

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

**FORM 10-K/A**

(X) 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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

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

**FORM 10-K/A INDEX**

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## **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.

### **Explanation**

The Penn Traffic Company (the "Company") is filing this amendment to Form 10-K for the fiscal year ended February 3, 2007, filed with the Securities and Exchange Commission on October 31, 2007 to reflect the results of a restatement and to report in Note 18 selected quarterly financial data as supplementary information to the basic financial statements. As a result of cancellation of debt in the Chapter 11 proceedings, the Company previously entirely eliminated all net operating loss carryforwards and reduced the tax basis of its long-lived assets effective January 29, 2006. During the year ended February 2, 2008, the Company corrected the amount of debt forgiveness in the Chapter 11 proceedings that reduced tax attributes which results in an increase aggregating \$66 million in the tax basis of its long-lived assets and net operating loss carryforwards. The correction resulted in an increase in deferred tax assets attributable to the net operating loss carryforwards, the recording of a related valuation allowance and a reduction in the deferred tax liability attributable to the increase in the tax basis of long-lived assets. The net effect of the above was a \$3.5 million reduction in the net deferred tax liability and a corresponding reduction in the carrying value of certain long-lived assets upon adoption of fresh-start reporting on April 16, 2005 and corresponding adjustments to income tax provision and depreciation expense for the period ended February 3, 2007 (see Note 4 to the consolidated financial statements).

We are amending the following to reflect the above.

#### **PART II**

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 8. Financial Statements and Supplementary Data

#### **PART IV**

Item 15. Exhibits and Financial Statement Schedules

Except as described above, no other changes have been made to our Annual Report on Form 10-K for the fiscal year ended February 3, 2007, as initially filed with the Securities and Exchange Commission on October 31, 2007 to reflect the result of a restatement.

## **PART II**

### **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 restated 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 and Restated) Successor Company		(Unaudited) Predecessor Company			
	53 Weeks Ended February 3, 2007 (1)	41 Weeks Ended January 28, 2006 (1)	11 Weeks Ended April 16, 2005	52 Weeks Ended January 29, 2005	52 Weeks Ended January 31, 2004	52 Weeks Ended February 1, 2003
	<b>Revenues</b>	\$ 1,310,905	\$ 1,015,893	\$ 265,260	\$ 1,285,148	\$ 1,307,977
<b>Costs and Operating Expenses:</b>						
Cost of sales (2)	981,419	754,995	195,533	955,609	973,393	999,880
Selling and administrative expenses (3)	345,523	255,503	71,414	312,826	325,388	319,118
Loss on store closings	1,308	520	-	-	-	-
Amortization of goodwill (5)	-	-	-	-	-	-
Asset impairment charge (4)	-	-	-	-	1,002	17,858
Goodwill impairment charge (5)	-	-	-	-	22,832	28,397
<b>Operating (Loss) Income</b>	(17,345)	4,875	(1,687)	16,713	(14,638)	(16,816)
Interest expense (6)	9,357	8,289	1,755	12,365	32,018	35,479
Gain on extinguishment of debt (7)	-	-	(182,831)	-	-	-
Reorganization expenses (8)	1,020	1,023	71,117	19,060	30,818	-
<b>(Loss) income from Continuing Operations Before Income Taxes and Discontinued Operations</b>	(27,722)	(4,437)	108,272	(14,712)	(77,474)	(52,295)
Provision (benefit) for income taxes (9)	228	261	(23,945)	251	755	(8,565)
<b>(Loss) Income from Continuing Operations before Discontinued Operations</b>	(27,950)	(4,698)	132,217	(14,963)	(78,229)	(43,730)
Loss from discontinued operations, net of tax (10)	-	-	(3,133)	(8,994)	(84,163)	(4,337)
<b>Net (Loss) Income</b>	\$ (27,950)	\$ (4,698)	\$ 129,084	\$ (23,957)	\$ (162,392)	\$ (48,067)
<b>Net Loss Per Share (Basic and Diluted)</b>	\$ (3.29)	\$ (0.55)				

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	307,467	325,391	414,579	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)	92,725	118,799	-	(133,606)	(99,021)	61,739

**Other Data:**

EBITDA (11)	11,317	25,130	3,100	39,511	31,596	53,506
Depreciation and amortization	27,134	18,798	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) As a result of cancellation of debt in the Chapter 11 proceedings (see Note 2), the Company previously entirely eliminated all net operating loss carryforwards and reduced the tax basis of its long-lived assets effective January 29, 2006. During the year ended February 2, 2008, the Company corrected the amount of debt forgiveness in the Chapter 11 proceedings that reduced tax attributes which results in an increase aggregating \$66 million in the tax basis of its long-lived assets and net operating loss carryforwards.

The correction resulted in an increase in deferred tax assets attributable to the net operating loss carryforwards and the recording of a related valuation allowance and a reduction in the deferred tax liability attributable to the increase in the tax basis of long-lived assets. The net effect of the above was a \$3.5 million reduction in the net deferred tax liability and a corresponding reduction in the carrying value of certain long-lived assets upon adoption of fresh-start reporting on April 16, 2005. See Note 4 on the consolidated financial statements related to restatement.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) 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.
- 7) 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.

- 8) 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.
- 9) At February 3, 2007, we had a net operating loss carryforward for federal and state income tax purposes of approximately \$58.9 million available to offset future taxable income through 2027. See Note 4 of the audited condensed consolidated financial statements.

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.

- 10) 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.
- 11) 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 Restated		(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	\$ (17,345)	\$ 4,875	\$ (1,687)	\$ 16,713	\$ (14,638)
Depreciation and amortization	27,134	18,798	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)
<b>EBITDA</b>	<b>\$ 11,317</b>	<b>\$ 25,130</b>	<b>\$ 3,100</b>	<b>\$ 39,511</b>	<b>\$ 31,596</b>	<b>\$ 53,506</b>

**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 and restated 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.

	<b>(Audited and Restated)</b> <b>53-Weeks Ended February 3, 2007</b>	<b>(Audited and Restated)</b> <b>41-Weeks Ended January 28, 2006</b>
Revenues	100.0%	100.0%
Gross profit (1)	25.1	25.7
Selling and administrative expenses	26.4	25.1
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 provision	0.0	0.0
Net loss	(2.1)	(0.5)

(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 \$345.5 million or 26.4% of revenues, compared to \$255.5 million or 25.1% 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 \$27.1 million or 2.1% of revenues, for the 53-week period ended February 3, 2007 compared to \$18.8 million or 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.

**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.

**Income Tax Provision**

The income tax provision for the 53-week period ended February 3, 2007 was \$0.2 million and less than 0.1% of revenues. Income tax provision for the 41-week period ended January 28, 2006 was \$0.3 million and less than 0.1% of revenues.

During Fiscal 2007 and 2006 we provided for only minimal state taxes and capital/franchise tax.

**Net Loss**

Net loss for the 53-week period ended February 3, 2007 was \$28.0 million or 2.1% of revenues, compared to a net loss of \$4.7 million or 0.5% 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 \$8.3 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.

	<b>(Audited and Restated)</b>	<b>(Unaudited)</b>
	<b>Successor Company</b>	<b>Predecessor Company</b>
	<b>41-Weeks Ended January 28, 2006</b>	<b>11-Weeks Ended April 16, 2005</b>
Revenues	100.0%	100.0%
Gross profit (1)	25.7	26.3
Selling and administrative expenses	25.1	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 provision	0.0	(9.0)
Discontinued operations	0.0	1.2
Net (loss) income	(0.5)	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 \$255.5 million, or 25.1% 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 \$18.8 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 \$4.9 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.

**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.

**Income Taxes**

Income tax provision for the 41-week period ended January 28, 2006 was \$0.3 million, or less than 0.1% of revenues. For the 11-week period ended April 16, 2005, the income tax provision was \$23.9 million, or 9.0% 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 January 29, 2005, we had approximately \$58.9 million of federal net operating loss carryforwards, as well as certain state net operating loss carryforwards.

**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 \$4.7 million, or 0.5% 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):

<b>Commitment expires during the Fiscal Year Ending</b>	<b>Long-term Debt (1)</b>	<b>Capital Lease Obligations (2)(3)</b>	<b>Operating Leases (3)</b>	<b>Other Long-term Liabilities (4)</b>	<b>Total Contractual Cash Obligations</b>
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

- (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 5 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):

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

- (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**

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**

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 12 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

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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:	
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## 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.

As discussed in Note 4 to the consolidated financial statements, the 2007 and 2006 financial statements have been restated to correct a misstatement.

The selected quarterly financial data required by item 302(a) of Regulation S-K, which had previously been omitted, is included in Note 18 to the consolidated 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 13 and the effects of the restatement discussed in Note 4, as to which the dates are September 17, 2007 and April 11, 2008, respectively.

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

	<b>February 3, 2007</b>	<b>January 28, 2006</b>
	<u>Restated (Note 4)</u>	<u>Restated (Note 4)</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
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	<u>8,469</u>	<u>6,157</u>
	<u>168,277</u>	<u>169,026</u>
<b>Capital Leases:</b>		
Capital leases	12,023	12,023
Less: Accumulated amortization	<u>(2,168)</u>	<u>(1,026)</u>
	<u>9,855</u>	<u>10,997</u>
<b>Fixed Assets:</b>		
Land	9,313	11,588
Buildings	13,214	13,621
Equipment and furniture	94,742	83,378
Vehicles	7,766	6,749
Leasehold improvements	<u>9,050</u>	<u>5,062</u>
	134,085	120,398
Less: Accumulated depreciation	<u>(37,597)</u>	<u>(15,999)</u>
	<u>96,488</u>	<u>104,399</u>
<b>Other Assets:</b>		
Intangible assets (Note 6)	25,188	33,025
Deferred tax asset	3,621	2,609
Other assets	<u>4,038</u>	<u>5,335</u>
	<u>32,847</u>	<u>40,969</u>
<b>Total Assets</b>	<u>\$ 307,467</u>	<u>\$ 325,391</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)

	<b>February 3, 2007</b>	<b>January 28, 2006</b>
	<u>Restated (Note 4)</u>	<u>Restated (Note 4)</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of obligations under capital leases (Note 5)	\$ 1,472	\$ 1,310
Current maturities of long-term debt (Note 7)	314	278
Accounts payable	34,704	36,695
Other current liabilities (Note 8)	49,653	46,294
Accrued interest expense	30	557
Deferred income taxes (Note 10)	13,542	13,302
Liabilities subject to compromise (Note 9)	2,696	2,871
	<u>102,411</u>	<u>101,307</u>
<b>Non-current Liabilities:</b>		
Obligations under capital leases (Note 5)	10,956	12,429
Long-term debt (Note 7)	52,412	37,235
Defined benefit pension plan liability (Note 12)	22,150	27,600
Other non-current liabilities (Note 8)	26,813	28,021
	<u>112,331</u>	<u>105,285</u>
<b>Total Liabilities</b>	<u>214,742</u>	<u>206,592</u>
<b>Commitments and Contingencies (Notes 5, 7, 13 and 13)</b>		
<b>Stockholders' Equity:</b>		
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	(32,648)	(4,698)
Accumulated other comprehensive income	6,795	4,919
<b>Total stockholders' equity</b>	<u>92,725</u>	<u>118,799</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 307,467</u>	<u>\$ 325,391</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)

	<b>Year Ended February 3, 2007</b>	<b>Period from April 17, 2005 to January 28, 2006</b>
	<b>Restated (Note 4)</b>	<b>Restated (Note 4)</b>
<b>Revenues</b>	\$ 1,310,905	\$ 1,015,893
<b>Cost and operating expenses</b>		
Cost of sales	981,419	754,995
Selling and administrative expenses	345,523	255,503
Loss on store closings	1,308	520
	<u>1,328,250</u>	<u>1,011,018</u>
<b>Operating (loss) income</b>	(17,345)	4,875
Interest expense	9,357	8,289
Reorganization expenses	1,020	1,023
	<u>(27,722)</u>	<u>(4,437)</u>
<b>Loss before income taxes</b>	(27,722)	(4,437)
Income tax expense	228	261
	<u>228</u>	<u>261</u>
<b>Net loss</b>	<u>\$ (27,950)</u>	<u>\$ (4,698)</u>
Shares outstanding and to be issued	8,498,752	8,498,752
<b>Net Loss Per Share (Basic and Diluted) (Note 3)</b>	<u>\$ (3.29)</u>	<u>\$ (0.55)</u>

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

	<b>Year Ended February 3, 2007</b>	<b>Period from April 17, 2005 to January 28, 2006</b>
	<b>Restated (Note 4)</b>	<b>Restated (Note 4)</b>
<b>Operating Activities:</b>		
Net loss	\$ (27,950)	\$ (4,698)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,134	18,798
Amortization of deferred financing cost	1,201	1,066
Loss (gain) on sale of fixed assets	539	(605)
<b>Net change in operating assets and liabilities:</b>		
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	636	(1,799)
<b>Net Cash Provided by Operating Activities</b>	<u>12,586</u>	<u>4,650</u>
<b>Investing Activities:</b>		
Acquisitions	(1,531)	-
Capital expenditures	(22,926)	(20,533)
Proceeds from sale of fixed assets	10,271	605
<b>Net Cash Used in Investing Activities</b>	<u>(14,186)</u>	<u>(19,928)</u>
<b>Financing Activities:</b>		
Payments of mortgages	(287)	(208)
Net borrowings (repayments) under credit facility	15,500	(500)
Reduction in capital lease obligations	(1,384)	(886)
<b>Net Cash Provided by (Used In) Financing Activities</b>	<u>13,829</u>	<u>(1,594)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	12,229	(16,872)
<b>Cash and cash equivalents at the beginning of period</b>	<u>12,432</u>	<u>29,304</u>
<b>Cash and cash equivalents at end of period</b>	<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	-	-	(4,698)	-	(4,698)
Unrecognized actuarial gain of pension plans, net of deferred taxes of \$3,396	-	-	-	4,919	4,919
Balance at January 28, 2006 Restated (Note 4)	85	118,493	(4,698)	4,919	<u>118,799</u>
Net loss for the year ended February 3, 2007	-	-	(27,950)	-	(27,950)
Unrecognized actuarial gain of pension plans, net of deferred taxes of \$1,296	-	-	-	1,876	<u>1,876</u>
Comprehensive loss	-	-	-	-	<u>(26,074)</u>
Balance at February 3, 2007 Restated (Note 4)	<u>\$ 85</u>	<u>\$ 118,493</u>	<u>\$(32,648)</u>	<u>\$ 6,795</u>	<u>\$ 92,725</u>

**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 7). 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 11) 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 \$28.2 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.

### **Share-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 14).

## **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 9).

## **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 12).

## **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 – Restatement

As a result of cancellation of debt in the Chapter 11 proceedings (see Note 2), the Company previously entirely eliminated all net operating loss carryforwards and reduced the tax basis of its long-lived assets effective January 29, 2006. The Company has corrected the amount of debt forgiveness in the Chapter 11 proceedings that reduced tax attributes which results in an increase aggregating \$66 million in the tax basis of its long-lived assets and net operating loss carryforwards.

The correction resulted in an increase in deferred tax assets attributable to the net operating loss carryforwards, the recording of a related valuation allowance and a reduction in the deferred tax liability attributable to the increase in the tax basis of long-lived assets. The net effect of the above was a \$3.5 million reduction in the net deferred tax liability and a corresponding reduction in the carrying value of certain long-lived assets upon adoption of fresh-start reporting on April 16, 2005. As a result, net loss for the period from April 17, 2005 to January 28, 2006 and for the year ended February 3, 2007 was restated as follows:

	<u>Period Ended February 3, 2007</u>	<u>Period Ended January 28, 2006</u>
Net loss as previously reported	\$ (21,225)	\$ (3,811)
Reduction in depreciation of long-lived assets	351	277
Reduction in income tax benefit	<u>(7,076)</u>	<u>(1,164)</u>
Net loss as restated	<u>\$ (27,950)</u>	<u>\$ (4,698)</u>
Net loss per share (basic and diluted):		
As previously reported	\$ (2.50)	\$ (0.45)
Restated	<u>(0.79)</u>	<u>(0.10)</u>
As restated	<u>\$ (3.29)</u>	<u>\$ (0.55)</u>

The balance sheets at February 3, 2007 and January 28, 2006, have been restated as follows:

	<u>February 3, 2007</u>		
	<u>As previously reported</u>	<u>As restated</u>	<u>Change Increase / (decrease)</u>
Intangible assets, net	\$ 30,451	\$ 25,188	\$ (5,263)
Fixed assets, net	99,364	96,488	(2,876)
Deferred income taxes:			
Other assets	-	3,621	3,621
Current liabilities	7,816	13,542	5,726
Non-current liabilities	<u>2,632</u>	<u>-</u>	<u>(2,632)</u>
	<u>10,448</u>	<u>9,921</u>	<u>527</u>
Stockholders' equity	\$ 100,337	\$ 92,725	\$ (7,612)

	January 28, 2006		
	<u>As previously</u>	<u>As restated</u>	<u>Change</u>
Intangible assets, net	\$ 36,220	\$ 33,025	\$ (3,195)
Fixed assets, net	107,629	104,399	(3,230)
Deferred income taxes:			
Other assets	-	2,609	2,609
Current liabilities	7,900	13,302	5,402
Non-current liabilities	8,331	-	(8,331)
	<u>16,231</u>	<u>10,693</u>	<u>5,538</u>
Stockholders' equity	\$ 119,686	\$ 118,799	\$ (887)

#### Note 5 – 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</u> <u>February 3, 2007</u>	<u>Period Ended</u> <u>January 28, 2006</u>
Minimum rent	\$ 21,791	\$ 13,115
Contingent rent	238	201
Less: sublease rent	(3,281)	(2,625)
Net rent expense	<u>\$ 18,748</u>	<u>\$ 10,691</u>

## Note 6 – 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 (1):						
Favorable leases	\$ 22,525	\$ (2,918)	\$ 19,607	\$ 24,584	\$ (1,365)	\$ 23,219
Pharmacy prescription files	7,514	(3,172)	4,342	9,527	(1,657)	7,870
Computer software	<u>2,152</u>	<u>(913)</u>	<u>1,239</u>	<u>2,337</u>	<u>(401)</u>	<u>1,936</u>
Total	<u>\$ 32,191</u>	<u>\$ (7,003)</u>	<u>\$ 25,188</u>	<u>\$ 36,448</u>	<u>\$ (3,423)</u>	<u>\$ 33,025</u>

- (1) Reduced by approximately \$5.0 million and \$3.0 million at February 3, 2007 and January 28, 2006, respectively by reduction in pre-reorganization deferred tax valuation allowance (see Note 10).

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	\$ 2,794
January 31, 2009	2,794
January 30, 2010	3,352
January 29, 2011	1,693
January 28, 2012	1,229
Thereafter	<u>13,326</u>
	<u>\$ 25,188</u>

## Note 7 – 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 8 – 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>
<b>Other Current Liabilities:</b>		
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>
<b>Other Non-Current Liabilities:</b>		
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 9 – 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 10 – Income Taxes

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

	Restated Year Ended February 3, 2007	Restated Period Ended January 28, 2006
	(see Note 4)	
Current tax provision		
Federal	\$ -	\$ -
State	<u>228</u>	<u>261</u>
Total income tax expense	<u>\$ 228</u>	<u>\$ 261</u>

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

	Year Ended February 3, 2007	Period Ended January 28, 2006
Federal income tax benefit at statutory rate (35%)	\$ (9,703)	\$ (1,553)
State income taxes, net of federal income tax effect	148	170
Non-deductible expenses	14	602
Valuation allowance	<u>9,769</u>	<u>1,042</u>
Total income tax expense	<u>\$ 228</u>	<u>\$ 261</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, 2007</u>	<u>January 28, 2006</u>
Current deferred income tax assets / (liabilities)		
Reserves and accruals	\$ 11,409	\$ 11,295
Valuation allowance	<u>(7,069)</u>	<u>(5,402)</u>
Current deferred tax assets	4,340	5,893
Inventories	<u>(17,882)</u>	<u>(19,195)</u>
Net current deferred tax liabilities	<u>(13,542)</u>	<u>(13,302)</u>
Non-current deferred income tax assets / (liabilities)		
Reserves and accruals	8,289	7,781
Pensions	9,048	11,274
Goodwill (1)	4,218	5,695
Capital lease obligations	5,077	5,612
Net operating loss carryforward	24,069	17,760
Valuation allowance	<u>(33,411)</u>	<u>(24,320)</u>
Non-current deferred tax assets	<u>17,290</u>	<u>23,802</u>
Beneficial leases and other intangible assets	(8,994)	(11,122)
Fixed assets	(649)	(5,579)
Capital leases	<u>(4,026)</u>	<u>(4,492)</u>
Non-current deferred tax liabilities	<u>(13,669)</u>	<u>(21,193)</u>
Net non-current deferred tax assets	<u>3,621</u>	<u>2,609</u>
Net deferred income tax (liabilities)	<u>\$ (9,921)</u>	<u>\$ (10,693)</u>

(1) Represents tax basis of deductible goodwill arising from acquisitions consummated in prior years.

At February 3, 2007, the Company had a net operating loss carryforward for federal and state income tax purposes of approximately \$58.9 ~~\$47.8~~ million available to offset future taxable income from 2009 through 2027.

A valuation allowance of \$40.5 million and \$29.7 million was established at February 3, 2007 and January 28, 2006 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. During fiscal 2007 and the period ended January 28, 2006, the valuation allowance increased by \$10.8 million and \$4.2 million, respectively.

To the extent net operating loss carryforwards or deductible temporary difference arising prior to the Company's emergence from Chapter 11 proceedings for which a valuation allowance has been provided are realized, the resulting benefits will be allocated first to reduce intangible assets until they are totally eliminated and thereafter reported as an increase to additional paid-in capital. As of February 3, 2007, approximately \$21.0 million of the valuation allowance relates to pre-reorganization net operating loss carryforwards and deductible temporary differences after reduction of \$5.0 million which has reduced intangible assets.

#### **Note 11 – 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 12 – 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):

	February 3, 2007	January 28, 2006
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>

	<b>Year Ended February 3, 2007</b>	<b>Period Ended January 28, 2006</b>
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:

	<b>Year Ended February 3, 2007</b>	<b>Period Ended January 28, 2006</b>
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:

	<b>Year Ended February 3, 2007</b>	<b>Period Ended January 28, 2006</b>
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 13 – 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 7 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 14 – 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 15 – 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 <sup>(1)</sup>	\$1,310,905
Cost of sales	(755,524)	(206,017)	(15,596) <sup>(2)</sup>	(977,137) <sup>(4)</sup>
Selling and administrative expense	(257,910)	(5,429)	(59,332) <sup>(3)</sup>	(322,671) <sup>(4)</sup>
Loss on store closings	-	-	(1,308)	(1,308)
Operating income (loss) before depreciation and amortization	54,754	5,874	(50,839)	9,789
Depreciation and amortization	(24,802)	(1,060)	(1,272) <sup>(5)</sup>	(27,134)
Operating income (loss)	29,952	4,814	(52,111)	(17,345)
Interest expense	-	-	-	(9,357)
Reorganization costs	-	-	-	(1,020)
Consolidated loss before income taxes				<u>\$ (27,722)</u>
Total assets as of February 3, 2007	\$ 236,357 <sup>(6)</sup>	\$ 25,703 <sup>(6)</sup>	\$ 45,407 <sup>(7)</sup>	\$ 307,467
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 \$22.8 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)	\$1,015,893
Cost of sales	(579,288)	(158,656)	(13,715)	(2)	(751,659) (4)
Selling and administrative expense	(207,260)	(6,438)	(26,343)	(3)	(240,041) (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>(16,291)</u>	<u>(1,337)</u>	<u>(1,170)</u>	(5)	<u>(18,798)</u>
Operating income (loss)	21,501	5,476	(22,102)		4,875
Interest expense					(8,289)
Reorganization costs					<u>(1,023)</u>
Consolidated loss before income taxes					<u>\$ (4,437)</u>
Total assets as of January 28, 2006	\$ 286,414 (6)	\$ 23,744 (6)	\$ 15,233 (7)		\$ 325,391
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 \$15.5 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 16 – 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 17 – Supplemental Cash Flow Information**

	<u>Year Ended February 3, 2007</u>	<u>Period Ended January 28, 2006</u>
Cash paid for interest	\$ 7,183	\$ 4,309
Cash paid for income taxes	\$ 228	\$ 261
Non-cash reduction in intangible assets	\$ 2,068	\$ 3,194

**Note 18– Quarterly Financial Data (Unaudited)**

The following table presents our quarterly results of operations:

<u>Description</u>	Year Ended February 3, 2007			
	1st	2nd	3rd	4th
	13-Week	13-Weeks	13-Weeks	13-Weeks
	Period	Ended	Ended	Ended
	April 29,	July 29,	October 28,	February 3,
	2006	2006	2006	2007
	(In thousands of dollars, except per share data)			
Revenues	\$ 310,414	\$ 338,152	\$ 319,802	\$ 342,537
Gross profit	78,068	85,852	79,898	85,668
Net income (loss)	(7,457)	(12)	(5,504)	(14,977) <sup>(1)</sup>
Net loss per common share	\$ (0.88)	\$ (0.00)	\$ (0.65)	\$ (1.76)
Weighted average common shares issued or to be issued:	8,498,752	8,498,572	8,498,752	8,498,752

(1) Includes \$2.7 million related to store and distribution facility closings and \$3.5 million related to increase in liability for workers compensation.

<u>Description</u>	Period from April 17, 2005 through January 28, 2006			
	1st	2nd	3 <sup>rd</sup>	4th
	2-Week	13-Weeks	13-Weeks	13-Weeks
	Period	Ended	Ended	Ended
	April 30,	July 30,	October 29,	January 28,
	2005	2005	2005	2006
	(In thousands of dollars, except per share data)			
Revenues	\$ 46,065	\$ 331,329	\$ 315,373	\$ 323,126
Gross profit	10,111	83,966	82,551	84,270
Net income (loss)	(1,119)	(5,193)	(2,635)	4,249
Per common share data (Basic and Diluted):				
Net (loss) income	\$ (0.13)	\$ (0.61)	\$ (0.31)	\$ 0.50
Weighted average common shares issued or to be issued:				
Basic and diluted:	8,498,752	8,498,572	8,498,752	8,498,752

## 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 21.

#### 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).
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).

Exhibits (continued):

Exhibits No.

- 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).
- 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 8th day of May 2008.

**THE PENN TRAFFIC COMPANY**

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

**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;

Date: May 8, 2008

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;

Date: May 8, 2008

By: /s/ Tod A. Nestor  
Tod A. Nestor  
Senior Vice President and 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/A 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.

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

May 8, 2008

**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/A 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.

/s/ Tod A. Nestor  
Tod A. Nestor  
Senior Vice President and Chief Financial Officer

May 8, 2008