

## Section 1: 10-Q (10-Q)

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

### FORM 10-Q

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

**For the quarterly period ended December 1, 2018**

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: 333-205546



**Albertsons Companies, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**47-4376911**

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

**250 Parkcenter Blvd.**

**Boise, Idaho**

(Address of principal  
executive offices)

**83706**

(Zip Code)

**Registrant's telephone number, including area code (208) 395-6200**

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of January 14, 2019, the registrant had 277,882,010 shares of common stock, par value \$0.01 per share, outstanding.



# Albertsons Companies, Inc. and Subsidiaries

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**PART I - FINANCIAL INFORMATION****Item 1 - Condensed Consolidated Financial Statements (unaudited)**

**Albertsons Companies, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(in millions, except share data)  
(unaudited)

	December 1, 2018	February 24, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 462.6	\$ 670.3
Receivables, net	566.9	615.3
Inventories, net	4,639.5	4,421.1
Other current assets	443.6	441.9
<b>Total current assets</b>	<b>6,112.6</b>	<b>6,148.6</b>
Property and equipment, net	10,143.3	10,770.3
Intangible assets, net	2,893.3	3,142.5
Goodwill	1,183.3	1,183.3
Other assets	649.2	567.6
<b>TOTAL ASSETS</b>	<b>\$ 20,981.7</b>	<b>\$ 21,812.3</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 3,119.2	\$ 2,833.0
Accrued salaries and wages	1,020.6	984.1
Current maturities of long-term debt and capitalized lease obligations	412.6	168.2
Other current liabilities	988.3	1,044.3
<b>Total current liabilities</b>	<b>5,540.7</b>	<b>5,029.6</b>
Long-term debt and capitalized lease obligations	10,565.3	11,707.6
Deferred income taxes	595.0	579.9
Other long-term liabilities	2,890.6	3,097.0
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value; 30,000,000 shares authorized, no shares issued and outstanding as of December 1, 2018 and February 24, 2018, respectively	—	—
Common stock, \$0.01 par value; 1,000,000,000 shares authorized and 277,882,010 shares issued and outstanding as of December 1, 2018, and 1,000,000,000 shares authorized and 279,654,028 shares issued and outstanding as of February 24, 2018	2.8	2.8
Additional paid-in capital	1,788.7	1,773.3
Treasury stock, at cost, 1,772,018 and no shares held as of December 1, 2018 and February 24, 2018, respectively	(25.8)	—
Accumulated other comprehensive income	192.1	191.1
Accumulated deficit	(567.7)	(569.0)
<b>Total stockholders' equity</b>	<b>1,390.1</b>	<b>1,398.2</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 20,981.7</b>	<b>\$ 21,812.3</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Albertsons Companies, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**  
(in millions)  
(unaudited)

	12 weeks ended		40 weeks ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
<b>Net sales and other revenue</b>	\$ 13,840.4	\$ 13,599.2	\$ 46,517.9	\$ 45,890.9
<b>Cost of sales</b>	9,988.0	9,974.6	33,682.0	33,478.1
<b>Gross profit</b>	3,852.4	3,624.6	12,835.9	12,412.8
<b>Selling and administrative expenses</b>	3,678.0	3,725.7	12,337.0	12,509.0
<b>Goodwill impairment</b>	—	—	—	142.3
<b>Operating income (loss)</b>	174.4	(101.1)	498.9	(238.5)
<b>Interest expense, net</b>	213.0	193.9	662.5	679.2
<b>Loss (gain) on debt extinguishment</b>	9.5	(5.0)	9.5	(5.0)
<b>Other (income) expense</b>	(28.3)	15.4	(88.3)	20.1
<b>Loss before income taxes</b>	(19.8)	(305.4)	(84.8)	(932.8)
<b>Income tax benefit</b>	(65.4)	(523.5)	(80.3)	(590.8)
<b>Net income (loss)</b>	\$ 45.6	\$ 218.1	\$ (4.5)	\$ (342.0)
<b>Other comprehensive income (loss), net of tax</b>				
Gain on interest rate swaps	0.9	22.2	4.3	22.6
Recognition of pension (loss) gain	(0.5)	2.4	(1.6)	6.0
Foreign currency translation adjustment	0.3	(11.6)	(0.3)	14.3
Other	(0.8)	(7.8)	(1.4)	(3.6)
<b>Other comprehensive income (loss)</b>	\$ (0.1)	\$ 5.2	\$ 1.0	\$ 39.3
<b>Comprehensive income (loss)</b>	\$ 45.5	\$ 223.3	\$ (3.5)	\$ (302.7)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Albertsons Companies, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(in millions)  
(unaudited)

	40 weeks ended	
	December 1, 2018	December 2, 2017
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4.5)	\$ (342.0)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (gain) loss on property dispositions, asset impairment and lease exit costs	(163.7)	66.8
Goodwill impairment	—	142.3
Depreciation and amortization	1,340.8	1,462.0
LIFO expense	15.7	24.0
Deferred income tax	(135.2)	(629.7)
Contributions to pension and post-retirement benefit plans, net of expense	(178.2)	(0.9)
Amortization and write-off of deferred financing costs	38.3	48.5
Loss (gain) on debt extinguishment	9.5	(5.0)
Equity-based compensation expense	35.5	24.6
Other	(35.9)	93.0
Changes in operating assets and liabilities, net of effects of acquisition of businesses:		
Receivables, net	47.1	29.7
Inventories, net	(234.0)	(278.9)
Accounts payable, accrued salaries and wages and other accrued liabilities	347.4	159.6
Other operating assets and liabilities	(13.7)	(83.4)
<b>Net cash provided by operating activities</b>	<b>1,069.1</b>	<b>710.6</b>
<b>Cash flows from investing activities:</b>		
Business acquisitions, net of cash acquired	—	(148.8)
Payments for property, equipment and intangibles, including payments for lease buyouts	(916.9)	(1,062.7)
Proceeds from sale of assets	529.3	652.6
Other	27.0	(55.5)
<b>Net cash used in investing activities</b>	<b>(360.6)</b>	<b>(614.4)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	1,365.8	290.0
Payments on long-term borrowings	(2,113.8)	(830.6)
Payments of obligations under capital leases	(74.5)	(82.8)
Payments for debt financing costs	(18.6)	(1.5)
Member distribution	—	(250.0)
Purchase of treasury stock, at cost	(25.8)	—
Proceeds from financing leases	—	99.9
Other	(36.3)	(65.7)
<b>Net cash used in financing activities</b>	<b>(903.2)</b>	<b>(840.7)</b>
<b>Net decrease in cash and cash equivalents and restricted cash</b>	<b>(194.7)</b>	<b>(744.5)</b>
<b>Cash and cash equivalents and restricted cash at beginning of period</b>	<b>680.8</b>	<b>1,229.1</b>
<b>Cash and cash equivalents and restricted cash at end of period</b>	<b>\$ 486.1</b>	<b>\$ 484.6</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Albertsons Companies, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying interim Condensed Consolidated Financial Statements include the accounts of Albertsons Companies, Inc. and its subsidiaries (the "Company"). All significant intercompany balances and transactions were eliminated. The Condensed Consolidated Balance Sheet as of February 24, 2018 is derived from the Company's annual audited Consolidated Financial Statements for the fiscal year ended February 24, 2018, which should be read in conjunction with these Condensed Consolidated Financial Statements and which are included in the Company's Annual Report on Form 10-K. Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows expected for the year. The Company's results of operations are for the 12 and 40 weeks ended December 1, 2018 and December 2, 2017.

***Prior Period Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation, including the addition of Restricted cash to Cash and cash equivalents on the Condensed Consolidated Statements of Cash Flows, and the reclassification of non-service cost components of Net pension and post-retirement expense to Other (income) expense from Selling and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), as a result of the adoption of new accounting guidance.

***Significant Accounting Policies***

**Restricted cash:** Restricted cash is included in Other current assets or Other assets depending on the remaining term of the restriction and primarily relates to funds held in escrow. The Company had \$23.5 million and \$10.5 million of Restricted cash as of December 1, 2018 and February 24, 2018, respectively.

**Inventories, net:** Substantially all of the Company's inventories consist of finished goods valued at the lower of cost or market and net of vendor allowances. The Company uses either item-cost or the retail inventory method to value inventory at lower of cost or market before application of any last-in, first-out ("LIFO") reserve. Interim LIFO inventory costs are based on management's estimates of expected year-end inventory levels and inflation rates. The Company recorded LIFO expense of \$2.8 million and \$0.4 million for the 12 weeks ended December 1, 2018 and December 2, 2017, respectively and \$15.7 million and \$24.0 million for the 40 weeks ended December 1, 2018 and December 2, 2017, respectively.

**Equity-based compensation:** The Company maintains the Albertsons Companies, Inc. Phantom Unit Plan (the "Phantom Unit Plan"), an equity-based incentive plan, which provides for grants of Phantom Units to certain employees, directors and consultants. Each Phantom Unit provides the participant with a contractual right to receive, upon vesting, one management incentive unit in each of the Company's parents, Albertsons Investor Holdings LLC and KIM ACI, LLC, that collectively own all of the outstanding shares of the Company. The Phantom Units vest over a service period, or upon a combination of both a service period and achievement of certain performance-based thresholds. The fair value of the Phantom Units is determined using an option pricing model, adjusted for lack of marketability and using an expected term or time to liquidity based on judgments made by management. Equity-based compensation expense recognized by the Company related to these plans was \$9.9 million and \$6.5 million for the 12 weeks ended December 1, 2018 and December 2, 2017, respectively. For the 40 weeks ended December 1, 2018 and December 2, 2017, equity-based compensation expense was \$35.5 million and \$24.6 million, respectively. The Company recorded an income tax benefit of \$2.7 million and \$1.3 million related to equity-based compensation for the 12 weeks ended December 1,

2018 and December 2, 2017, respectively. For the 40 weeks ended December 1, 2018 and December 2, 2017, the Company recorded an income tax benefit of \$9.6 million and \$5.0 million, respectively. On November 9, 2018, the Company issued 1,281,416 phantom units to employees, which includes 948,254 time-based vesting units that were deemed granted. The remaining 333,162 units will only be deemed granted upon the establishment of the annual performance target for fiscal 2019, fiscal 2020 and fiscal 2021, as applicable. The 948,254 units deemed granted have an aggregate grant date value of \$30.3 million. As of December 1, 2018, there was \$71.5 million of unrecognized costs related to 2.7 million unvested Phantom Units. That cost is expected to be recognized over a weighted average period of 2.2 years.

**Treasury Stock:** During the 12 weeks ended December 1, 2018, the Company repurchased 1,772,018 shares of common stock allocable to certain current and former members of management ("the management holders") for \$25.8 million in cash. The shares are classified as treasury stock on the Condensed Consolidated Balance Sheet. The shares repurchased represented a portion of the shares allocable to management. Proceeds from the repurchase were used by the management holders to repay outstanding loans of the management holders with a third party financial institution. As there is no current active market for shares of the Company's common stock, the shares were repurchased at a negotiated price between the Company and the management holders.

**Income taxes:** On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act") into law, which enacted significant changes to U.S. income tax and related laws. Among other things, the Tax Act reduces the top U.S. corporate income tax rate from 35% to 21%, and makes changes to certain other business-related exclusions, deductions and credits. Also on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for income tax effects of the Tax Act. SAB 118 allows the Company to record provisional amounts during a measurement period not to extend beyond one year from the date of enactment. The Tax Act was effective in the fourth quarter of fiscal 2017, during which the Company recorded a provisional tax benefit of \$430.4 million. The Company recorded additional provisional benefit of \$60.3 million during the 40 weeks ended December 1, 2018, primarily to account for refinement of the transition tax, and the remeasurement of deferred taxes. As of December 1, 2018, the Company had not completed its accounting for the Tax Act. The Company continues to analyze the Tax Act and refine its calculations, which could impact the measurement of its tax balances. The Company expects to complete its analysis in the fourth quarter of fiscal 2018 in accordance with SAB 118.

Income tax benefit was \$65.4 million and \$523.5 million for the 12 weeks ended December 1, 2018 and December 2, 2017, respectively. Income tax benefit was \$80.3 million and \$590.8 million for the 40 weeks ended December 1, 2018 and December 2, 2017, respectively. The tax benefit in fiscal 2018 was primarily driven by the Company's provisional SAB 118 adjustment of \$60.3 million. The tax benefit in fiscal 2017 was primarily driven by the Company's corporate reorganization and the related non-cash reversal of a valuation allowance against net deferred tax assets. Prior to the fourth quarter of fiscal 2017, the Company was organized as a limited liability company and conducted its operations primarily through limited liability companies and Subchapter C corporations. As such, the Company's effective tax rate in periods prior to the corporate reorganization was largely driven by the mix of pre-tax income or loss between our taxable and nontaxable entities.

**Segments:** The Company and its subsidiaries offer grocery products, general merchandise, health and beauty care products, pharmacy, fuel and other items and services in its stores or through eCommerce channels. The Company's operating divisions are geographically based, have similar economic characteristics and similar expected long-term financial performance. The Company's operating segments and reporting units are its 13 divisions, which have been aggregated into one reportable segment. Each reporting unit constitutes a business for which discrete financial information is available and for which management regularly reviews the operating results. Across all operating segments, the Company operates primarily one store format. Each store offers the same general mix of products with similar pricing to similar categories of customers, has similar distribution methods, operates in similar regulatory environments and purchases merchandise from similar or the same vendors. All of the Company's retail operations are domestic.

**Revenue Recognition:** Revenues from the retail sale of products are recognized at the point of sale to the customer, net of returns and sales tax. Pharmacy sales are recorded upon the customer receiving the prescription. Third party receivables from pharmacy sales were \$246.1 million and \$205.5 million as of December 1, 2018 and February 24, 2018, respectively, and are recorded in Receivables, net. For eCommerce related sales, which primarily includes home delivery, "Drive Up and Go" stores and meal kit delivery, revenues are recognized upon either pickup in store or delivery to the customer and may include revenue for separately charged delivery services. Discounts provided to customers by the Company at the time of sale are recognized as a reduction in sales as the products are sold. Discounts provided to customers by vendors, usually in the form of coupons, are not recognized as a reduction in sales, provided the coupons are redeemable at any retailer that accepts coupons. The Company recognizes revenue and records a corresponding receivable from the vendor for the difference between the sales prices and the cash received from the customer. The Company records a contract liability when rewards are earned by customers in connection with the Company's loyalty programs. As rewards are redeemed or expire, the Company reduces the contract liability and recognizes revenue.

The Company records a contract liability when it sells its own proprietary gift cards. The Company records a sale when the customer redeems the gift card. The Company's gift cards do not expire. The Company reduces the contract liability and records revenue for the unused portion of gift cards ("breakage") in proportion to its customers' pattern of redemption, which the Company determined to be the historical redemption rate. The Company's contract liability related to gift cards was \$58.2 million as of December 1, 2018 and \$55.6 million as of February 24, 2018. Breakage amounts were immaterial for the 12 and 40 weeks ended December 1, 2018 and December 2, 2017, respectively.

### *Disaggregated Revenues*

The following table represents sales revenue by type of similar product (dollars in millions):

	12 weeks ended				40 weeks ended			
	December 1, 2018		December 2, 2017		December 1, 2018		December 2, 2017	
	Amount (1)	% of Total						
Non-perishables (2)	\$ 6,032.9	43.6%	\$ 6,039.9	44.4%	\$ 20,186.0	43.4%	\$ 20,278.6	44.3%
Perishables (3)	5,596.5	40.5%	5,453.1	40.2%	19,099.1	41.0%	18,783.6	40.9%
Pharmacy	1,194.5	8.6%	1,187.1	8.7%	3,847.0	8.3%	3,858.2	8.4%
Fuel	831.3	6.0%	739.6	5.4%	2,785.4	6.0%	2,399.3	5.2%
Other (4)	185.2	1.3%	179.5	1.3%	600.4	1.3%	571.2	1.2%
Net sales and other revenue	<u>\$ 13,840.4</u>	<u>100.0%</u>	<u>\$ 13,599.2</u>	<u>100.0%</u>	<u>\$ 46,517.9</u>	<u>100.0%</u>	<u>\$ 45,890.9</u>	<u>100.0%</u>

(1) eCommerce related sales are included in the categories to which the revenue pertains.

(2) Consists primarily of general merchandise, grocery and frozen foods.

(3) Consists primarily of produce, dairy, meat, deli, floral and seafood.

(4) Consists primarily of lottery and various other commissions and other miscellaneous income.

### *Sale-Leaseback Transactions*

On August 16, 2018, the Company completed the sale and leaseback of two of the Company's distribution centers for an aggregate purchase price, net of closing costs, of approximately \$290 million. In connection with the sale and leaseback, the Company entered into lease agreements for each of the properties for initial terms of 20 years. The aggregate initial annual rent payment for the properties will be approximately \$17 million, and includes 1.5% annual rent increases over the initial 20-year term.

Subsequent to the end of the third quarter of fiscal 2018, the Company completed the sale and leaseback of five of the Company's distribution centers for an aggregate purchase price, net of closing costs, of approximately \$660 million. The sale and leasebacks were completed in two separate transactions which closed on December 17, 2018 and January 2, 2019, respectively. In connection with the sale and leasebacks, the Company entered into lease agreements for each of the properties for initial terms of 15 to 20 years. The aggregate initial annual rent payment for the properties will be approximately \$38 million and includes 1.50% to 1.75% annual rent increases over the initial lease terms.

**Recently adopted accounting standards:** In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this guidance in the first quarter of fiscal 2018 on a modified retrospective basis, including implementing changes to processes and controls to comply with the new disclosure requirements. The adoption of this standard resulted in a decrease to accumulated deficit of \$5.8 million. The adjustment relates to breakage on the unredeemed portion of the Company's gift cards, which are now recognized in proportion to customer redemptions of gift cards, rather than waiting until the likelihood of redemption becomes remote. Similar to previous guidance, in certain third-party arrangements where the Company had previously determined it acts as a principal versus an agent, the Company will continue to record revenue for these arrangements on a gross basis under the new guidance.

In March 2017, the FASB issued ASU 2017-07, "*Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.*" The Company adopted this guidance in the first quarter of fiscal 2018 on a retrospective basis. This ASU requires an employer to report the service cost component of net pension and post-retirement expense in the same line as other compensation costs from services rendered by employees during the period. Other components of net pension and post-retirement expense are required to be presented in the income statement separately from the service cost component. For the 12 and 40 weeks ended December 2, 2017, the Company reclassified \$6.1 million and \$20.3 million, respectively, of non-service pension and post-retirement cost components to Other (income) expense from Selling and administrative expenses.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows - Restricted Cash (Topic 230)*". The Company adopted this guidance in the first quarter of fiscal 2018 on a retrospective basis. The new guidance requires that restricted cash be added to Cash and cash equivalents when reconciling the beginning and ending amounts on the Condensed Consolidated Statements of Cash Flows. The guidance also requires entities that report cash and cash equivalents and restricted cash separately on the Condensed Consolidated Balance Sheets to reconcile those amounts to the Condensed Consolidated Statements of Cash Flows. For the 40 weeks ended December 2, 2017, the adoption of this standard resulted in a decrease to Net cash used in investing activities and an increase to Net increase (decrease) in cash and cash equivalents and restricted cash of \$1.4 million. The following table provides a reconciliation of the amount of Cash and cash equivalents reported on the Condensed Consolidated Balance Sheets to the total of Cash and cash equivalents and restricted cash shown on the Condensed Consolidated Statements of Cash Flows (in millions):

	<b>December 1, 2018</b>	<b>December 2, 2017</b>
Cash and cash equivalents	\$ 462.6	\$ 473.3
Restricted cash	23.5	11.3
Cash and cash equivalents and restricted cash	<u>\$ 486.1</u>	<u>\$ 484.6</u>

In August 2017, the FASB issued ASU 2017-12, "*Derivatives and Hedging (Topic 815)*". The new guidance more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The guidance expands hedge accounting for both nonfinancial and financial risk components and refines the measurement of hedge results to better reflect an entity's hedging strategies. The Company

ected to early adopt this ASU beginning the first day of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*". The ASU is intended to improve the recognition and measurement of financial instruments. The Company adopted this guidance in the first quarter of fiscal 2018. The new guidance requires equity investments, other than those accounted for under the equity method, to be measured at fair value, with changes in fair value recognized in net income. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, "*Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*". The ASU is intended to improve the recognition and measurement of financial instruments. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company elected to early adopt this ASU in the second quarter of fiscal 2018 on a prospective basis. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

**Recently issued accounting standards:** In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will require both classifications of leases, operating and capital, to be recognized on the balance sheet. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on its classification. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The Company plans to adopt this guidance in the first quarter of fiscal 2019. The Company plans to apply the practical expedients permitted within the guidance, which allows the Company to carryforward its historical lease classification, and to apply the transition option which does not require application of the guidance to comparative periods in the year of adoption. The adoption of this ASU will result in the recognition of significant right-of-use assets and lease liabilities in the Company's Consolidated Balance Sheets. The Company has formed a dedicated project team and developed a comprehensive multi-stage project plan to assess and implement this ASU. This assessment includes reviewing all forms of leases and leveraging a technology solution in implementing the new ASU. The preparation for adoption is ongoing, including the assessment of other potential impacts of this ASU, which includes analysis of the potential transitional adjustments to Stockholders' equity and impact of adoption on the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows.

In February 2018, the FASB issued ASU 2018-02, "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*". This ASU amends ASC 220, "*Income Statement - Reporting Comprehensive Income*", to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. In addition, under the ASU, the Company may be required to provide certain disclosures regarding stranded tax effects. The ASU will take effect for public entities for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect of the standard on its Consolidated Financial Statements.

## **NOTE 2 - ACQUISITIONS**

### ***Termination of Merger Agreement with Rite Aid***

As previously disclosed, on February 18, 2018, the Company and its wholly-owned subsidiaries, Ranch Acquisition II LLC and Ranch Acquisition Corp. (together with Ranch Acquisition II LLC, "Merger Subs") and Rite Aid Corporation ("Rite Aid") entered into an Agreement and Plan of Merger (the "Merger Agreement"). On August 8, 2018, the Company,

Merger Subs and Rite Aid entered into a Termination Agreement (the "Termination Agreement") under which the parties mutually agreed to terminate the Merger Agreement. Subject to limited customary exceptions, the Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the contemplated merger transaction. Under the terms of the Merger Agreement, neither the Company nor Rite Aid will be responsible for any payments to the other party as a result of the termination of the Merger Agreement.

In addition, as result of the above termination, that certain Second Amended & Restated Commitment Letter, dated May 8, 2018, by and among the Company, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse AG, Credit Suisse Loan Funding LLC, Goldman Sachs Bank USA and the other commitment parties thereto terminated automatically pursuant to its terms.

### NOTE 3 - FAIR VALUE MEASUREMENTS

The accounting guidance for fair value established a framework for measuring fair value and established a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability at the measurement date. The three levels are defined as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 - Unobservable inputs in which little or no market activity exists, requiring an entity to develop its own assumptions that market participants would use to value the asset or liability.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table presents assets and liabilities which were measured at fair value on a recurring basis as of December 1, 2018 (in millions):

	Fair Value Measurements			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Cash equivalents:				
Money market	\$ 44.0	\$ 44.0	\$ —	\$ —
Short-term investments (1)	23.2	21.1	2.1	—
Non-current investments (2)	89.1	36.9	52.2	—
Derivative contracts (3)	3.4	—	3.4	—
<b>Total</b>	<b>\$ 159.7</b>	<b>\$ 102.0</b>	<b>\$ 57.7</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Contingent consideration (4)	\$ 19.9	\$ —	\$ —	\$ 19.9
<b>Total</b>	<b>\$ 19.9</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 19.9</b>

(1) Primarily relates to Mutual Funds. Included in Other current assets.

(2) Primarily relates to investments in publicly traded stock classified as available for sale (Level 1) and U.S. Treasury Notes and Corporate Bonds (Level 2). Included in Other assets.

(3) Primarily relates to interest rate swaps. Included in Other current assets.

(4) Included in Other long-term liabilities.

The following table presents assets and liabilities which were measured at fair value on a recurring basis as of February 24, 2018 (in millions):

	Fair Value Measurements			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Cash equivalents:				
Money market	\$ 198.0	\$ 198.0	\$ —	\$ —
Short-term investments (1)	24.5	22.1	2.4	—
Non-current investments (2)	91.2	40.2	51.0	—
Total	\$ 313.7	\$ 260.3	\$ 53.4	\$ —
<b>Liabilities:</b>				
Derivative contracts (3)	\$ 11.8	\$ —	\$ 11.8	\$ —
Contingent consideration (4)	60.0	—	—	60.0
Total	\$ 71.8	\$ —	\$ 11.8	\$ 60.0

(1) Primarily relates to Mutual Funds. Included in Other current assets.

(2) Primarily relates to investments in publicly traded stock classified as available for sale (Level 1) and U.S. Treasury Notes and Corporate Bonds (Level 2). Included in Other assets.

(3) Primarily relates to interest rate swaps. Included in Other current liabilities.

(4) Included in Other current liabilities and Other long-term liabilities.

A reconciliation of the beginning and ending balances for Level 3 liabilities follows (in millions):

	<b>Contingent Consideration December 1, 2018</b>
Beginning balance	\$ 60.0
Change in fair value	(39.4)
Payments	(0.7)
Ending balance	\$ 19.9

The estimated fair value of the Company's debt, including current maturities, was based on Level 2 inputs, being market quotes or values for similar instruments, and interest rates currently available to the Company for the issuance of debt with similar terms and remaining maturities as a discount rate for the remaining principal payments. As of December 1, 2018, the fair value of total debt was \$9,975.7 million compared to the carrying value of \$10,468.1 million, excluding debt discounts and deferred financing costs. As of February 24, 2018, the fair value of total debt was \$10,603.4 million compared to the carrying value of \$11,340.5 million, excluding debt discounts and deferred financing costs.

#### ***Assets Measured at Fair Value on a Non-Recurring Basis***

The Company measures certain assets at fair value on a non-recurring basis, including long-lived assets and goodwill, which are evaluated for impairment. Long-lived assets include store-related assets such as property and equipment and certain intangible assets. The inputs used to determine the fair value of long-lived assets and a reporting unit are considered Level 3 measurements due to their subjective nature.



## **NOTE 4 - DERIVATIVE FINANCIAL INSTRUMENTS**

### ***Interest Rate Risk Management***

The Company is exposed to market risk from fluctuations in interest rates. The Company manages its exposure to interest rate fluctuations through the use of interest rate swaps ("cash flow hedges"). The Company's risk management objective and strategy with respect to interest rate swaps is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective by hedging the risk of changes in its cash flows (interest payments) attributable to changes in the London Inter-Bank Offering Rate ("LIBOR"), the designated benchmark interest rate being hedged (the "hedged risk"), on an amount of the Company's debt principal equal to the then-outstanding swap notional amount.

### ***Cash Flow Interest Rate Swaps***

For derivative instruments that are designated and qualify as cash flow hedges of forecasted interest payments, the Company reports the gain or loss as a component of Other comprehensive income until the interest payments being hedged are recorded as Interest expense, net, at which time the amounts in Other comprehensive income are reclassified as an adjustment to Interest expense, net. The Company has entered into several swaps with maturity dates in 2019 and 2021 to hedge against variability in cash flows relating to interest payments on a portion of the Company's outstanding variable rate term debt. The aggregate notional amounts of all swaps as of both December 1, 2018 and February 24, 2018 were \$3,110.0 million, of which \$3,052.0 million are designated as cash flow hedges as defined by GAAP. The undesignated portion of the Company's interest rate swaps is attributable to principal payments expected to be made through the loan's maturity.

On June 20, 2018, the Company entered into two new interest rate swap agreements with notional amounts of \$339.0 million and \$254.0 million, with an effective date of March 2019 and maturing in March 2023. These swaps hedge against variability in cash flows relating to interest payments on the Company's outstanding variable rate debt. Accordingly, the interest rate swaps will be designated as cash flow hedges as defined by GAAP.

As of December 1, 2018, the fair value of the cash flow interest rate swap asset was \$3.4 million and was recorded in Other current assets, and as of February 24, 2018, the fair value of the cash flow interest rate swap liability was \$13.0 million and was recorded in Other current liabilities.

Activity related to the Company's derivative instruments designated as cash flow hedges consisted of the following (in millions):

<b>Derivatives designated as hedging instruments</b>	<b>Amount of income recognized from derivatives</b>		<b>Location of income recognized from derivatives</b>
	<b>12 weeks ended December 1, 2018</b>	<b>12 weeks ended December 2, 2017</b>	
Designated interest rate swaps	\$ 0.9	\$ 22.2	Other comprehensive income (loss), net of tax

<b>Derivatives designated as hedging instruments</b>	<b>Amount of income recognized from derivatives</b>		<b>Location of income recognized from derivatives</b>
	<b>40 weeks ended December 1, 2018</b>	<b>40 weeks ended December 2, 2017</b>	
Designated interest rate swaps	\$ 4.3	\$ 22.6	Other comprehensive income (loss), net of tax

Activity related to the Company's derivative instruments not designated as hedging instruments was immaterial during the 12 and 40 weeks ended December 1, 2018 and December 2, 2017, respectively.

#### **NOTE 5 - LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS**

The Company's long-term debt as of December 1, 2018 and February 24, 2018, net of unamortized debt discounts of \$215.7 million and \$249.6 million, respectively, and deferred financing costs of \$58.9 million and \$79.7 million, respectively, consisted of the following (in millions):

	<b>December 1, 2018</b>	<b>February 24, 2018</b>
Albertsons Term Loans due 2022 to 2025, interest rate range of 4.32% to 5.69%	\$ 4,614.6	\$ 5,610.7
Senior Unsecured Notes due 2024 and 2025, interest rate of 6.625% and 5.750%, respectively	2,478.8	2,476.1
New Albertson's, L.P. Notes due 2027 to 2031, interest rate range of 6.52% to 8.70%	1,402.8	1,393.9
Safeway Inc. Notes due 2019 to 2031, interest rate range of 3.95% to 7.45%	944.4	1,266.9
ABL Facility, average interest rate of 3.60%	610.0	—
Other Notes Payable, unsecured	124.0	242.7
Mortgage Notes Payable, secured	18.9	20.9
Total debt	10,193.5	11,011.2
Less current maturities	(315.1)	(66.1)
Long-term portion	\$ 9,878.4	\$ 10,945.1

The Company's term loans (the "Albertsons Term Loans"), asset-based loan ("ABL") facility (the "ABL Facility") and certain of the outstanding notes and debentures have restrictive covenants, subject to the right to cure in certain circumstances, calling for the acceleration of payments due in the event of a breach of a covenant or a default in the payment of a specified amount of indebtedness due under certain debt arrangements. There are no restrictions on the Company's ability to receive distributions from its subsidiaries to fund interest and principal payments due under the

ABL Facility, the Albertsons Term Loans and the Company's senior unsecured notes (the "Senior Unsecured Notes"). Each of the ABL Facility, Albertsons Term Loans and the Senior Unsecured Notes restrict the ability of the Company to pay dividends and distribute property to the Company's stockholders. As a result, all of the Company's consolidated net assets are effectively restricted with respect to their ability to be transferred to the Company's stockholders. Notwithstanding the foregoing, the ABL Facility, Albertsons Term Loans and the Senior Unsecured Notes each contain customary exceptions for certain dividends and distributions, including the ability to make cumulative distributions under the Albertsons Term Loans and Senior Unsecured Notes of up to the greater of \$1.0 billion or 4% of the Company's total assets (which is measured at the time of such distribution) and the ability to make distributions if certain payment conditions are satisfied under the ABL Facility. The Company was in compliance with all such covenants and provisions as of and for the 40 weeks ended December 1, 2018.

### ***Term Loan Refinancing***

On November 16, 2018, the Company repaid approximately \$976 million in aggregate principal amount of the \$2,976 million term loan tranche B-4 (the "2017 Term Loan B-4") along with accrued interest and unpaid interest on such amount and fees and expenses related to the Term Loan Repayment and the 2018 Term Loan B-7 (each as defined below), for which the Company used approximately \$610 million of cash on hand and approximately \$410 million of borrowings under the ABL Facility (such repayment, the "Term Loan Repayment"). Substantially concurrently with the Term Loan Repayment, the Company amended the Company's Second Amended and Restated Term Loan Agreement, dated as of August 25, 2014 and effective as of January 30, 2015 (as amended, the "Term Loan Agreement"), to establish a new term loan tranche and amend certain provisions of the Term Loan Agreement. The new tranche consists of \$2,000 million of new term B-7 loans (the "2018 Term Loan B-7"). The 2018 Term Loan B-7, together with cash on hand, was used to repay in full the remaining principal amount outstanding under the 2017 Term Loan B-4 (the "2018 Term Loan Refinancing"). The 2018 Term Loan Refinancing was accounted for as a debt modification or extinguishment on a lender by lender basis. In connection with the 2018 Term Loan Refinancing and Term Loan Repayment, the Company expensed \$4.1 million of financing costs and capitalized \$3.6 million of financing costs and \$15.0 million of original issue discount. The Company also wrote off \$12.9 million of deferred financing costs and \$8.6 million of original issue discount associated with the 2017-1 Term B-4 Loan. The 2018 Term Loan B-7 has a maturity date of November 17, 2025. The 2018 Term Loan B-7 amortizes, on a quarterly basis, at a rate of 1% per annum of the original principal amount of the 2018 Term Loan B-7 (which payments will be reduced as a result of the application of prepayments in accordance with the terms therewith). The 2018 Term Loan B-7 bears interest, at the borrower's option, at a rate per annum equal to either (a) the base rate plus 2.00% or (b) LIBOR (subject to a 0.75% floor) plus 3.00%.

### ***Safeway Notes***

During the third quarter of fiscal 2018, Safeway Inc., a wholly-owned subsidiary of the Company, repurchased certain amounts of Safeway Inc.'s 7.450% Senior Debentures due 2027 and 7.250% Debentures due 2031 with a par value of \$333.7 million and a book value of \$322.4 million for \$333.7 million plus accrued interest of \$7.7 million ("Safeway Notes Repurchase"). In connection with the Safeway Notes Repurchase, the Company recorded a loss on debt extinguishment of \$11.3 million.

### ***NALP Notes***

During the third quarter of fiscal 2018, the Company repurchased NALP Notes with a par value of \$10.4 million and a book value of \$10.4 million for \$8.6 million plus accrued interest of \$0.2 million ("NALP Notes Repurchase"). In connection with the NALP Notes Repurchase, the Company recorded a gain on debt extinguishment of \$1.8 million.

### ***Asset-Based Loan Facility***

On November 16, 2018, the existing ABL Facility was amended and restated in connection with the 2018 Term Loan Refinancing to extend the maturity date of the facility to November 16, 2023. All other terms of the agreement remain unchanged. In connection with the ABL Facility amendment the Company capitalized \$13.5 million of financing costs.

As of December 1, 2018, there were \$610.0 million of loans outstanding under the Company's ABL Facility, and letters of credit ("LOC") issued under the LOC sub-facility were \$561.2 million. There were no loans outstanding under the Company's ABL Facility as of February 24, 2018, and letters of credit ("LOC") issued under the LOC sub-facility were \$576.8 million.

### ***Capitalized Lease Obligations***

The Company's capitalized lease obligations were \$784.4 million and \$864.6 million as of December 1, 2018 and February 24, 2018, respectively. Current maturities of capitalized lease obligations were \$97.5 million and \$102.1 million and long-term maturities were \$686.9 million and \$762.5 million as of December 1, 2018 and February 24, 2018, respectively.

### ***Merger Related Financing***

On June 25, 2018 the Company issued \$750.0 million in aggregate principal amount of floating rate senior secured notes (the "Floating Rate Notes") at an issue price of 99.5%. As a result of the Termination Agreement with Rite Aid on August 8, 2018, the Company redeemed all of the Floating Rate Notes at a redemption price equal to 99.5% of the aggregate principal amount of the notes, plus accrued and unpaid interest.

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

***Pension and Other Post-Retirement Benefits***

The following tables provide the components of net pension and post-retirement expense (in millions):

	<b>12 weeks ended</b>			
	<b>Pension</b>		<b>Other post-retirement benefits</b>	
	<b>December 1, 2018</b>	<b>December 2, 2017</b>	<b>December 1, 2018</b>	<b>December 2, 2017</b>
Estimated return on plan assets	\$ (26.0)	\$ (27.6)	\$ —	\$ —
Service cost	12.1	11.5	0.3	0.3
Interest cost	19.8	20.4	0.1	0.2
Amortization of prior service cost	—	—	0.8	0.8
Amortization of net actuarial (gain) loss	(1.4)	0.1	(0.1)	—
Net expense	<u>\$ 4.5</u>	<u>\$ 4.4</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>

  

	<b>40 weeks ended</b>			
	<b>Pension</b>		<b>Other post-retirement benefits</b>	
	<b>December 1, 2018</b>	<b>December 2, 2017</b>	<b>December 1, 2018</b>	<b>December 2, 2017</b>
Estimated return on plan assets	\$ (86.6)	\$ (92.0)	\$ —	\$ —
Service cost	40.3	38.3	0.8	0.8
Interest cost	66.0	67.9	0.4	0.7
Amortization of prior service cost	—	0.1	2.8	2.8
Amortization of net actuarial (gain) loss	(4.8)	0.3	(0.2)	—
Net expense	<u>\$ 14.9</u>	<u>\$ 14.6</u>	<u>\$ 3.8</u>	<u>\$ 4.3</u>

The Company contributed \$186.4 million and \$196.9 million to its defined benefit pension plans and post-retirement benefit plans during the 12 and 40 weeks ended December 1, 2018, respectively. For the 12 and 40 weeks ended December 2, 2017, the Company contributed \$13.4 million and \$19.8 million, respectively, to its defined benefit pension plans and post-retirement benefit plans. The Company's funding policy for the defined benefit pension plans is to contribute the minimum contribution required under the Employee Retirement Income Security Act of 1974, as amended, and other applicable laws as determined by the Company's external actuarial consultant. At the Company's discretion, additional funds may be contributed to the defined benefit pension plans. The Company's fiscal 2018 contributions include \$150.0 million of additional discretionary contributions to reduce the Pension Benefit Guaranty Corporation premium costs and improve the overall funded status of the plan. The Company currently anticipates contributing an additional \$2.5 million to these plans for the remainder of fiscal 2018.

The Company also contributes to various multiemployer pension plans based on obligations arising from most of its collective bargaining agreements. These plans provide retirement benefits to participants based on their service to contributing employers. The Company recognizes expense in connection with these plans as contributions are funded.

***Defined Contribution Plans and Supplemental Retirement Plans***

Many of the Company's employees are eligible to contribute a percentage of their compensation to defined contribution plans ("401(k) Plans"). Participants in the 401(k) Plans may become eligible to receive a profit-sharing allocation in the form of a discretionary Company contribution based on employee compensation. In addition, the Company may also provide matching contributions based on the amount of eligible compensation contributed by the employee. All Company contributions to the 401(k) Plans are made at the discretion of the Company's Board of Directors. Total contributions expensed for these plans were \$11.7 million and \$9.4 million for the 12 weeks ended December 1, 2018

and December 2, 2017, respectively. For the 40 weeks ended December 1, 2018 and December 2, 2017, total contributions expensed were \$32.2 million and \$32.6 million, respectively.

## **NOTE 7 - COMMITMENTS AND CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS**

### ***Guarantees***

**California Department of Industrial Relations:** On October 24, 2012, the Office of Self-Insurance Plans, a program within the director's office of the California Department of Industrial Relations (the "DIR"), notified SuperValu, which was then the owner of New Albertsons L.P., a wholly-owned subsidiary of the Company, that additional collateral was required to be posted in connection with the Company's, and certain other subsidiaries', California self-insured workers' compensation obligations pursuant to applicable regulations. The notice from the DIR stated that the additional collateral was required as a result of an increase in estimated future liabilities, as determined by the DIR pursuant to a review of the self-insured California workers' compensation claims with respect to the applicable businesses, and a decline in SuperValu's net worth. On January 21, 2014, the Company entered into a Collateral Substitution Agreement with the California Self-Insurers' Security Fund to provide an irrevocable LOC. The amount of the LOC is adjusted semi-annually based on semi-annual filings of an actuarial study reflecting liabilities as of and June 30 and December 31 of each year reduced by claim closures and settlements. The related LOC was \$183.0 million and \$205.6 million as of December 1, 2018 and February 24, 2018, respectively.

**Lease Guarantees:** The Company may have liability under certain operating leases that were assigned to third parties. If any of these third parties fail to perform their obligations under the leases, the Company could be responsible for the lease obligation. Because of the wide dispersion among third parties and the variety of remedies available, the Company believes that if an assignee became insolvent, it would not have a material effect on the Company's financial condition, results of operations or cash flows.

The Company also provides guarantees, indemnifications and assurances to others in the ordinary course of its business.

### ***Legal Proceedings***

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits involving trade practices, lawsuits alleging violations of state and/or federal wage and hour laws (including alleged violations of meal and rest period laws and alleged misclassification issues), real estate disputes as well as other matters. Some of these suits purport or may be determined to be class actions and/or seek substantial damages. It is the opinion of the Company's management that although the amount of liability with respect to certain of the matters described herein cannot be ascertained at this time, any resulting liability of these and other matters, including any punitive damages, will not have a material adverse effect on the Company's business or financial condition.

The Company continually evaluates its exposure to loss contingencies arising from pending or threatened litigation and believes it has made provisions where the loss contingency can be reasonably estimated and an adverse outcome is probable. Nonetheless, assessing and predicting the outcomes of these matters involves substantial uncertainties. Management currently believes that the aggregate range of reasonably possible loss for the Company's exposure in excess of the amount accrued is expected to be immaterial to the Company. It remains possible that despite management's current belief, material differences in actual outcomes or changes in management's evaluation or predictions could arise that could have a material effect on the Company's financial condition, results of operations or cash flows.

**Office of Inspector General:** In January 2016, the Company received a subpoena from the Office of the Inspector General of the Department of Health and Human Services (the "OIG") pertaining to the pricing of drugs offered under the Company's MyRxCare discount program and the impact on reimbursements to Medicare, Medicaid and TRICARE (the "Government Health Programs"). In particular, the OIG is requesting information on the relationship between the

prices charged for drugs under the MyRxCare program and the "usual and customary" prices reported by the Company in claims for reimbursements to the Government Health Programs or other third-party payors. The Company cooperated with the OIG in the investigation. The Company is currently unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.

**Civil Investigative Demand:** On December 16, 2016, the Company received a civil investigative demand from the United States Attorney for the District of Rhode Island in connection with a False Claims Act investigation relating to the Company's influenza vaccination programs. The investigation concerns whether the Company's provision of store coupons to its customers who received influenza vaccinations in its store pharmacies constituted an improper benefit to those customers under the federal Medicare and Medicaid programs. The Company believes that its provision of the store coupons to its customers is an allowable incentive to encourage vaccinations. The Company cooperated with the U.S. Attorney in the investigation. The Company is currently unable to determine the probability of the outcome of this matter or the range of possible loss, if any.

**Security Breach:** In 2014, the Company was the subject of criminal intrusions by the installation of malware on a portion of its computer network that processes payment card transactions for approximately 800 of its stores through its then service provider SuperValu. The Company believes these were attempts to collect payment card data. The forensic investigation into the intrusions indicated that although the Company was then compliant with the Payment Card Industry (PCI) Data Security Standards issued by the PCI Council, it was not compliant with all of these standards at the time of the intrusions. As a result, the Company was assessed by certain card companies for incremental counterfeit fraud losses, non-ordinary course expenses (such as card reissuance cost) and case management costs. The Company has paid or recorded an estimated liability for all of such assessments, and is seeking recovery from MasterCard of its assessment. As a result of the intrusion two class action complaints were filed against the Company by consumers. These complaints have been dismissed, although the appeal of the dismissal of one case remains pending. In 2015 the Company also received a letter from the Office of the Attorney General of the Commonwealth of Pennsylvania stating that the Illinois and Pennsylvania Attorneys General Offices were leading a multi-state group requesting specified information concerning the two data breach incidents. The Company has cooperated with the investigation. The multistate group did not make a monetary demand, and the Company is unable to estimate the possibility or range of loss, if any.

**Terraza/Lorenz:** Two lawsuits have been brought against Safeway Inc. and the Safeway Benefits Plan Committee (the "Benefit Plans Committee," and together with Safeway, the "Safeway Benefits Plans Defendants") and other third parties alleging breaches of fiduciary duty under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with respect to Safeway's 401(k) Plan (the "Safeway 401(k) Plan"). On July 14, 2016, a complaint ("Terraza") was filed in the United States District Court for the Northern District of California by a participant in the Safeway 401(k) Plan individually and on behalf of the Safeway 401(k) Plan. An amended complaint was filed on November 18, 2016. On August 25, 2016, a second complaint ("Lorenz") was filed in the United States District Court for the Northern District of California by another participant in the Safeway 401(k) Plan individually and on behalf of all others similarly situated against the Safeway Benefits Plans Defendants and against the Safeway 401(k) Plan's former recordkeepers. An amended complaint was filed on September 16, 2016, and a second amended complaint was filed on November 21, 2016. In general, both lawsuits allege that the Safeway Benefits Plans Defendants breached their fiduciary duties under ERISA regarding the selection of investments offered under the Safeway 401(k) Plan and the fees and expenses related to those investments. The Safeway Benefits Plans Defendants filed motions to dismiss both cases. On March 13, 2017, the court denied the Safeway Benefits Plan Defendants' motion to dismiss with respect to Terraza, and granted in part and denied in part the Safeway Benefits Plan Defendants' motion to dismiss with respect to Lorenz. Discovery closed on June 8, 2018. The parties filed summary judgment motions, which were heard and taken under submission on August 16, 2018. Bench trials for both matters had been set for October 2018, but the judge rescheduled both trials to May 6, 2019. The Company believes these lawsuits are without merit and intends to contest each of them vigorously. Because the question of liability, if any, is uncertain, the Company is currently unable to estimate a range of reasonably possible loss, if any, that may result from these matters

**False Claims Act:** The Company is currently subject to two qui tam actions alleging violations of the False Claims Act ("FCA"). Violations of the FCA are subject to treble damages and penalties of up to a specified dollar amount per false claim. In *United States ex rel. Schutte and Yarberr v. SuperValu, New Albertson's, Inc., et al*, which is pending in the U.S. District Court for the Central District of Illinois, the relators allege that defendants (including various subsidiaries of the Company) overcharged federal healthcare programs by not providing the government, as a part of usual and customary prices, the benefit of discounts given to customers who requested that defendants match competitor prices. The complaint was originally filed under seal and amended on November 30, 2015. Both sides have moved for summary judgment, and motions are pending before the court. Discovery is substantially complete, and trial is currently set for April 3, 2019. In *United States ex rel. Proctor v. Safeway*, also pending in the Central District of Illinois, the relator alleges that Safeway Inc. submitted fraudulent, inflated pricing information to government healthcare programs in connection with prescription drug claims, by failing to include pharmacy discount program pricing as a part of its usual and customary prices. On August 26, 2015, the underlying complaint was unsealed. Discovery is substantially complete, and trial is currently set for March 4, 2019. In both of the above cases, the government previously investigated the relators' allegations and declined to intervene. Relators elected to pursue their respective cases on their own and in each case have alleged FCA damages in excess of \$100 million. The Company is vigorously defending each of these matters and believes each of these cases is without merit. At this stage of each case's proceedings the Company is unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.

The Company was also subject to another FCA qui tam action entitled *United States ex rel. Zelickowski v. Albertson's LLC*. In that case, the relators alleged that Albertson's LLC overcharged federal healthcare programs by not providing the government, as a part of its usual and customary prices to the government, the benefit of discounts given to customers who enrolled in the Albertson's LLC discount-club program. The complaint was originally filed under seal and amended on June 20, 2017. On December 17, 2018, the case was dismissed, without prejudice.

**Alaska Attorney General's Investigation:** Recently, pharmaceutical manufacturers, wholesale distributors and retailers have faced intense scrutiny and, in some cases, investigations and litigation relating to the distribution of prescription opioid pain medications. On May 22, 2018, the Company received a subpoena from the Office of the Attorney General for the State of Alaska (the "Alaska Attorney General") stating that the Alaska Attorney General has reason to believe the Company has engaged in unfair or deceptive trade practices under Alaska's Unfair Trade Practices and Consumer Act and seeking documents regarding the Company's policies, procedures, controls, training, dispensing practices and other matters in connection with the sale and marketing of opioid pain medications. The Company has been cooperating with the Alaska Attorney General in this investigation. The Company does not currently have a basis to believe it has violated Alaska's Unfair Trade Practices and Consumer Act. However, due to the early stages of the investigation, the Company is unable to determine the probability of the outcome of this matter or estimate a range of reasonably possible loss, if any.

**Opioid Litigation:** Albertson's LLC has been named in a complaint brought by The Blackfeet Tribe of the Blackfeet Indian Reservation. The complaint was filed on August 29, 2018 in the United States District Court for the Northern District of Ohio as one of 62 cases consolidated under rules governing multidistrict litigation. The Company was served with the complaint on January 11, 2019. The complaint asserts unspecified allegations that the Company contributed to the national opioid situation. As a drug retailer that only dispenses medication as prescribed by licensed physicians, the Company believes that the claims are factually inaccurate and without merit.

#### ***Other Commitments***

In the ordinary course of business, the Company enters into various supply contracts to purchase products for resale and purchase and service contracts for fixed asset and information technology commitments. These contracts typically include volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations.

**NOTE 8 - OTHER COMPREHENSIVE INCOME OR LOSS**

Total comprehensive earnings are defined as all changes in stockholders' equity during a period, other than those from investments by or distributions to the stockholders. Generally, for the Company, total comprehensive income or loss equals net income plus or minus adjustments for pension and other post-retirement liabilities, interest rate swaps and foreign currency translation adjustments. Total comprehensive earnings represent the activity for a period net of tax.

While total comprehensive earnings are the activity in a period and are largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. Changes in the AOCI balance by component are shown below (in millions):

<b>40 weeks ended December 1, 2018</b>					
	<b>Total</b>	<b>Interest rate swaps</b>	<b>Pension and Post- retirement benefit plans</b>	<b>Foreign currency translation adjustments</b>	<b>Other</b>
Beginning balance	\$ 191.1	\$ 18.9	\$ 171.9	\$ (1.1)	\$ 1.4
Other comprehensive income (loss) before reclassifications	3.8	5.5	—	(0.4)	(1.3)
Amounts reclassified from accumulated other comprehensive income	(2.5)	0.4	(2.2)	—	(0.7)
Tax (expense) benefit	(0.3)	(1.6)	0.6	0.1	0.6
Current-period other comprehensive income (loss), net	1.0	4.3	(1.6)	(0.3)	(1.4)
Ending balance	<u>\$ 192.1</u>	<u>\$ 23.2</u>	<u>\$ 170.3</u>	<u>\$ (1.4)</u>	<u>\$ —</u>

<b>40 weeks ended December 2, 2017</b>					
	<b>Total</b>	<b>Interest rate swaps</b>	<b>Pension and Post- retirement benefit plans</b>	<b>Foreign currency translation adjustments</b>	<b>Other</b>
Beginning balance	\$ (12.8)	\$ (28.1)	\$ 79.7	\$ (66.1)	\$ 1.7
Other comprehensive income before reclassifications	32.4	4.8	2.2	23.7	1.7
Amounts reclassified from accumulated other comprehensive income	25.7	27.9	2.8	—	(5.0)
Tax (expense) benefit	(18.8)	(10.1)	1.0	(9.4)	(0.3)
Current-period other comprehensive income (loss), net	39.3	22.6	6.0	14.3	(3.6)
Ending balance	<u>\$ 26.5</u>	<u>\$ (5.5)</u>	<u>\$ 85.7</u>	<u>\$ (51.8)</u>	<u>\$ (1.9)</u>

## **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report contains forward-looking statements. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future operating results and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as "may," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms or other similar expressions. Forward-looking statements are based on our current expectations and assumptions and involve risks and uncertainties that could cause actual results or events to be materially different from those anticipated. The Company undertakes no obligation to update or revise any such statements as a result of new information, future events or otherwise. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. As used in this Form 10-Q, unless the context otherwise requires, references to "Albertsons", "the Company", "we", "us" and "our" refer to Albertsons Companies, Inc. and, where appropriate, its subsidiaries.

### **NON-GAAP FINANCIAL MEASURES**

We define EBITDA as generally accepted accounting principles ("GAAP") earnings (net loss) before interest, income taxes, depreciation, and amortization. We define Adjusted EBITDA as earnings (net loss) before interest, income taxes, depreciation, and amortization, further adjusted to eliminate the effects of items management does not consider in assessing our ongoing performance. We define Free Cash Flow as Adjusted EBITDA less capital expenditures. See "Results of Operations" for further discussion and a reconciliation of Adjusted EBITDA and Free Cash Flow.

EBITDA, Adjusted EBITDA and Free Cash Flow (collectively, the "Non-GAAP Measures") are performance measures that provide supplemental information we believe is useful to analysts and investors to evaluate our ongoing results of operations, when considered alongside other GAAP measures such as net income, operating income and gross profit. These Non-GAAP Measures exclude the financial impact of items management does not consider in assessing our ongoing operating performance, and thereby facilitate review of our operating performance on a period-to-period basis. Other companies may have different capital structures or different lease terms, and comparability to our results of operations may be impacted by the effects of acquisition accounting on our depreciation and amortization. As a result of the effects of these factors and factors specific to other companies, we believe EBITDA, Adjusted EBITDA and Free Cash Flow provide helpful information to analysts and investors to facilitate a comparison of our operating performance to that of other companies. We also use Adjusted EBITDA, as further adjusted for additional items defined in our debt instruments, for board of director and bank compliance reporting. Our presentation of Non-GAAP Measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Non-GAAP Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Non-GAAP Measures only for supplemental purposes.

### **OVERVIEW**

As of December 1, 2018, we operated 2,277 retail food and drug stores with 1,743 pharmacies, 395 associated fuel centers, 23 dedicated distribution centers, five Plated fulfillment centers and 20 manufacturing facilities. In addition to our retail footprint, we continue to roll out unique options for our customers as we strive to differentiate through our best in class Own Brands and rapidly expanding eCommerce options, which primarily include home delivery sales, "Drive Up and Go" stores and Plated meal kit delivery.

The following table shows stores operating, acquired, opened and closed during the periods presented:

	12 weeks ended		40 weeks ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Stores, beginning of period	2,291	2,328	2,318	2,324
Acquired	—	—	—	5
Opened	—	1	3	13
Closed	(14)	(6)	(44)	(19)
Stores, end of period	2,277	2,323	2,277	2,323

The following table summarizes our stores by size:

Square Footage	Number of stores		Percent of Total		Retail Square Feet (1)	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Less than 30,000	208	213	9.1%	9.2%	4.8	4.9
30,000 to 50,000	795	813	34.9%	35.0%	33.4	34.1
More than 50,000	1,274	1,297	56.0%	55.8%	75.2	76.5
Total Stores	2,277	2,323	100.0%	100.0%	113.4	115.5

(1) In millions, reflects total square footage of retail stores operating at the end of the quarter.

## RESULTS OF OPERATIONS

### Comparison of 12 and 40 weeks ended December 1, 2018 to 12 and 40 weeks ended December 2, 2017:

The following table and related discussion set forth certain information and comparisons regarding the components of our Condensed Consolidated Statements of Operations for the 12 and 40 weeks ended December 1, 2018 ("third quarter of fiscal 2018" and "first 40 weeks of fiscal 2018") and 12 and 40 weeks ended December 2, 2017 ("third quarter of fiscal 2017" and "first 40 weeks of fiscal 2017"). As of December 1, 2018 and December 2, 2017, we operated 2,277 and 2,323 stores, respectively.

	<b>12 weeks ended</b>			
	<b>December 1, 2018</b>	<b>% of Sales</b>	<b>December 2, 2017</b>	<b>% of Sales</b>
Net sales and other revenue	\$ 13,840.4	100.0 %	\$ 13,599.2	100.0 %
Cost of sales	9,988.0	72.2 %	9,974.6	73.3 %
Gross profit	3,852.4	27.8 %	3,624.6	26.7 %
Selling and administrative expenses	3,678.0	26.6 %	3,725.7	27.4 %
Operating income (loss)	174.4	1.2 %	(101.1)	(0.7)%
Interest expense, net	213.0	1.5 %	193.9	1.4 %
Loss (gain) on debt extinguishment	9.5	0.1 %	(5.0)	— %
Other (income) expense	(28.3)	(0.2)%	15.4	0.1 %
Loss before income taxes	(19.8)	(0.2)%	(305.4)	(2.2)%
Income tax benefit	(65.4)	(0.5)%	(523.5)	(3.8)%
Net income	\$ 45.6	0.3 %	\$ 218.1	1.6 %

	<b>40 weeks ended</b>			
	<b>December 1, 2018</b>	<b>% of Sales</b>	<b>December 2, 2017</b>	<b>% of Sales</b>
Net sales and other revenue	\$ 46,517.9	100.0 %	\$ 45,890.9	100.0 %
Cost of sales	33,682.0	72.4 %	33,478.1	73.0 %
Gross profit	12,835.9	27.6 %	12,412.8	27.0 %
Selling and administrative expenses	12,337.0	26.5 %	12,509.0	27.3 %
Goodwill impairment	—	— %	142.3	0.3 %
Operating income (loss)	498.9	1.1 %	(238.5)	(0.6)%
Interest expense, net	662.5	1.5 %	679.2	1.5 %
Loss (gain) on debt extinguishment	9.5	— %	(5.0)	— %
Other (income) expense	(88.3)	(0.2)%	20.1	— %
Loss before income taxes	(84.8)	(0.2)%	(932.8)	(2.1)%
Income tax benefit	(80.3)	(0.2)%	(590.8)	(1.3)%
Net loss	\$ (4.5)	— %	\$ (342.0)	(0.8)%

## Identical Sales, Excluding Fuel

Identical sales include stores operating during the same period in both the current year and the prior year, comparing sales on a daily basis. Direct to consumer internet sales are included in identical sales and fuel sales are excluded from identical sales. Acquired stores become identical on the one-year anniversary date of the acquisition. Identical sales for the 12 and 40 weeks ended December 1, 2018 and the 12 and 40 weeks ended December 2, 2017, respectively, were:

	12 weeks ended		40 weeks ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Identical sales, excluding fuel	1.9%	(1.8)%	0.9%	(1.9)%

## Net Sales and Other Revenue

Net sales and other revenue increased 1.8% to \$13,840.4 million for the third quarter of fiscal 2018 from \$13,599.2 million for the third quarter of fiscal 2017. The increase in Net sales and other revenue was primarily driven by our 1.9% increase in identical sales and an increase in fuel sales of \$91.7 million, partially offset by a reduction in sales related to the closure of 44 stores in the first three quarters of fiscal 2018.

Net sales and other revenue increased 1.4% to \$46,517.9 million for the first 40 weeks of fiscal 2018 from \$45,890.9 million for the first 40 weeks of fiscal 2017. The increase in Net sales and other revenue was primarily driven by our 0.9% increase in identical sales and an increase in fuel sales of \$386.1 million, partially offset by a reduction in sales related to the closure of 44 stores in the first three quarters of fiscal 2018.

## Gross Profit

Gross profit represents the portion of Net sales and other revenue remaining after deducting the Cost of sales during the period, including purchase and distribution costs. These costs include inbound freight charges, purchasing and receiving costs, warehouse inspection costs, warehousing costs and other costs associated with our distribution network. Advertising, promotional expenses and vendor allowances are also components of Cost of sales.

Gross profit margin increased to 27.8% during the third quarter of fiscal 2018 compared to 26.7% during the third quarter of fiscal 2017. Excluding the impact of fuel, gross profit margin increased 140 basis points. The increase in gross profit margin was primarily attributable to lower shrink expense as a percentage of sales, lower advertising costs, improved sales penetration in Own Brands and the realization of our cost reduction initiatives.

Gross profit margin increased to 27.6% during the first 40 weeks of fiscal 2018 compared to 27.0% during the first 40 weeks of fiscal 2017. Excluding the impact of fuel, gross profit margin increased 80 basis points. The increase in gross profit margin was primarily attributable to lower shrink expense as a percentage of sales, lower advertising costs and the realization of our cost reduction initiatives.

## Selling and Administrative Expenses

Selling and administrative expenses consist primarily of store level costs, including wages, employee benefits, rent, depreciation and utilities, in addition to certain back-office expenses related to our corporate and division offices.

Selling and administrative expenses decreased to 26.6% of Net sales and other revenue during the third quarter of fiscal 2018 compared to 27.4% of Net sales and other revenue for the third quarter of fiscal 2017. Excluding the impact of fuel, Selling and administrative expenses as a percentage of Net sales and other revenue decreased 70 basis points during the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017. The decrease in Selling and administrative expenses was primarily attributable to lower depreciation and amortization expense, a reduction in

acquisition and integration costs as the store conversions were completed during the third quarter of fiscal 2018, and the realization of our cost reduction initiatives.

Selling and administrative expenses decreased to 26.5% of Net sales and other revenue during the first 40 weeks of fiscal 2018 compared to 27.3% of Net sales and other revenue for the first 40 weeks of fiscal 2017. Excluding the impact of fuel, Selling and administrative expenses as a percentage of Net sales and other revenue decreased 60 basis points during the first 40 weeks of fiscal 2018 compared to the first 40 weeks of fiscal 2017. The decrease in Selling and administrative expenses was primarily attributable to gains related to property dispositions in the first 40 weeks of fiscal 2018 and impairment charges related to underperforming stores in the first 40 weeks of fiscal 2017, lower depreciation and amortization expense, and the realization of our cost reduction initiatives, partially offset by higher acquisition and integration costs and equity-based compensation expense in the first 40 weeks of fiscal 2018 compared to the first 40 weeks of fiscal 2017. The higher acquisition and integration costs is driven by the 506 stores we converted in 2018 compared to 219 in fiscal 2017.

### **Goodwill Impairment**

No goodwill impairment was recorded during the third quarter of fiscal 2018 and the third quarter of fiscal 2017. No goodwill impairment was recorded during the first 40 weeks of fiscal 2018 compared to \$142.3 million of goodwill impairment during the first 40 weeks of fiscal 2017.

### **Interest Expense, Net**

Interest expense, net was \$213.0 million during the third quarter of fiscal 2018 compared to \$193.9 million during the third quarter of fiscal 2017. The increase in interest expense in the third quarter of fiscal 2018 is attributable to the refinancing of our term loan and asset-based loan facilities in the third quarter of fiscal 2018 and the related \$21.5 million write-off of deferred financing costs and original issue discount. Interest expense, net, was \$662.5 million during the first 40 weeks of fiscal 2018 compared to \$679.2 million during the first 40 weeks of fiscal 2017.

### **Loss (Gain) on debt extinguishment**

During the third quarter of fiscal 2018, we repurchased Safeway Inc. ("Safeway") and New Albertson's, L.P. ("NALP") notes with a par value of \$344.1 million and a book value of \$332.8 million for \$342.3 million plus accrued interest of \$7.9 million. In connection with the note repurchases, we recorded a loss on debt extinguishment of \$9.5 million.

During the third quarter of fiscal 2017, we repurchased NALP notes with a par value of \$141.0 million and a book value of \$123.9 million for \$118.9 million plus accrued interest of \$3.2 million ("NALP Notes Repurchase"). In connection with the NALP Notes Repurchase we recorded a gain on debt extinguishment of \$5.0 million.

### **Other (Income) Expense**

For the third quarter of fiscal 2018, Other income was \$28.3 million compared to other expense of \$15.4 million for the third quarter of fiscal 2017. For the first 40 weeks of fiscal 2018, other income was \$88.3 million compared to other expense of \$20.1 million for the first 40 weeks of fiscal 2017. Other income during the third quarter of fiscal 2018 and first 40 weeks of fiscal 2018 is primarily driven by adjustments related to contingent consideration, gains related to non-operating investments, and non-service cost components of net pension and post-retirement expense. Other expense during the third quarter of fiscal 2017 and first 40 weeks of fiscal 2017 was primarily driven by changes in our equity method investment in Casa Ley, S.A. de C.V, which was sold in the fourth quarter of fiscal 2017, and the related contingent value right, non-service cost components of net pension and post-retirement expense and gains and losses on the sale of investments.

## Income Taxes

Income tax benefit was \$65.4 million and \$523.5 million for the third quarter of fiscal 2018 and the third quarter of fiscal 2017, respectively. Income tax benefit was \$80.3 million and \$590.8 million for the first 40 weeks of fiscal 2018 and first 40 weeks of fiscal 2017, respectively. The tax benefit in fiscal 2018 was primarily driven by our provisional Staff Accounting Bulletin No. 118 adjustment of \$60.3 million. The tax benefit in fiscal 2017 was primarily driven by our corporate reorganization and the related non-cash reversal of a valuation allowance against net deferred tax assets. Prior to the fourth quarter of fiscal 2017, we were organized as a limited liability company and conducted our operations primarily through limited liability companies and Subchapter C corporations. As such, our effective tax rate in periods prior to the corporate reorganization was largely driven by the mix of pre-tax income or loss between our taxable and nontaxable entities.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law, which enacted significant changes to U.S. income tax and related laws. Among other things, the Tax Act reduces the top U.S. corporate income tax rate from 35% to 21%, and makes changes to certain other business-related exclusions, deductions and credits. As a result, we expect our effective tax rate to be approximately 29% to 30% during fiscal 2018, excluding one-time asset sales and discrete items.

## Adjusted EBITDA and Free Cash Flow

For the third quarter of fiscal 2018, Adjusted EBITDA was \$649.7 million, or 4.7% of Net sales and other revenue, compared to \$429.0 million, or 3.2% of Net sales and other revenue, for the third quarter of fiscal 2017. For the first 40 weeks of fiscal 2018, Adjusted EBITDA was \$2,014.1 million, or 4.3% of Net sales and other revenue, compared to \$1,685.9 million, or 3.7% of Net sales and other revenue, for the first 40 weeks of fiscal 2017. The increase in Adjusted EBITDA primarily reflects our identical sales increase, improved gross profit and realization of our cost reduction initiatives.

The following is a reconciliation of Net loss to Adjusted EBITDA (in millions):

	12 weeks ended		40 weeks ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Net income (loss)	\$ 45.6	\$ 218.1	\$ (4.5)	\$ (342.0)
Depreciation and amortization	401.6	444.4	1,340.8	1,462.0
Interest expense, net	213.0	193.9	662.5	679.2
Income tax benefit	(65.4)	(523.5)	(80.3)	(590.8)
EBITDA	594.8	332.9	1,918.5	1,208.4
Integration costs (1)	29.5	37.6	164.4	111.0
Acquisition-related costs (2)	8.3	23.8	65.8	50.5
Equity-based compensation expense	9.9	6.5	35.5	24.6
Loss (gain) on debt extinguishment	9.5	(5.0)	9.5	(5.0)
Net loss (gain) on property dispositions, asset impairment and lease exit costs	12.1	15.5	(163.7)	66.8
Goodwill impairment	—	—	—	142.3
LIFO expense	2.8	0.4	15.7	24.0
Miscellaneous adjustments (3)	(17.2)	17.3	(31.6)	63.3
Adjusted EBITDA	\$ 649.7	\$ 429.0	\$ 2,014.1	\$ 1,685.9

(1) Related to activities to integrate acquired businesses, primarily the Safeway acquisition.

(2) Includes expenses related to acquisitions (including the mutually terminated merger with Rite Aid Corporation) and expenses related to management fees paid in connection with acquisition and financing activities.

(3) Miscellaneous adjustments include the following (see table below):

	12 weeks ended		40 weeks ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Lease related adjustments (a)	\$ 1.0	\$ 3.7	\$ 10.0	\$ 12.8
Net realized and unrealized loss (gain) on non-operating investments	7.4	—	(26.0)	(5.1)
Adjustments to contingent consideration	(29.4)	—	(39.4)	—
Changes in our equity method investment in Casa Ley and related CVR adjustments	—	21.7	—	47.0
Other (b)	3.8	(8.1)	23.8	8.6
Total other adjustments	\$ (17.2)	\$ 17.3	\$ (31.6)	\$ 63.3

(a) Primarily includes lease adjustments related to deferred rents, deferred gains on leases and costs incurred on acquired leased surplus properties.

(b) Primarily includes adjustments for unconsolidated equity investments and costs related to transitioning stores off the transition services agreements.

The following is a reconciliation of Net cash provided by operating activities to Free Cash Flow (in millions):

	40 weeks ended	
	December 1, 2018	December 2, 2017
Net cash provided by operating activities	\$ 1,069.1	\$ 710.6
Income tax benefit	(80.3)	(590.8)
Deferred income taxes	135.2	629.7
Interest expense, net	662.5	679.2
Changes in operating assets and liabilities	(146.8)	173.0
Amortization and write-off of deferred financing costs	(38.3)	(48.5)
Contributions to pension and post-retirement benefit plans, net of expense	178.2	0.9
Integration costs	164.4	111.0
Acquisition-related costs	65.8	50.5
Other adjustments	4.3	(29.7)
Adjusted EBITDA	2,014.1	1,685.9
Less: capital expenditures	(916.9)	(1,062.7)
Free Cash Flow	\$ 1,097.2	\$ 623.2

## LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth the major sources and uses of cash and cash equivalents and restricted cash for each period (in millions):

	40 weeks ended	
	December 1, 2018	December 2, 2017
Cash and cash equivalents and restricted cash at end of period	\$ 486.1	\$ 484.6
Cash flows provided by operating activities	1,069.1	710.6
Cash flows used in investing activities	(360.6)	(614.4)
Cash flows used in financing activities	(903.2)	(840.7)

### Net Cash Provided By Operating Activities

Net cash provided by operating activities was \$1,069.1 million for the first 40 weeks of fiscal 2018 compared to \$710.6 million for the first 40 weeks of fiscal 2017. The increase in cash flow from operations was driven by improvements in operating results in the first 40 weeks of fiscal 2018 and changes in working capital, primarily related to accounts payable and inventory.

### Net Cash Used In Investing Activities

Net cash used in investing activities was \$360.6 million for the first 40 weeks of fiscal 2018 compared to \$614.4 million for the first 40 weeks of fiscal 2017.

For the first 40 weeks of fiscal 2018, cash used in investing activities consisted primarily of payments for property and equipment, including lease buyouts, of \$916.9 million, partially offset by proceeds from the sale of assets of \$529.3 million. Payments for property and equipment included the opening of three new stores, 91 remodels and continued investment in our digital and eCommerce technology. Proceeds from the sale of assets included the sale and leaseback of two distribution centers for approximately \$290 million, net of closing costs during the second quarter of fiscal 2018 and certain other property dispositions during the first three quarters of fiscal 2018.

Payments for property and equipment, including lease buyouts, were \$1,062.7 million for the first 40 weeks of fiscal 2017. Payments for business acquisitions were \$148.8 million related to the MedCart Specialty Pharmacy and Plated acquisitions, partially offset by proceeds from the sale of assets of \$652.6 million. Proceeds from sale of assets during the first 40 weeks of fiscal 2017 included \$611.1 million in net proceeds related to our sale-leaseback transaction in the third quarter of fiscal 2017. Payments for property and equipment included the opening of 18 new stores, including five acquired stores, 119 remodels and continued investment in our digital and eCommerce technology.

In fiscal 2018, we expect to spend approximately \$1.4 billion in capital expenditures, including \$75.0 million of Safeway integration-related capital expenditures, as follows (in millions):

#### **Projected Fiscal 2018 Capital Expenditures**

Integration capital	\$	75.0
New stores and remodels		450.0
Maintenance		200.0
Supply chain		200.0
IT		200.0
Real estate and expansion capital		275.0
Total	\$	<u>1,400.0</u>

### Net Cash Used In Financing Activities

Net cash used in financing activities was \$903.2 million during the first 40 weeks of fiscal 2018 compared to \$840.7 million during the first 40 weeks of fiscal 2017.

Net cash used in financing activities during the first 40 weeks of fiscal 2018 consisted primarily of payments on long-term debt and capital lease obligations of \$2,188.3 million, partially offset by proceeds from the issuance of long-term debt of \$1,365.8 million. Proceeds from the issuance of long-term debt and payments of long-term debt consisted of the issuance and subsequent redemption of the floating rate senior secured notes as a result of the mutual termination of the Rite Aid Corporation merger agreement, borrowings under our asset-based loan facility and the repayment of term loans in connection with the refinancing and the repurchase of Safeway notes.

Net cash used in financing activities during the first 40 weeks of fiscal 2017 consisted primarily of payments on long-term debt and capital lease obligations of \$913.4 million and a member distribution of \$250.0 million.

## **Debt Management**

We continue to delever our balance sheet and over the last twelve months we have reduced our principal debt balance by approximately \$1 billion. In connection with this reduction in debt, on November 16, 2018, we successfully refinanced both our term loan and asset-based loan facilities. Contemporaneously with the refinancing, we paid down approximately \$976 million in aggregate principal amount of term loans for which we used cash on hand and approximately \$410 million of borrowings under our asset-based loan facility. In addition, on November 29, 2018, Safeway, a subsidiary of ours, purchased for cash, at par plus accrued and unpaid interest, approximately \$23 million aggregate principal amount of Safeway's 7.450% Senior Debentures due 2027 and approximately \$311 million aggregate principal amount of Safeway's 7.250% Debentures due 2031. The purchase was funded using cash on hand and \$200 million of borrowings under our asset-based loan facility.

Subsequent to the end of the third quarter of fiscal 2018, we repaid the \$610 million in borrowings under our asset-based loan facility and as of the date of this Form 10-Q, we had no borrowings outstanding under our \$4 billion asset-based revolving credit facility, and total availability of approximately \$3.4 billion (net of letters of credit usage).

Also subsequent to the end of the third quarter of fiscal 2018, we completed the sale and leaseback of five of our distribution centers for an aggregate purchase price, net of closing costs, of approximately \$660 million. The sale and leasebacks were completed in two separate transactions which closed on December 17, 2018 and January 2, 2019, respectively. In connection with the sale and leasebacks, we entered into lease agreements for each of the properties for initial terms of 15 to 20 years. The aggregate initial annual rent payment for the properties will be approximately \$38 million and includes 1.50% to 1.75% annual rent increases over the initial lease terms.

## **Liquidity Needs**

We estimate our liquidity needs over the next 12 months to be in the range of \$3.75 billion to \$4.25 billion, which includes anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments of debt, operating leases, capital leases and our transition services agreements. Based on current operating trends, we believe that cash flows from operating activities and other sources of liquidity, including borrowings under our ABL Facility, will be adequate to meet our liquidity needs for the next 12 months and for the foreseeable future. We believe we have adequate cash flow to continue to respond effectively to competitive conditions. In addition, we may enter into refinancing and sale-leaseback transactions from time to time. There can be no assurance, however, that our business will continue to generate cash flow at or above current levels or that we will maintain our ability to borrow under our ABL Facility.

On September 14, 2018, we contributed \$184.3 million to our defined benefit pension plans, which included \$150.0 million of additional discretionary contributions. The discretionary contribution will reduce the Pension Benefit Guaranty Corporation premium costs, improve the overall funded status of the plan and significantly reduce future required minimum contributions during the next three fiscal years.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a fair and consistent manner. See the Critical Accounting Policies section included in our Annual Report on Form 10-K for the fiscal year ended February 24, 2018 for discussion of our significant accounting policies.

## **RECENTLY ISSUED AND RECENTLY ADOPTED ACCOUNTING STANDARDS**

See Note 1 - Basis of presentation and summary of significant accounting policies of our unaudited interim Condensed Consolidated Financial Statements located elsewhere in this Form 10-Q.

### **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in our exposure to market risk from the information provided in our Annual Report on Form 10-K for the fiscal year ended February 24, 2018.

### **Item 4 - Controls and Procedures**

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q, our Principal Executive Officer and Principal Financial Officer concluded our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the third quarter ended December 1, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1 - Legal Proceedings**

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits involving trade practices, lawsuits alleging violations of state and/or federal wage and hour laws (including alleged violations of meal and rest period laws and alleged misclassification issues), real estate disputes as well as other matters. Some of these suits purport or may be determined to be class actions and/or seek substantial damages. It is the opinion of the Company's management that although the amount of liability with respect to certain of the matters described in this Form 10-Q cannot be ascertained at this time, any resulting liability of these and other matters, including any punitive damages, will not have a material adverse effect on the Company's business or financial condition. See the matters under the caption *Legal Proceedings* in Note 7 - Commitments and contingencies and off balance sheet arrangements in the unaudited interim Condensed Consolidated Financial Statements located elsewhere in this Form 10-Q.

The Company continually evaluates its exposure to loss contingencies arising from pending or threatened litigation and believes it has made provisions where the loss contingency can be reasonably estimated and an adverse outcome is probable. Nonetheless, assessing and predicting the outcomes of these matters involves substantial uncertainties. Management currently believes that the aggregate range of reasonably possible loss for the Company's exposure in excess of the amount accrued is expected to be immaterial to the Company. It remains possible that despite management's current belief, material differences in actual outcomes or changes in management's evaluation or predictions could arise that could have a material effect on the Company's financial condition, results of operations or cash flows.

### **Item 1A - Risk Factors**

There have been no material changes in the risk factors previously included in our Annual Report on Form 10-K for the fiscal year ended February 24, 2018 under the heading "Risk Factors" with the exception of the elimination of risk factors related to the Rite Aid merger, which was terminated on August 8, 2018 and the changes to the risk factor below.

#### ***Increased pension expenses, contributions and surcharges may have an adverse impact on our financial results.***

We are party to defined benefit retirement plans for employees at our Safeway, United, and NALP stores and distribution centers. The funded status of these plans (the difference between the fair value of the plan assets and the projected benefit obligation) is a significant factor in determining annual pension expense and cash contributions to fund the plans. In recent years, cash contributions have declined due to improved market conditions and the impact of the pension funding stabilization legislation, which increased the discount rate used to determine pension funding.

If financial markets do not improve or if financial markets decline, increased pension expense and cash contributions may have an adverse impact on our financial results. Under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the PBGC has the authority to petition a court to terminate an underfunded pension plan under limited circumstances. In the event that our defined benefit pension plans are terminated for any reason, we could be liable to the PBGC for the entire amount of the underfunding, as calculated by the PBGC based on its own assumptions (which would result in a larger obligation than that based on the actuarial assumptions used to fund such plans). Under ERISA and the Code, the liability under these defined benefit plans is joint and several with all members of the control group, such that each member of the control group would be liable for the defined benefit plans of each other member of the control group.

In addition, we participate in various multiemployer pension plans for substantially all employees represented by unions that require us to make contributions to these plans in amounts established under collective bargaining agreements.

Under the Pension Protection Act of 2006 (the "PPA"), contributions in addition to those made pursuant to a collective bargaining agreement may be required in limited circumstances.

Pension expenses for multiemployer pension plans are recognized by us as contributions are made. Benefits generally are based on a fixed amount for each year of service. Our contributions to multiemployer plans were \$379.8 million, \$399.1 million and \$431.2 million during fiscal 2015, 2016 and 2017, respectively.

Based on an assessment of the most recent information available, we believe that most of the multiemployer plans to which we contribute are underfunded. We are only one of a number of employers contributing to these plans, and the underfunding is not a direct obligation or liability of us. However, we have attempted, as of February 24, 2018, to estimate our share of the underfunding of multiemployer plans to which we contribute, based on the ratio of our contributions to the total of all contributions to these plans in a year. As of February 24, 2018, our estimate of the company's share of the underfunding of multiemployer plans to which we contribute was \$4.1 billion. Our share of underfunding described above is an estimate and could change based on the results of collective bargaining efforts, investment returns on the assets held in the plans, actions taken by trustees who manage the plans' benefit payments, interest rates, if the employers currently contributing to these plans cease participation, and requirements under the PPA, the Multiemployer Pension Reform Act of 2014 and applicable provisions of the Code.

Additionally, underfunding of the multiemployer plans means that, in the event we were to exit certain markets or otherwise cease making contributions to these plans, we could trigger a substantial withdrawal liability. Any accrual for withdrawal liability will be recorded when a withdrawal is probable and can be reasonably estimated, in accordance with GAAP. All trades or businesses in the employer's control group are jointly and severally liable for the employer's withdrawal liability.

Several factors could require the Company to increase its contributions to multiemployer plans, including the funding status of the plans, unfavorable investment performance or withdrawal of other participating employers, changes in demographics or changes in actuarial assumptions and increased benefits to participants and beneficiaries. The United States Congress established a joint committee in February 2018 with the objective of formulating recommendations to improve the solvency of multiemployer pension plans and the PBGC. Although the joint committee expired without making any formal recommendations, Congress is expected to continue to consider the issues the joint committee was evaluating. Absent legislative changes, the amount of underfunding of the multiemployer plans to which the Company contributes could also change based on a variety of factors, including collective bargaining negotiations, investment performance, withdrawal of other participating employers, changes in demographics or actuarial assumptions, increased benefits to participants or beneficiaries and the financial condition of the plans. If the funding required for these plans declines, the Company's future expense could be favorably affected. Favorable legislation could also decrease the Company's financial obligations to the plans. On the other hand, the Company's share of the underfunding and the Company's future expense and liability could increase if the financial condition of the plans deteriorated or if adverse changes in the law occurred. The Company continues to evaluate its potential exposure to underfunded multiemployer pension plans.

We are subject to withdrawal liabilities related to Safeway's previous closure of its Dominick's division. One of the plans, the UFCW & Employers Midwest Pension Fund (the "Midwest Plan"), had asserted we may be liable for mass withdrawal liability, if the plan has a mass withdrawal, in addition to the liability the Midwest Plan already has assessed. We believe it is unlikely that a mass withdrawal will occur in the foreseeable future and dispute that the Midwest Plan would have the right to assess mass withdrawal liability against us if the Midwest Plan had a mass withdrawal. We are disputing in arbitration the amount of the withdrawal liability the Midwest Plan has assessed. The amount of the withdrawal liability recorded as of February 24, 2018 with respect to the Dominick's division was \$160.1 million.

See Note 12-Employee benefit plans and collective bargaining agreements in our consolidated financial statements, included in our Annual Report on Form 10-K, for more information relating to our participation in these multiemployer pension plans.

**Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3 - Defaults Upon Senior Securities**

None.

**Item 4 - Mine Safety Disclosures**

Not Applicable.

**Item 5 - Other Information**

None

**Item 6 - Exhibits**

[10.1 Letter Agreement, dated October 18, 2018, by and among Albertsons Companies, Inc. and James L. Donald](#)

[10.2 \(a\)Amendment No. 7, dated as of November 16, 2018, to the Second Amended and Restated Term Loan Agreement, dated as of August 25, 2014 and effective as of January 30, 2015, among Albertsons Companies, Inc., Albertson's LLC, the co-borrowers party thereto, the guarantors party thereto, the parties thereto from time to time as lenders and Credit Suisse AG, Cayman Islands Branch, in its capacity as administrative agent and collateral agent.](#)

[10.3 \(b\) Third Amended and Restated Asset-Based Revolving Credit Agreement, dated as of November 16, 2018,among Albertsons Companies, Inc., as lead borrowers and guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America N.A. as administrative and collateral agent.](#)

[12.1 Computation of Ratio of Earnings to Fixed Charges](#)

[31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[32.1 Certification of the Principal Executive Officer and of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

EXHIBIT 101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

EXHIBIT 101.SCH - XBRL Taxonomy Extension Schema Document.

EXHIBIT 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.

EXHIBIT 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.

EXHIBIT 101.LAB - XBRL Taxonomy Extension Label Linkbase Document.

EXHIBIT 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

(a) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 16, 2018 and incorporated herein by reference.

(b) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on November 16, 2018 and incorporated herein by reference.

## SIGNATURES

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

**Albertsons Companies, Inc.**  
(Registrant)

Date: January 14, 2019

By: /s/ James L. Donald

James L. Donald

*Chief Executive Officer and President (Principal Executive Officer)*

**Albertsons Companies, Inc.**  
(Registrant)

Date: January 14, 2019

By: /s/ Robert B. Dimond

Robert B. Dimond

*Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

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## Section 2: EX-12.1 (EXHIBIT 12.1)

Exhibit 12.1

**Albertsons Companies, Inc. and Subsidiaries**  
Computation of Ratio of Earnings to Fixed Charges  
(in millions, except ratio)  
(unaudited)

40 weeks ended	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
December 1, 2018	2017	2016	2015	2014	2013

<b>Earnings:</b>												
Pre-tax (loss) income	\$	(84.8)	\$	(917.5)	\$	(463.6)	\$	(541.8)	\$	(1,378.6)	\$	1,140.5
Income from unconsolidated affiliate (1)		1.5		13.3		17.5		14.4		1.1		—
(Loss) income before tax and unconsolidated affiliate		(86.3)		(930.8)		(481.1)		(556.2)		(1,379.7)		1,140.5
<b>Plus: fixed charges</b>												
Interest expense, net (2)		662.5		874.8		1,003.8		950.5		633.2		390.1
Capitalized interest		9.2		6.4		7.8		2.1		0.5		0.1
Portion of rent expense deemed to be interest		221.1		281.2		268.5		260.4		125.3		101.4
Interest income		14.1		6.8		3.9		7.4		1.4		1.6
Charges related to guarantee obligations		—		—		1.6		30.6		—		—
<b>Total fixed charges</b>		<b>906.9</b>		<b>1,169.2</b>		<b>1,285.6</b>		<b>1,251.0</b>		<b>760.4</b>		<b>493.2</b>
Less: capitalized interest		(9.2)		(6.4)		(7.8)		(2.1)		(0.5)		(0.1)
<b>Earnings:</b>	<b>\$</b>	<b>811.4</b>	<b>\$</b>	<b>232.0</b>	<b>\$</b>	<b>796.7</b>	<b>\$</b>	<b>692.7</b>	<b>\$</b>	<b>(619.8)</b>	<b>\$</b>	<b>1,633.6</b>
<b>Fixed Charges:</b>	<b>\$</b>	<b>906.9</b>	<b>\$</b>	<b>1,169.2</b>	<b>\$</b>	<b>1,285.6</b>	<b>\$</b>	<b>1,251.0</b>	<b>\$</b>	<b>760.4</b>	<b>\$</b>	<b>493.2</b>
<b>Ratio of earnings to fixed charges (3)</b>		<b>—</b>		<b>—</b>		<b>—</b>		<b>—</b>		<b>—</b>		<b>3.3</b>

(1) Represents earnings related to the Company's equity method investments.

(2) Interest expense, net does not include interest relating to liabilities for uncertain tax positions, which the Company records as a component of income tax expense.

(3) Due to the Company's losses during the 40 weeks ended December 1, 2018, fiscal 2017, fiscal 2016, fiscal 2015 and fiscal 2014, the ratio coverage was less than 1:1 in each of those periods. The Company would have needed to generate additional earnings of \$95.5 million, \$937.2 million, \$488.9 million, \$558.3 million and \$1,380.2 million during the 40 weeks ended December 1, 2018, fiscal 2017, fiscal 2016, fiscal 2015 and fiscal 2014, respectively, in order to achieve a coverage ratio of 1:1 during those periods.

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## Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

### Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James L. Donald, certify that:

- I have reviewed this Quarterly Report on Form 10-Q of Albertsons Companies, Inc.;
- 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;
- 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;
- The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:
  - Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed

under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2019

/s/ James L. Donald

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James L. Donald

*President and Chief Executive Officer (Principal Executive Officer)*

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## **Section 4: EX-31.2 (EXHIBIT 31.2)**

Exhibit 31.2

### **Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert B. Dimond, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Albertsons Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all

material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2019

/s/ Robert B. Dimond

Robert B. Dimond

*Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

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## **Section 5: EX-32.1 (EXHIBIT 32.1)**

Exhibit 32.1

### **Certification Pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Albertsons Companies, Inc. (the "Company") on Form 10-Q for the period ended December 1, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §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.

Date: January 14, 2019

/s/ James L. Donald

James L. Donald

President and Chief Executive Officer (Principal Executive Officer)

/s/ Robert B. Dimond

Robert B. Dimond

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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