compensation for Fiscal Year 2007.”

Potential Payments Upon Termination or Change in Control for Fiscal Year 2007

Name	Salary \$	Unpaid Prior Year Bonus \$ (1)	Accelerated Vesting of Equity Awards \$ (2)	Health Benefits	Total \$
Robert R. Panasuk					
Involuntary termination	\$ 500,000	\$ -	\$ -	\$ 5,917	\$ 505,917
Change in control	682,720	-	267,500	5,917	956,137
Death	-	-	267,500	-	267,500
Robert J. Chapman					
Actual severance	716,430	-	-	8,875	725,305
Randy P. Martin					
Actual severance	236,242	-	-	8,902	245,144
Gregory J. Young					
Involuntary termination	400,000	-	-	8,902	408,902
Change in control	800,000	-	133,750	8,902	942,652
Death	-	-	133,750	-	133,750
Francis D. Price					
Actual severance	184,573	-	-	8,902	193,475
David A. Adamsen					
Involuntary termination	172,840	-	-	8,902	181,742
Change in control	345,680	-	-	8,902	354,582
Charles C. Bostwick					
Involuntary termination	208,000	-	-	4,855	212,855
Change in control	\$ 416,000	\$ 41,600	\$ -	\$ 4,855	\$ 462,455

- (1) The bonus calculation upon a change in control is based on the average of the cash bonus paid in the prior three years. Mr. Bostwick had received incentive bonuses pursuant to the key employee retention plan in fiscal years 2005 and 2006. The key employee retention plan was discontinued in fiscal year 2006 and replaced in the fiscal year 2007 with the Management Performance Incentive Plan.
- (2) Upon a change in control or death of the employee, the phantom stock would vest immediately. For the calculation of the potential payment of the phantom stock award, we used the fair market value of our common stock of \$15.00 per share.
- (3) Messrs. Chapman, Martin, and Price have an amount listed under severance; each individual terminated employment during the fiscal year, and begin to receive his severance.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information known to us with respect to beneficial ownership of our common shares as of October 22, 2007 (unless otherwise indicated) by: (i) each person who beneficially owns 5% or more of our common shares; (ii) each of our directors; (iii) each of the persons named in the Summary Compensation Table set forth herein; and (iv) all directors and executive officers as a group. The information set forth below for 5% stockholders was derived from publicly available reports made by the persons listed below on Forms 13G and 13D. We have not attempted to verify any of this information. All shares of our common stock issued prior to the effective date of our plan of reorganization were deemed cancelled as provided in our plan of reorganization. Except as otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares beneficially owned by them. For purposes of this table, a person or group of persons is deemed to have “beneficial ownership” of any shares which such person or group of persons has the right to acquire within 60 days. For purposes of computing the percentage of outstanding shares held by each person or group of persons named below, any security which such person or persons has the right to acquire within 60 days (including shares which may be acquired upon exercise of warrants or upon exercise of vested portions of stock options) is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. On October 22, 2007, there were 8,297,697 shares of Common Stock outstanding.

Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class
Bay Harbour Management, L.C.(1) 885 Third Avenue New York, NY 10022	1,912,992	23.1%
Pension Benefit Guaranty Corporation (2) Agent: JP Morgan Investment Management, Inc 522 Fifth Avenue New York, NY 10036	1,874,134	22.6%
King Street Capital Management, L.L.C.(3) 65 East 55 th Street 30 th Floor New York, NY 10022	1,174,908	14.2%
CR Intrinsic Investors LLC (4) 72 Cummings Point Road Stamford, CT 06901	805,500	9.7%
Southpoint Capital Advisors, LP (5) 623 Fifth Avenue Suite 2503 New York, NY 10022	607,236	7.3%
All directors and executive officers as a Group (14-persons)	0	0%

John E. Burke, Kevin P. Collins, Ben Evans, Robert J. Kelly, Alan C. Levitan, Kurt M. Cellar, Scott Sozio, Robert J. Chapman, Charles G Bostwick, Randy P. Martin, Robert R. Panasuk, Gregory J. Young, Tod A. Nestor and Daniel J. Mahoney

- (1) As reported in the Schedule 13D (Amendment No. 5) filed with the SEC on February 16, 2007.
- (2) On September 28, 2005, JP Morgan Investment Management, Inc., or JPMIM, as agent for the PBGC and pursuant to an investment management agreement between JPMIM and PBGC, received 1,874,134 of our common shares, which shares were distributed to the PBGC in accordance to our plan of reorganization.
- (3) As reported in the Schedule 13D filed with the SEC on June 15, 2007.
- (4) As reported in the Schedule 13D filed with the SEC on October 22, 2007.
- (5) As reported in the Schedule 13G/A (Amendment No. 1) filed with the SEC on February 9, 2006.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the federal securities laws, the directors and executive officers and any persons holding more than 10% of our common shares are required to report their initial ownership of such shares and any subsequent changes in that ownership to the SEC. To our knowledge, based upon a review of the copies of the reports furnished to us and written representations that no other reports were required, these filing requirements were satisfied during fiscal year 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTORS INDEPENDENCE

On December 12, 2006, Robert J. Kelly, our Non-Executive Chairman of the Board, terminated the consulting agreement that he had entered into with us on June 29, 2006. Under the consulting agreement, Mr. Kelly had been providing certain consulting and advisory services to us, including certain services customarily performed by a chief executive officer of a corporation. We paid Mr. Kelly \$0.2 million for his services during the term of the agreement.

On October 30, 2007, our Board of Directors determined that Messrs. Burke, Collins, Evans, Levitan, Cellar, and Sozio are independent under the definition of independence of the NASDAQ Stock Market in effect on that date. The Board of Directors determined that Messrs. Young and Kelly are not considered independent directors under the NASDAQ rules for the following reasons: Mr. Young is an executive officer and employee; and, during fiscal year 2007, Mr. Kelly accepted compensation in excess of \$100,000 under his consulting agreement with us.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees billed by Eisner LLP for the audit of our financial statements for the 53-week period ended February 3, 2007, totaled approximately \$1.2 million. Such fees represented the total fees for audit services. There were no audit related tax or other fees billed by Eisner LLP related to services rendered during such period.

Pursuant to its Charter, the Audit Committee is required to pre-approve the audit services to be performed by the independent accountants in order to assure the provisions of such services does not impair the auditor's independence. All the above services do not impair the auditor's independence. All of the above services were approved by the Audit Committee in accordance with its pre-approval policy.

Annually, the independent accountants will present to the Audit Committee services expected to be performed by independent accountants over the next 12 months. The Audit Committee will review and, as it deems appropriate, pre-approve those services.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Our consolidated financial statements filed as part of this report appear beginning on page 50.

Exhibits:

The following are filed as Exhibits to this Report:

<u>Exhibit No.</u>	<u>Description</u>
2.1	First Amended Joint Plan of Reorganization of The Penn Traffic Company and its Affiliated Debtors and Debtors-in-Possession, dated February 4, 2005 (incorporated by reference to Exhibit 2.1 to Form 8-K filed on March 24, 2005).
2.2	Notice of Technical Modifications to the First Amended Joint Plan of Reorganization of The Penn Traffic Company and its Affiliated Debtors and Debtors in Possession under Chapter 11 of the Bankruptcy Code dated February 4, 2005 (incorporated by reference to Exhibit 2.3 to the Form 8-K filed on March 24, 2005).
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-A12G/A filed on April 13, 2005).
3.2	Amended and Restated By-Laws of Penn Traffic (incorporated by reference to Exhibit 2 to Form 8-A12G/A filed on June 29, 1999).
10.1	Global Settlement Agreement and Mutual Release, dated as of February 4, 2005, by and between The Pension Benefit Guaranty Corporation, the Official Committee of Unsecured Creditors and The Penn Traffic Company and its affiliated debtors (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on February 11, 2005).
10.2	Form of Change in Control Protection Agreement (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on April 18, 2006).

Exhibits (continued):

Exhibits No.

- 10.3 Credit Agreement, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; General Electric Capital Corporation; JP Morgan Chase Bank, N.A.; The CIT Group/Business Credit; GECC Capital Markets Group, Inc.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on September 12, 2006).
- 10.4 Supplemental Loan Credit Agreement, dated as of April 13, 2005, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; Kimco Capital Corp.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 99.2 to the Form 8-K filed on September 12, 2006).
- 10.5 Amendment, dated December 28, 2006, to the Credit Agreement, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; General Electric Capital Corporation; JP Morgan Chase Bank, N.A.; The CIT Group/Business Credit; GECC Capital Markets Group, Inc.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 10.5 to the Form 10-K filed on August 17, 2007).
- 10.6 Amendment, dated December 28, 2006, to the Supplemental Loan Credit Agreement, dated as of April 13, 2005, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; Kimco Capital Corp.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 10.6 to the Form 10-K filed on August 17, 2007).
- 10.7 Consulting Agreement, dated as of June 29, 2006, between The Penn Traffic Company and Robert J. Kelly (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on June 30, 2006).
- 10.8 Offer Letter, dated as of October 2, 2006, between The Penn Traffic Company and Robert Panasuk (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on October 6, 2006).
- 10.9 Offer Letter, dated as of December 12, 2006, between The Penn Traffic Company and Robert Panasuk (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on December 18, 2006).

Exhibits (continued):

Exhibits No.

- 10.10 Description of Material Terms of Compensation of Randy P. Martin (incorporated by reference to the Form 8-K filed on March 15, 2005).
- 10.11 Severance Agreement between The Penn Traffic Company and Randy P. Martin (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on February 1, 2007).
- 10.12 Offer Letter, dated May 2, 2007, between The Penn Traffic Company and Tod A. Nestor (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on May 9, 2007).
- 10.13 The Penn Traffic Company 2006 Omnibus Award Plan (incorporated by reference to Exhibit 99.4 to the Form 8-K filed on December 18, 2006).
- 10.14 Form of The Penn Traffic Company Phantom Stock Award Agreement (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on May 18, 2007).
- 10.15 Second Amendment, dated as of August 1, 2007, to the Credit Agreement, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; General Electric Capital Corporation; JP Morgan Chase Bank, N.A.; The CIT Group/Business Credit; GECC Capital Markets Group, Inc.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on August 14, 2007).
- 10.16 Second Amendment, dated as of August 1, 2007, to the Supplemental Loan Credit Agreement, dated as of April 13, 2005, among The Penn Traffic Company, Penny Curtiss Baking Company, Inc. and Big M Supermarkets, Inc., as borrowers; the other credit parties signatory thereto; Kimco Capital Corp.; and the other lenders signatory thereto from time to time (incorporated by reference to Exhibit 99.2 to the Form 8-K filed on August 14, 2007).
- 10.17 Promotion letter, dated October 1, 2007, addressed to Gregory J. Young (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on October 1, 2007).
- 16.1 Letter from Deloitte & Touche LLP to the Securities and Exchange Commission dated September 12, 2006 (incorporated by reference to Exhibit 99.1 to the Form 8-K filed on September 12, 2006).

Exhibits (continued):

Exhibits No.

- | | |
|------|--|
| 21.1 | Subsidiaries of The Penn Traffic Company (incorporated by reference to Exhibit 21.1 to the Form 10-K filed on August 17, 2007). |
| 31.1 | Certification of CEO pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of CFO pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of CEO pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2 | Certification of CFO pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code. |

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 as of the 31 day of October 2007.

THE PENN TRAFFIC COMPANY

By: /s/ Gregory J. Young
Name: Gregory J. Young
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on its behalf by the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ Robert J. Kelly</u> Robert J. Kelly	Chairman of the Board	October 31, 2007
<u>/s/ John E. Burke</u> John E. Burke	Director	October 31, 2007
<u>/s/ Kevin P. Collins</u> Kevin P. Collins	Director	October 31, 2007
<u>/s/ Ben Evans</u> Ben Evans	Director	October 31, 2007
<u>/s/ Alan C. Levitan</u> Alan C. Levitan	Director	October 31, 2007
<u>/s/ Kurt M. Cellar</u> Kurt M. Cellar	Director	October 31, 2007
<u>/s/ Scott Sozio</u> Scott Sozio	Director	October 31, 2007
<u>/s/ Gregory J. Young</u> Gregory J. Young	President and Chief Executive Officer and Director	October 31, 2007
<u>/s/ Tod A. Nestor</u> Tod A. Nestor	Senior Vice-President Chief Financial Officer	October 31, 2007

CERTIFICATION

I, Gregory J. Young, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Penn Traffic Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and
 - c) Disclosed in this 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 reasonably 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.

October 31, 2007
Date

By: /s/ Gregory J. Young
Gregory J. Young
President and Chief Executive Officer

CERTIFICATION

I, Tod A. Nestor, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Penn Traffic Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and
 - c) Disclosed in this 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 reasonably 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.

October 31, 2007
Date

By: /s/ Tod A. Nestor
Tod A. Nestor
Senior Vice-President Chief Financial
Officer

THE PENN TRAFFIC COMPANY

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Penn Traffic Company (the “Company”) on Form 10-K for the fiscal year ending February 3, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory J. Young, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) 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 results of operations of the Company.

Gregory J. Young
President and Chief Executive Officer

October 31, 2007

THE PENN TRAFFIC COMPANY

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Penn Traffic Company (the “Company”) on Form 10-K for the fiscal year ending February 3, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tod A. Nestor, Senior Vice-President Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) 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 results of operations of the Company.

Tod A. Nestor
Senior Vice-President Chief Financial Officer

October 31, 2007