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 September 7, 2019

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	**47-4376911**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

250 Parkcenter Blvd.
Boise, Idaho 83706
(Address of principal executive offices and zip code)

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Emerging growth company ☐

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 October 16, 2019, the registrant had 277,882,010 shares of common stock, par value $0.01 per share, outstanding.

Albertsons Companies, Inc. and Subsidiaries

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

	September 7, 2019	February 23, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 435.3	$ 926.1
Receivables, net	518.6	586.2
Inventories, net	4,340.3	4,332.8
Other current assets	336.4	404.9
Total current assets	5,630.6	6,250.0
Property and equipment, net	9,231.3	9,861.3
Operating lease right-of-use assets	5,831.8	—
Intangible assets, net	2,177.9	2,834.5
Goodwill	1,183.3	1,183.3
Other assets	643.6	647.5
TOTAL ASSETS	$ 24,698.5	$ 20,776.6
LIABILITIES		
Current liabilities		
Accounts payable	$ 2,946.6	$ 2,918.7
Accrued salaries and wages	1,107.8	1,054.7
Current maturities of long-term debt and finance lease obligations	117.1	148.8
Current maturities of operating lease obligations	537.0	—
Other current liabilities	1,021.2	1,030.5
Total current liabilities	5,729.7	5,152.7
Long-term debt and finance lease obligations	8,628.6	10,437.6
Long-term operating lease obligations	5,437.4	—
Deferred income taxes	688.1	561.4
Other long-term liabilities	1,869.2	3,174.2
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; 30,000,000 shares authorized, no shares issued and outstanding as of September 7, 2019 and February 23, 2019, respectively	—	—
Common stock, $0.01 par value; 1,000,000,000 shares authorized and 277,882,010 shares issued and outstanding as of September 7, 2019 and February 23, 2019, respectively	2.8	2.8
Additional paid-in capital	1,818.7	1,814.2
Treasury stock, at cost, 1,772,018 shares held as of September 7, 2019 and February 23, 2019, respectively	(25.8)	(25.8)
Accumulated other comprehensive income	80.1	91.3
Retained earnings (accumulated deficit)	469.7	(431.8)

Total stockholders' equity	2,345.5	1,450.7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,698.5	$ 20,776.6

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		28 weeks ended	
	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Net sales and other revenue	$ 14,176.7	$ 14,024.1	$ 32,915.1	$ 32,677.5
Cost of sales	10,235.2	10,211.3	23,734.0	23,694.0
Gross profit	3,941.5	3,812.8	9,181.1	8,983.5
Selling and administrative expenses	3,794.6	3,817.2	8,741.2	8,834.8
Gain on property dispositions and impairment losses, net	(435.5)	(135.8)	(464.0)	(175.8)
Operating income	582.4	131.4	903.9	324.5
Interest expense, net	177.5	194.9	402.7	449.5
Loss on debt extinguishment	23.1	—	65.8	—
Other expense (income)	5.1	(19.2)	(6.0)	(60.0)
Income (loss) before income taxes	376.7	(44.3)	441.4	(65.0)
Income tax expense (benefit)	81.9	(11.9)	97.6	(14.9)
Net income (loss)	$ 294.8	$ (32.4)	$ 343.8	$ (50.1)
Other comprehensive income (loss), net of tax				
(Loss) gain on interest rate swaps	(11.3)	(4.8)	(38.3)	3.4
Recognition of pension gain (loss)	0.7	(0.5)	24.1	(1.1)
Other	1.3	0.5	3.0	(1.2)
Other comprehensive (loss) income	$ (9.3)	$ (4.8)	(11.2)	1.1
Comprehensive income (loss)	$ 285.5	$ (37.2)	$ 332.6	$ (49.0)

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)

	28 weeks ended	
	September 7, 2019	**September 8, 2018**
Cash flows from operating activities:		
Net income (loss)	$ 343.8	$ (50.1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on property dispositions and impairment losses, net	(464.0)	(175.8)
Depreciation and amortization	897.6	939.2
Operating lease right-of-use assets amortization	288.4	—
LIFO expense	16.3	12.9
Deferred income tax	(14.4)	(66.2)
Amortization and write-off of deferred financing costs	26.1	17.7
Loss on debt extinguishment	65.8	—
Equity-based compensation expense	17.6	25.6
Other	7.9	(29.6)
Changes in operating assets and liabilities:		
Receivables, net	67.4	87.4
Inventories, net	(23.8)	100.1
Accounts payable, accrued salaries and wages and other accrued liabilities	86.8	213.0
Operating lease liabilities	(267.9)	—
Other operating assets and liabilities	37.2	117.1
Net cash provided by operating activities	1,084.8	1,191.3
Cash flows from investing activities:		
Payments for property, equipment and intangibles, including payments for lease buyouts	(716.3)	(631.2)
Proceeds from sale of assets	1,029.5	509.4
Other	(5.5)	33.6
Net cash provided by (used in) investing activities	307.7	(88.2)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	750.0	750.0
Payments on long-term borrowings	(2,558.4)	(780.1)
Payments of obligations under finance leases	(56.1)	(51.6)
Other	(31.0)	(32.4)
Net cash used in financing activities	(1,895.5)	(114.1)
Net (decrease) increase in cash and cash equivalents and restricted cash	(503.0)	989.0
Cash and cash equivalents and restricted cash at beginning of period	967.7	680.8
Cash and cash equivalents and restricted cash at end of period	$ 464.7	$ 1,669.8

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

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Albertsons Companies, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(in millions, except share data)
(unaudited)

	Common Stock						
	Shares	**Amount**	**Additional paid in capital**	**Treasury stock**	**Accumulated other comprehensive income**	**Retained earnings (accumulated deficit)**	**Total stockholders' equity**
Balance as of February 23, 2019	277,882,010	$ 2.8	$ 1,814.2	$ (25.8)	$ 91.3	$ (431.8)	$ 1,450.7
Equity-based compensation	—	—	11.1	—	—	—	11.1
Employee tax withholding on vesting of phantom units	—	—	(12.1)	—	—	—	(12.1)
Adoption of new accounting standards, net of tax	—	—	—	—	16.6	558.0	574.6
Net income	—	—	—	—	—	49.0	49.0
Other comprehensive loss, net of tax	—	—	—	—	(18.5)	—	(18.5)
Other activity	—	—	(0.1)	—	—	(0.3)	(0.4)
Balance as of June 15, 2019	277,882,010	2.8	1,813.1	(25.8)	89.4	174.9	2,054.4
Equity-based compensation	—	—	6.5	—	—	—	6.5
Employee tax withholding on vesting of phantom units	—	—	(0.9)	—	—	—	(0.9)
Net income	—	—	—	—	—	294.8	294.8
Other comprehensive loss, net of tax	—	—	—	—	(9.3)	—	(9.3)
Balance as of September 7, 2019	277,882,010	$ 2.8	$ 1,818.7	$ (25.8)	$ 80.1	$ 469.7	$ 2,345.5

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

Albertsons Companies, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(in millions, except share data)
(unaudited)

	Common Stock						
	Shares	**Amount**	**Additional paid in capital**	**Treasury stock**	**Accumulated other comprehensive income**	**Accumulated deficit**	**Total stockholders' equity**
Balance as of February 24, 2018	279,654,028	$ 2.8	$ 1,773.3	$ —	$ 191.1	$ (569.0)	$ 1,398.2
Equity-based compensation	—	—	13.4	—	—	—	13.4
Employee tax withholding on vesting of phantom units	—	—	(14.3)	—	—	—	(14.3)
Net loss	—	—	—	—	—	(17.7)	(17.7)
Other comprehensive income, net of tax	—	—	—	—	5.9	—	5.9
Other activity	—	—	—	—	—	5.8	5.8
Balance as of June 16, 2018	279,654,028	2.8	1,772.4	—	197.0	(580.9)	1,391.3
Equity-based compensation	—	—	12.2	—	—	—	12.2
Employee tax withholding on vesting of phantom units	—	—	(0.5)	—	—	—	(0.5)
Net loss	—	—	—	—	—	(32.4)	(32.4)
Other comprehensive loss, net of tax	—	—	—	—	(4.8)	—	(4.8)
Other activity	—	—	(3.2)	—	—	—	(3.2)
Balance as of September 8, 2018	279,654,028	$ 2.8	$ 1,780.9	$ —	$ 192.2	$ (613.3)	$ 1,362.6

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 23, 2019 is derived from the Company's annual audited Consolidated Financial Statements for the fiscal year ended February 23, 2019, 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 28 weeks ended September 7, 2019 and September 8, 2018.

Prior Period Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation, specifically the reclassification of gains and losses from property dispositions and impairment losses from Selling and administrative expenses to Gain on property dispositions and impairment losses, net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

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 $29.4 million and $41.6 million of restricted cash as of September 7, 2019 and February 23, 2019, 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 the 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 $5.8 million and $3.4 million for the 12 weeks ended September 7, 2019 and September 8, 2018, respectively, and $16.3 million and $12.9 million for the 28 weeks ended September 7, 2019 and September 8, 2018, respectively.

Equity-based compensation: The Company maintains the Albertsons Companies, Inc. Phantom Unit Plan, an equity-based incentive plan, which provides for grants of phantom units (the "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 ("Albertsons Investor") and KIM ACI, LLC ("KIM ACI"), 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 Phantom Units was $5.6 million and $12.2 million for the 12 weeks ended September 7, 2019 and September 8, 2018, respectively. For the 28 weeks ended September 7, 2019 and September 8, 2018, equity-based compensation expense recognized by the Company related to Phantom Units was $15.5 million and $25.6 million, respectively. The Company recorded an income tax benefit related to Phantom Units of $1.5 million and $3.3 million for the 12 weeks ended September 7, 2019 and September 8, 2018, respectively. For the 28 weeks ended September 7, 2019 and September 8, 2018, the Company recorded an income tax benefit related to Phantom Units of $4.1 million and $6.9 million, respectively. As of September 7, 2019, there was $35.8 million of unrecognized costs related to 1.5 million unvested Phantom Units. That cost is expected to be recognized over a weighted average period of 1.9 years.

On April 25, 2019, upon the commencement of employment, the Company's Chief Executive Officer was granted direct equity interests in each of the Company's parents, Albertsons Investor and KIM ACI. These equity interests vest over a service period, or upon a service period and achievement of certain performance-based thresholds. The fair value of the equity interests 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. The fair value of the equity interests deemed granted was approximately $10.8 million. For the 12 and 28 weeks ended September 7, 2019, equity-based compensation expense recognized by the Company related to these equity interests was $0.9 million and $2.1 million, respectively. As of September 7, 2019, there was $8.7 million of unrecognized costs related to the equity interests deemed granted. That cost is expected to be recognized over a weighted average period of 4.0 years.

Treasury stock: During fiscal 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 Sheets. 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: Income tax expense was $81.9 million, representing a 21.7% effective tax rate, for the 12 weeks ended September 7, 2019. Income tax benefit was $11.9 million, representing a 26.8% effective tax rate, for the 12 weeks ended September 8, 2018. Income tax expense was $97.6 million, representing a 22.1% effective tax rate, for the 28 weeks ended September 7, 2019. Income tax benefit was $14.9 million, representing a 22.9% effective tax rate, for the 28 weeks ended September 8, 2018. The Company's effective tax rate for the 12 and 28 weeks ended September 7, 2019 differs from the federal income tax statutory rate of 21% primarily due to state income taxes, partially offset by income tax credits and charitable donation benefit.

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 operating divisions, which are reported in 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 division offers through its stores and eCommerce channels 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.

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 $259.3 million and $252.2 million as of September 7, 2019 and February 23, 2019, respectively, and are recorded in Receivables, net. For eCommerce related sales, which primarily include home delivery, "Drive Up and Go" curbside pickup and meal kit subscription and 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 contract liability balance was immaterial as of September 7, 2019 and February 23, 2019.

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 $45.3 million as of September 7, 2019 and $55.9 million as of February 23, 2019. Breakage amounts were immaterial for the 12 and 28 weeks ended September 7, 2019 and September 8, 2018, respectively.

Disaggregated Revenues

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

	12 weeks ended				28 weeks ended			
	September 7, 2019		September 8, 2018		September 7, 2019		September 8, 2018	
	Amount (1)	% of Total	Amount (1)	% of Total	Amount (1)	% of Total	Amount (1)	% of Total
Non-perishables (2)	$ 6,172.0	43.5%	$ 6,089.8	43.4%	$ 14,194.2	43.1%	$ 14,153.1	43.3%
Perishables (3)	5,844.6	41.2%	5,775.5	41.2%	13,656.2	41.5%	13,502.6	41.3%
Pharmacy	1,156.5	8.2%	1,125.3	8.0%	2,729.7	8.3%	2,652.5	8.1%
Fuel	793.2	5.6%	856.0	6.1%	1,869.7	5.7%	1,954.1	6.0%
Other (4)	210.4	1.5%	177.5	1.3%	465.3	1.4%	415.2	1.3%
Net sales and other revenue	$ 14,176.7	100.0%	$ 14,024.1	100.0%	$ 32,915.1	100.0%	$ 32,677.5	100.0%

(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.

Recently adopted accounting standards: On February 25, 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*." ASC Topic 842 supersedes existing lease guidance, including ASC 840 - *Leases*. Among other things, ASU 2016-02 requires recognition of a Right-of-use ("ROU") asset and liability for future lease payments for contracts that meet the definition of a lease and requires disclosure of certain information about leasing arrangements. On July 30, 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842): Targeted Improvements*," which, among other things, allows companies to elect an optional transition method to apply the new lease standard through a cumulative effect adjustment in the period of adoption. The new guidance requires both classifications of leases, operating and finance, to be recognized on the balance sheet. The new guidance also results in a change in naming convention for leases historically classified as capital leases. Under the new guidance, these leases are now referred to as finance leases. Consistent with prior GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on its classification.

The Company adopted the guidance effective February 24, 2019 by recognizing and measuring leases at the adoption date with a cumulative effect of initially applying the guidance recognized at the date of initial application and as a result did not restate the prior periods presented in the Condensed Consolidated Financial Statements. The Company elected certain practical expedients permitted under the transitional guidance, including retaining historical lease classification, evaluating whether any expired contracts are or contain leases, and not applying hindsight in determining the lease term. The Company also elected the practical expedient to not separate lease and non-lease components within the lessee lease transaction for all classes of assets. Lastly, the Company elected the short-term lease exception for all classes of assets, and therefore does not apply the recognition requirements for leases of 12 months or less.

The adoption of the standard resulted in the recognition of an operating lease ROU asset of $5.3 billion and an operating lease liability of $5.4 billion. Included in the measurement of the new operating lease ROU asset is the reclassification of certain balances, including those historically recorded as lease exit cost liabilities, deferred rent and favorable and unfavorable lease interests. The adoption also resulted in a cumulative effect transitional adjustment of $776.0 million ($574.6 million, net of tax) to retained earnings related to the elimination of $865.8 million deferred gains on sale-leaseback transactions, partially offset by the recognition of $87.3 million in impairment losses on operating lease ROU assets and the removal of $17.2 million and $14.7 million, respectively, of assets and liabilities related to finance lease obligations under previously existing build-to-suit accounting arrangements. Several other immaterial reclassifications of historical asset and liability line items were also recorded in the Company's Condensed Consolidated Balance Sheets upon adoption.

In February 2018, the FASB issued ASU 2018-02, "*Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company adopted this guidance in the first quarter of fiscal 2019 and applied the amendments in the period of adoption. The adoption of this standard resulted in a $16.6 million adjustment to both Retained earnings (accumulated deficit) and Accumulated other comprehensive income. The standard did not have a material impact on the Company's Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Cash Flows.

NOTE 2 - 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 September 7, 2019 (in millions):

	Total	Fair Value Measurements Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Short-term investments (1)	$ 16.2	$ 13.8	$ 2.4	$ —
Non-current investments (2)	78.2	22.2	56.0	—
Total	$ 94.4	$ 36.0	$ 58.4	$ —
Liabilities:				
Derivative contracts (3)	$ 67.2	$ —	$ 67.2	$ —
Total	$ 67.2	$ —	$ 67.2	$ —

(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.

The following table presents assets and liabilities which were measured at fair value on a recurring basis as of February 23, 2019 (in millions):

	Total	Fair Value Measurements Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents:				
Money market	$ 489.0	$ 489.0	$ —	$ —
Short-term investments (1)	23.1	21.0	2.1	—
Non-current investments (2)	84.2	30.5	53.7	—
Total	$ 596.3	$ 540.5	$ 55.8	$ —
Liabilities:				
Derivative contracts (3)	$ 21.1	$ —	$ 21.1	$ —
Total	$ 21.1	$ —	$ 21.1	$ —

(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.

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 September 7, 2019, the fair value of total debt was $8,425.3 million compared to the carrying value of $8,173.1 million, excluding debt discounts and deferred financing costs. As of February 23, 2019, the fair value of total debt was $9,801.2 million compared to the carrying value of $10,086.3 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.

During the second quarter of fiscal 2019, due to continued under performance of the Plated meal kit subscription and delivery operations, the Company recognized an impairment loss of $38.6 million to reduce the related asset group to its fair value. The impairment loss is included as a component of Gain on property dispositions and impairment losses, net. The impairment loss primarily relates to the Plated tradename, and to a lesser extent, certain other Plated intangible assets, leasehold interests and equipment. The fair value was determined using an income approach which included a relief-from-royalty method and relied on inputs with unobservable market prices including the assumed revenue growth rate, royalty rate, discount rate and estimated tax rate.

NOTE 3 - 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, 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 (loss) until the interest payments being hedged are recorded as Interest expense, net, at which time the amounts in Other comprehensive income (loss) are reclassified as an adjustment to Interest expense, net. Gains or losses on any ineffective portion of derivative instruments in cash flow hedging relationships are recorded in the period in which they occur as a component of Other expense (income) in the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss). The Company has entered into several swaps with maturity dates in 2019, 2021 and 2023 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 September 7, 2019 and February 23, 2019 were $2,716.2 million and $2,123.2 million, of which $2,716.2 million and $2,065.2 million are designated as Cash Flow Hedges, respectively, 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. In connection with the refinancing of the Albertsons Term Loans (as described in Note 4 - Long-term debt and finance lease obligations), the Company dedesignated and redesignated a certain Cash Flow Hedge, resulting in an immaterial amount remaining in Accumulated other comprehensive income.

As of September 7, 2019 and February 23, 2019, the fair value of the cash flow interest rate swap liability was $67.2 million and $21.6 million respectively, 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):

	Amount of loss recognized from derivatives		
Derivatives designated as hedging instruments	**12 weeks ended September 7, 2019**	**12 weeks ended September 8, 2018**	**Location of loss recognized from derivatives**
Designated interest rate swaps	$ (11.3)	$ (4.8)	Other comprehensive income (loss), net of tax

	Amount of (loss) income recognized from derivatives		
Derivatives designated as hedging instruments	**28 weeks ended September 7, 2019**	**28 weeks ended September 8, 2018**	**Location of (loss) income recognized from derivatives**
Designated interest rate swaps	$ (38.3)	$ 3.4	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 28 weeks ended September 7, 2019 and September 8, 2018, respectively.

NOTE 4 - LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

The Company's long-term debt as of September 7, 2019 and February 23, 2019, net of unamortized debt discounts of $94.7 million and $197.0 million, respectively, and deferred financing costs of $59.2 million and $65.2 million, respectively, consisted of the following (in millions):

	September 7, 2019	February 23, 2019
Albertsons Term Loans due 2025 to 2026, interest rate range of 4.95% to 5.69%	$ 3,032.5	$ 4,610.7
Senior Unsecured Notes due 2024, 2025, 2026 and 2028, interest rate of 6.625%, 5.750%, 7.5% and 5.875%, respectively	3,813.7	3,071.6
New Albertsons L.P. Notes due 2026 to 2031, interest rate range of 6.52% to 8.70%	464.8	1,322.3
Safeway Inc. Notes due 2020 to 2031, interest rate range of 3.95% to 7.45%	642.0	675.3
Other Notes Payable, unsecured	47.7	125.4
Mortgage Notes Payable, secured	18.5	18.8
Finance lease obligations (see Note 5)	726.5	762.3
Total debt	8,745.7	10,586.4
Less current maturities	(117.1)	(148.8)
Long-term portion	$ 8,628.6	$ 10,437.6

The Company's term loans (the "Albertsons Term Loans"), asset-based loan 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 4.0% 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 28 weeks ended September 7, 2019.

Albertsons Term Loans

On August 15, 2019, the Company repaid $1,570.6 million of aggregate principal amount outstanding under its term loan facilities, along with accrued and unpaid interest and fees and expenses, for which the Company used approximately $864 million of cash on hand and proceeds from the issuance of the 2028 Notes (as defined below) (such repayment, the "Term Loan Repayment"). Contemporaneously with the Term Loan Repayment, the Company refinanced the remaining amounts outstanding with new term loan tranches. The new tranches consist of $3,100.0 million in aggregate principal, of which $1,500.0 million matures on November 17, 2025 and $1,600.0 million matures on August 17, 2026 (the "Term Loan Refinancing"). For newly incurred financing costs and original issue discount, the Company expensed $4.2 million of financing costs and recorded $4.4 million of financing costs and $15.5 million of original issue discount as a reduction of the principal amount. For previously deferred financing costs and original issue discount, the Company expensed $15.5 million of financing costs and $13.3 million of original issue discount. The amounts expensed were included as a component of Interest expense, net.

The new loans amortize, on a quarterly basis, at a rate of 1.0% per annum of the original principal amount (which payments will be reduced as a result of the application of prepayments in accordance with the terms therewith). The new loans bear interest, at the borrower's option, at a rate per annum equal to either (a) the base rate plus 1.75% or (b) LIBOR, subject to a 0.75% floor, plus 2.75%.

Senior Unsecured Notes

On August 15, 2019, the Company and substantially all of its subsidiaries completed the sale of $750.0 million of principal amount of 5.875% Senior Unsecured Notes which will mature on February 15, 2028 (the "2028 Notes"). Interest on the 2028 Notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2020. The 2028 Notes have not been and will not be registered with the Securities and Exchange Commission (the "SEC"). The 2028 Notes are also fully and unconditionally guaranteed, jointly and severally, by substantially all of the Company's subsidiaries that are not issuers under the indenture governing such notes. Proceeds from the 2028 Notes were used to partially fund the Term Loan Repayment.

Safeway Notes

On May 24, 2019, the Company completed a cash tender offer and early redemption of Safeway Inc.'s ("Safeway") notes with a par value of $34.1 million and a book value of $33.3 million for $32.6 million, plus accrued and unpaid interest of $0.7 million (the "Safeway Tender"). Including related fees, the Company recognized a loss on debt extinguishment related to the Safeway Tender of $0.5 million.

NALP Notes

On May 24, 2019, the Company completed a cash tender offer and early redemption of New Albertsons L.P.'s notes (the "NALP Notes") with a par value of $402.9 million and a book value of $363.7 million for $382.7 million, plus accrued and unpaid interest of $8.2 million (the "NALP Notes Tender"). Including related fees, the Company recognized a loss on debt extinguishment related to the NALP Notes Tender of $19.1 million.

During the 28 weeks ended September 7, 2019, the Company repurchased NALP Notes on the open market with an aggregate par value of $553.9 million and a book value of $502.0 million for $547.5 million plus accrued and unpaid interest of $11.3 million (the "NALP Notes Repurchase"). Including related fees, the Company recognized a loss on debt extinguishment related to the NALP Notes Repurchase of $46.2 million.

ABL Facility

As of September 7, 2019 and February 23, 2019, there were no loans outstanding under the Company's ABL Facility, and letters of credit ("LOC") issued under the LOC sub-facility were $504.6 million and $520.8 million respectively.

NOTE 5 - LEASES

The Company leases certain retail stores, distribution centers, office facilities and equipment from third parties. The Company determines whether a contract is or contains a lease at contract inception. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. As the rate implicit in the Company's leases is not easily determinable, the Company's applicable incremental borrowing rate is used in calculating the present value of the sum of the lease payments. ROU assets are recognized at commencement date at the value of the lease liability, adjusted for any prepayments, lease incentives and initial direct costs incurred. The typical real estate lease period is 15 to 20 years with renewal options for varying terms and, to a limited extent, options to purchase. The Company includes renewal options that are reasonably certain to be exercised as part of the lease term.

The Company has lease agreements with non-lease components that relate to the lease components. Certain leases contain percent rent based on sales, escalation clauses or payment of executory costs such as property taxes, utilities, insurance and maintenance. Non-lease components primarily relate to common area maintenance. Non-lease components and the lease components to which they relate are accounted for together as a single lease component for all asset classes. The Company recognizes lease payments for short-term leases as expense either straight-line over the lease term or as incurred depending on whether lease payments are fixed or variable.

The components of total lease cost, net consisted of the following (in millions):

	Classification	12 weeks ended September 7, 2019	28 weeks ended September 7, 2019
Operating lease cost (1)	Cost of sales and Selling and administrative expenses (3)	$ 227.8	$ 515.0
Finance lease cost			
Amortization of lease assets	Cost of sales and Selling and administrative expenses (3)	20.9	49.5
Interest on lease liabilities	Interest expense, net	18.5	44.0
Variable lease cost (2)	Cost of sales and Selling and administrative expenses (3)	90.4	209.3
Sublease income	Net sales and other revenue	(24.7)	(57.1)
Total lease cost, net		$ 332.9	$ 760.7

(1) Includes short-term lease cost, which is immaterial.

(2) Represents variable lease costs for both operating and finance leases. Includes contingent rent expense and other non-fixed lease related costs, including property taxes, common area maintenance and property insurance.

(3) Supply chain-related amounts are included in Cost of sales.

Balance sheet information related to leases as of September 7, 2019 consisted of the following (in millions):

	Classification	September 7, 2019
Assets		
Operating	Operating lease right-of-use assets	$ 5,831.8
Finance	Property and equipment, net	480.3
Total lease assets		$ 6,312.1
Liabilities		
Current		
Operating	Current maturities of operating lease obligations	$ 537.0
Finance	Current maturities of long-term debt and finance lease obligations	92.4
Long-term		
Operating	Long-term operating lease obligations	5,437.4
Finance	Long-term debt and finance lease obligations	634.1
Total lease liabilities		$ 6,700.9

The following table presents cash flow information and the weighted average lease term and discount rate for leases (dollars in millions):

	28 weeks ended September 7, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	482.6
Operating cash flows from finance leases	44.0
Financing cash flows from finance leases	56.1
ROU assets obtained in exchange for operating lease obligations	868.3
ROU assets obtained in exchange for finance lease obligations	—
Weighted average remaining lease term - operating leases (in years)	12.4
Weighted average remaining lease term - finance leases (in years)	9.2
Weighted average discount rate - operating leases	7.1%
Weighted average discount rate - finance leases	13.8%

Future minimum lease payments for operating and finance lease obligations as of September 7, 2019 consisted of the following (in millions):

	Lease Obligations	
Fiscal year	**Operating Leases**	**Finance Leases**
Remainder of 2019	$ 433.7	$ 78.9
2020	932.2	149.9
2021	881.2	137.5
2022	822.4	125.8
2023	751.5	116.2
Thereafter	5,400.7	519.7
Total future minimum obligations	9,221.7	1,128.0
Less interest	(3,247.3)	(401.5)
Present value of net future minimum lease obligations	5,974.4	726.5
Less current portion	(537.0)	(92.4)
Long-term obligations	$ 5,437.4	$ 634.1

Future minimum lease payments for operating and capital lease obligations as of February 23, 2019 under the previous lease accounting standard consisted of the following (in millions):

	Lease Obligations	
Fiscal year	**Operating Leases**	**Capital Leases**
2019	$ 879.7	$ 170.5
2020	840.5	151.3
2021	783.2	134.9
2022	723.6	123.1
2023	651.0	114.1
Thereafter	4,338.6	509.1
Total future minimum obligations	$ 8,216.6	1,203.0
Less interest		(440.7)
Present value of net future minimum lease obligations		762.3
Less current portion		(97.3)
Long-term obligations		$ 665.0

The Company subleases certain properties to third parties. Future minimum sublease income under these non-cancelable operating leases as of September 7, 2019 was $355.5 million.

Sale-Leaseback Transactions

During the second quarter of fiscal 2019, the Company, through three separate transactions, completed the sale and leaseback of 53 store properties and one distribution center for an aggregate purchase price, net of closing costs, of $931.3 million. In connection with the sale and leaseback transactions, the Company entered into lease agreements for each of the properties for initial terms ranging from 15 to 20 years. The aggregate initial annual rent payment for the properties are approximately $53 million and includes 1.50% to 1.75% annual rent increases over the initial lease terms. All of the properties qualified for sale-leaseback and operating lease accounting and the Company recorded total gains of $463.6 million, which is included as a component of Gain on property dispositions and impairment losses, net. The Company also recorded operating lease ROU assets and corresponding operating lease liabilities of $602.5 million.

NOTE 6 - EMPLOYEE BENEFIT PLANS

Pension and Other Post-Retirement Benefits

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

	12 weeks ended			
	Pension		Other post-retirement benefits	
	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Estimated return on plan assets	$ (25.3)	$ (26.0)	$ —	$ —
Service cost	3.4	12.1	0.1	0.2
Interest cost	18.6	19.8	0.2	0.1
Amortization of prior service cost	0.1	—	0.9	0.9
Amortization of net actuarial loss (gain)	0.1	(1.5)	(0.2)	—
Net (income) expense	$ (3.1)	$ 4.4	$ 1.0	$ 1.2

	28 weeks ended			
	Pension		Other post-retirement benefits	
	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Estimated return on plan assets	$ (59.2)	$ (60.6)	$ —	$ —
Service cost	7.9	28.2	0.3	0.5
Interest cost	43.4	46.2	0.4	0.3
Amortization of prior service cost	0.2	—	2.0	2.0
Amortization of net actuarial loss (gain)	0.3	(3.4)	(0.3)	(0.1)
Net (income) expense	$ (7.4)	$ 10.4	$ 2.4	$ 2.7

The Company contributed $1.8 million and $7.0 million to its defined benefit pension plans and post-retirement benefit plans during the 12 and 28 weeks ended September 7, 2019, respectively. For the 12 and 28 weeks ended September 8, 2018, the Company contributed $5.0 million and $10.5 million, respectively. At the Company's discretion, additional funds may be contributed to the defined benefit pension plans. The Company currently anticipates contributing an additional $5.4 million to these plans for the remainder of fiscal 2019.

Defined Contribution Plans and Supplemental Retirement Plans

Total contributions expensed for defined contribution plans (401(k) plans) were $14.0 million and $6.5 million for the 12 weeks ended September 7, 2019 and September 8, 2018, respectively. For the 28 weeks ended September 7, 2019 and September 8, 2018, total contributions expensed were $32.6 million and $20.5 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 INC. ("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. On January 21, 2014, the Company entered into a Collateral Substitution Agreement with the California Self-Insurers' Security Fund to provide collateral. The collateral not covered by the California Self-Insurers' Security Fund is covered by an irrevocable LOC for the benefit of the State of California Office of Self-Insurance Plans. The amount of the LOC is adjusted annually based on semi-annual filings of an actuarial study reflecting liabilities as of December 31 of each year reduced by claim closures and settlements. The related LOC was $140.0 million as of September 7, 2019 and $143.0 million as of February 23, 2019.

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 requested 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 costs) and case management costs. The Company has paid for all of such assessments. The Company sought recovery from MasterCard of its assessment and has entered into a confidential settlement with MasterCard. As a result of the intrusion, two class action complaints were filed against the Company by consumers. These complaints have been dismissed, and the dismissal was upheld on appeal on May 31, 2019. 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 multi-state 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 were brought against Safeway 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 record-keepers. An amended complaint was filed on September 16, 2016, and a second amended complaint was filed on November 21, 2016. In general, both lawsuits alleged 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. On March 13, 2017, the United States District Court for the Northern District of California 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. Both parties filed summary judgment motions which were heard and taken under submission on August 16, 2018. Plaintiffs' motions were denied, and defendants' motions were granted in part and denied in part. Bench trials for both matters were set for May 6, 2019, but a settlement in principle was reached before trial. On September 13, 2019, settlement papers were filed with the court along with a motion for preliminary approval of the settlement, which is set for hearing on November 20, 2019. The Company has recorded an estimated liability for 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 Yarberry 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 government 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. On August 5, 2019, the Court granted relator's motion for partial summary judgment, holding that price matched prices are the usual and customary prices for those drugs. Defendants filed a motion for interlocutory appeal on August 30, 2019, which is pending. Additional summary judgment motions by both parties are also still pending, trial will be set after the Court rules on the pending summary judgment motions. 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 complete, and trial is currently set for February 18, 2020, however, the parties have not yet filed, and the Court has not yet considered, any summary judgment motions. 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 before trebling and excluding penalties. The Company is vigorously defending each of these matters and believes each of these cases is without merit. The Company has recorded an estimated liability for these matters.

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 ("Albertson's") 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 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: 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, at this time, 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: The Company is one of dozens of companies that have been named in various lawsuits alleging that defendants contributed to the national opioid epidemic. At present, the Company is named in approximately 66 suits pending in various state courts as well as in the United States District Court for the Northern District of Ohio where over 2,000 cases have been consolidated as Multi-District Litigation ("MDL") pursuant to 28 U.S.C. §1407. In one of those MDL cases - MDL No. 2804 filed by The Blackfeet Tribe of the Blackfeet Indian Reservation - the Company filed a motion to dismiss. That motion has yet to be ruled on, but motions by other defendants have been denied and all defendants in the *Blackfeet* action, including the Company, have now answered the Complaint. The Company has also filed a motion to dismiss a state court case pending in New Mexico. While that motion has yet to be ruled on, motions filed by other defendants have been denied and a September 2021 trial date has been set. To date, no discovery has been conducted against the Company in any of the actions; however it is anticipated that the Company will need to begin discovery in the New Mexico action in early 2020. The Company is vigorously defending these matters and believes that these cases are without merit. At this early stage in the proceedings, the Company is unable to determine the probability of the outcome of these matters or the range of reasonably possible loss, if any.

California Air Resources Board: Upon the inspection by the California Air Resources Board ("CARB") of several of the Company's stores in California, it was determined that the Company failed certain paperwork and other administrative requirements. As a result of the inspections, the Company proactively undertook a broad evaluation of the record keeping and administrative practices at all of its stores in California. In connection with this evaluation, the Company retained a third party to conduct an audit and correct deficiencies identified across its California store base. The Company is working with CARB to resolve these compliance issues and comply with governing regulations, and that work is ongoing. Although no monetary amount has been assessed by CARB, the Company could be subject to certain fines and penalties. Given the preliminary nature of this matter, the Company is unable to estimate the possibility or range of loss at this time.

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):

	28 weeks ended September 7, 2019			
	Total	**Interest rate swaps**	**Pension and Post-retirement benefit plans**	**Other**
Beginning balance	$ 91.3	$ 3.4	$ 88.8	$ (0.9)
Cumulative effect of accounting change (1)	16.6	1.2	14.9	0.5
Other comprehensive (loss) income before reclassifications	(36.7)	(50.3)	10.2	3.4
Amounts reclassified from accumulated other comprehensive income	(1.0)	(3.2)	2.2	—
Tax benefit (expense)	9.9	14.0	(3.2)	(0.9)
Current-period other comprehensive (loss) income, net of tax	(11.2)	(38.3)	24.1	3.0
Ending balance	$ 80.1	$ (34.9)	$ 112.9	$ 2.1

(1) Related to the adoption of ASU 2018-02, "*Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*," (see Note 1 for additional details).

	28 weeks ended September 8, 2018			
	Total	**Interest rate swaps**	**Pension and Post-retirement benefit plans**	**Other**
Beginning balance	$ 191.1	$ 18.9	$ 171.9	$ 0.3
Other comprehensive income (loss) before reclassifications	2.2	2.9	—	(0.7)
Amounts reclassified from accumulated other comprehensive income	(0.5)	1.7	(1.5)	(0.7)
Tax (expense) benefit	(0.6)	(1.2)	0.4	0.2
Current-period other comprehensive income (loss), net of tax	1.1	3.4	(1.1)	(1.2)
Ending balance	$ 192.2	$ 22.3	$ 170.8	$ (0.9)

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 September 7, 2019, we operated 2,262 retail food and drug stores with 1,733 pharmacies, 401 associated fuel centers, 23 dedicated distribution centers and 20 manufacturing facilities. In addition to our retail footprint, 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" curbside pickup and meal kit subscription and delivery.

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

	12 weeks ended		28 weeks ended	
	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Stores, beginning of period	2,268	2,300	2,269	2,318
Opened	1	1	7	3
Closed	(7)	(10)	(14)	(30)
Stores, end of period	2,262	2,291	2,262	2,291

The following table summarizes our stores by size:

	Number of stores		Percent of Total		Retail Square Feet (1)	
Square Footage	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Less than 30,000	205	209	9.1%	9.1%	4.8	4.9
30,000 to 50,000	790	799	34.9%	34.9%	33.1	33.5
More than 50,000	1,267	1,283	56.0%	56.0%	74.9	75.8
Total Stores	2,262	2,291	100.0%	100.0%	112.8	114.2

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

RESULTS OF OPERATIONS

Comparison of 12 and 28 weeks ended September 7, 2019 to 12 and 28 weeks ended September 8, 2018:

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 28 weeks ended September 7, 2019 ("second quarter of fiscal 2019" and "first 28 weeks of fiscal 2019") and 12 and 28 weeks ended September 8, 2018 ("second quarter of fiscal 2018" and "first 28 weeks of fiscal 2018").

	12 weeks ended			
	September 7, 2019	% of Sales	September 8, 2018	% of Sales
Net sales and other revenue	$ 14,176.7	100.0 %	$ 14,024.1	100.0 %
Cost of sales	10,235.2	72.2 %	10,211.3	72.8 %
Gross profit	3,941.5	27.8 %	3,812.8	27.2 %
Selling and administrative expenses	3,794.6	26.8 %	3,817.2	27.2 %
Gain on property dispositions and impairment losses, net	(435.5)	(3.1)%	(135.8)	(0.9)%
Operating income	582.4	4.1 %	131.4	0.9 %
Interest expense, net	177.5	1.3 %	194.9	1.4 %
Loss on debt extinguishment	23.1	0.2 %	—	— %
Other expense (income)	5.1	— %	(19.2)	(0.1)%
Income (loss) before income taxes	376.7	2.6 %	(44.3)	(0.4)%
Income tax expense (benefit)	81.9	0.6 %	(11.9)	(0.1)%
Net income (loss)	$ 294.8	2.0 %	$ (32.4)	(0.3)%

	28 weeks ended			
	September 7, 2019	% of Sales	September 8, 2018	% of Sales
Net sales and other revenue	$ 32,915.1	100.0 %	$ 32,677.5	100.0 %
Cost of sales	23,734.0	72.1 %	23,694.0	72.5 %
Gross profit	9,181.1	27.9 %	8,983.5	27.5 %
Selling and administrative expenses	8,741.2	26.6 %	8,834.8	27.0 %
Gain on property dispositions and impairment losses, net	(464.0)	(1.4)%	(175.8)	(0.5)%
Operating income	903.9	2.7 %	324.5	1.0 %
Interest expense, net	402.7	1.2 %	449.5	1.4 %
Loss on debt extinguishment	65.8	0.2 %	—	— %
Other income	(6.0)	— %	(60.0)	(0.2)%
Income (loss) before income taxes	441.4	1.3 %	(65.0)	(0.2)%
Income tax expense (benefit)	97.6	0.3 %	(14.9)	— %
Net income (loss)	$ 343.8	1.0 %	$ (50.1)	(0.2)%

Net Sales and Other Revenue

Net sales and other revenue increased 1.1% to $14,176.7 million for the second quarter of fiscal 2019 from $14,024.1 million for the second quarter of fiscal 2018. The increase in Net sales and other revenue was primarily driven by our 2.4% increase in identical sales, partially offset by a reduction in sales related to the stores closed since the second quarter of fiscal 2018 and lower fuel sales.

Net sales and other revenue increased 0.7% to $32,915.1 million for the first 28 weeks of fiscal 2019 from $32,677.5 million for the first 28 weeks of fiscal 2018. The increase in Net sales and other revenue was primarily driven by our

1.9% increase in identical sales, partially offset by a reduction in sales related to the stores closed since the second quarter of fiscal 2018 and lower fuel sales.

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 28 weeks ended September 7, 2019 and the 12 and 28 weeks ended September 8, 2018, respectively, were:

	12 weeks ended		28 weeks ended	
	September 7, 2019	September 8, 2018	September 7, 2019	September 8, 2018
Identical sales, excluding fuel	2.4%	1.0%	1.9%	0.5%

Our identical sales benefited from growth in our online home delivery and Drive Up and Go sales and Own Brands sales.

Gross Profit

Gross profit represents the portion of Net sales and other revenue remaining after deducting 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 second quarter of fiscal 2019 compared to 27.2% during the second quarter of fiscal 2018. Our total gross profit margin benefited from higher than normal fuel margin during the second quarter of fiscal 2019. Excluding the impact of fuel, gross profit margin increased 30 basis points compared to the second quarter of fiscal 2018. The increase in gross profit margin was driven by improved shrink expense, increased Own Brands penetration, lower depreciation expense and better leveraging of advertising spend, partially offset by continued reimbursement rate pressures in pharmacy and higher distribution center rent expense.

Gross profit margin increased to 27.9% during the first 28 weeks of fiscal 2019 compared to 27.5% during the first 28 weeks of fiscal 2018. Our total gross profit margin benefited from higher than normal fuel margin during the first 28 weeks of fiscal 2019. Excluding the impact of fuel, gross profit margin increased 20 basis points compared to the first 28 weeks of fiscal 2018. The increase in gross profit margin was driven by improved shrink expense, increased Own Brands penetration, lower depreciation expense and better leveraging of advertising spend, partially offset by continued reimbursement rate pressures in pharmacy and higher distribution center rent expense.

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 26.8% of Net sales and other revenue during the second quarter of fiscal 2019 compared to 27.2% of Net sales and other revenue for the second quarter of fiscal 2018. Excluding the impact of fuel, Selling and administrative expenses as a percentage of Net sales and other revenue decreased 60 basis points during the second quarter of fiscal 2019 compared to the second quarter of fiscal 2018. The decrease in Selling and administrative expenses was primarily attributable to lower acquisition and integration costs and lower depreciation and amortization expense, partially offset by strategic investments in digital and technology initiatives, higher employee wage and benefit costs and an increase in rent expense related to store properties. Lower acquisition and integration costs were driven by the completion of the Safeway integration during fiscal 2018, resulting in no store conversions in the second quarter of fiscal 2019 compared to 219 store conversions in the second quarter of fiscal 2018. The integration costs in the second quarter of fiscal 2019 were largely driven by the conversion of back-office related areas and a distribution center.

Selling and administrative expenses decreased to 26.6% of Net sales and other revenue during the first 28 weeks of fiscal 2019 compared to 27.0% of Net sales and other revenue for the first 28 weeks of fiscal 2018. 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 28 weeks of fiscal 2019 compared to the first 28 weeks of fiscal 2018. The decrease in Selling and administrative expenses was primarily attributable to lower acquisition and integration costs, the realization of our cost reduction initiatives and lower depreciation and amortization expense, partially offset by strategic investments in digital and technology initiatives, higher employee wage and benefit costs and an increase in rent expense related to store properties. Lower acquisition and integration costs were driven by the completion of the Safeway integration during fiscal 2018, resulting in no store conversions in the first 28 weeks of fiscal 2019 compared to 462 store conversions in the first 28 weeks of fiscal 2018. The integration costs in the first 28 weeks of fiscal 2019 were largely driven by the conversion of back-office related areas and a distribution center.

Gain on Property Dispositions and Impairment Losses, Net

Gain on property dispositions and impairment losses, net was $435.5 million during the second quarter of fiscal 2019 compared to $135.8 million during the second quarter of fiscal 2018. The increase is primarily attributable to $463.6 million of gains related to sale-leaseback transactions during the second quarter of fiscal 2019, partially offset by asset impairments including an impairment loss of $38.6 million related to certain assets of our meal kit operations.

Gain on property dispositions and impairment losses, net was $464.0 million during the first 28 weeks of fiscal 2019 compared to $175.8 million during the first 28 weeks of fiscal 2018. The increase is primarily attributable to $463.6 million of gains related to sale-leaseback transactions during the second quarter of fiscal 2019, partially offset by asset impairments including an impairment loss of $38.6 million related to certain assets of our meal kit operations.

Interest Expense, Net

Interest expense, net was $177.5 million during the second quarter of fiscal 2019 compared to $194.9 million during the second quarter of fiscal 2018. The decrease in interest expense is primarily attributable to lower average outstanding borrowings and lower average interest rates, partially offset by $33.0 million of deferred financing costs and original issue discount that was expensed in connection with the Term Loan Repayment and Term Loan Refinancing during the second quarter of fiscal 2019. The weighted average interest rate during the second quarter of fiscal 2019 was 6.4%, excluding amortization and write-off of deferred financing costs and original issue discount, compared to 6.6% during the second quarter of fiscal 2018.

Interest expense, net was $402.7 million during the first 28 weeks of fiscal 2019 compared to $449.5 million during the first 28 weeks of fiscal 2018. The decrease in interest expense is primarily attributable to lower average outstanding borrowings and lower average interest rates, partially offset by $33.0 million of deferred financing costs and original issue discount that was expensed in connection with the Term Loan Repayment and Term Loan Refinancing during the second quarter of fiscal 2019. The weighted average interest rate during the first 28 weeks of fiscal 2019 was 6.4%, excluding amortization and write-off of deferred financing costs and original issue discount, compared to 6.5% during the first 28 weeks of fiscal 2018.

Loss on Debt Extinguishment

Loss on debt extinguishment was $23.1 million during the second quarter of fiscal 2019 and $65.8 million during the first 28 weeks of fiscal 2019, compared to no loss on debt extinguishment during the second quarter of fiscal 2018 and first 28 weeks of fiscal 2019. The loss on debt extinguishment primarily consists of the write-off of debt discounts associated with the tender offer and repurchase of notes.

Other Expense (Income)

For the second quarter of fiscal 2019, Other expense was $5.1 million compared to Other income of $19.2 million for the second quarter of fiscal 2018. For the first 28 weeks of fiscal 2019, Other income was $6.0 million compared to Other income of $60.0 million for the first 28 weeks of fiscal 2018. Other expense (income) during the second quarter of fiscal 2019 and the first 28 weeks of fiscal 2019 is primarily driven by non-service cost components of net pension and post-retirement expense and unrealized gains and losses from non-operating investments. Other income during both the second quarter of fiscal 2018 and the first 28 weeks of fiscal 2018 is primarily driven by realized gains from the sale of non-operating investments and non-service cost components of net pension and post-retirement expense.

Income Taxes

Income tax expense was $81.9 million, representing a 21.7% effective tax rate for the second quarter of fiscal 2019. Income tax benefit was $11.9 million, representing a 26.8% effective tax rate for the second quarter of fiscal 2018. For the first 28 weeks of fiscal 2019, Income tax expense was $97.6 million, representing a 22.1% effective tax rate. Income tax benefit was $14.9 million, representing a 22.9% effective tax rate, for the first 28 weeks of fiscal 2018. Our effective tax rate for the second quarter of fiscal 2019 and first 28 weeks of fiscal 2019 differs from the federal income tax statutory rate of 21% primarily due to state income taxes, partially offset by income tax credits and charitable donation benefit.

Adjusted EBITDA and Free Cash Flow

For the second quarter of fiscal 2019, Adjusted EBITDA was $567.6 million, or 4.0% of Net sales and other revenue, compared to $548.6 million, or 3.9% of Net sales and other revenue, for the second quarter of fiscal 2018. For the first 28 weeks of fiscal 2019, Adjusted EBITDA was $1,444.4 million, or 4.4% of Net sales and other revenue, compared to $1,364.4 million, or 4.2% of Net sales and other revenue for the first 28 weeks of fiscal 2018. The increase in Adjusted EBITDA primarily reflects our identical sales increase, higher gross profit margin, due in part to higher fuel margin and continued improvements in shrink expense, partially offset by strategic investments in digital and technology initiatives, higher employee wage and benefit costs and incremental rent expense from sale-leaseback transactions.

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

	12 weeks ended		28 weeks ended	
	September 7, 2019	**September 8, 2018**	**September 7, 2019**	**September 8, 2018**
Net income (loss)	$ 294.8	$ (32.4)	$ 343.8	$ (50.1)
Depreciation and amortization	381.7	402.6	897.6	939.2
Interest expense, net	177.5	194.9	402.7	449.5
Income tax expense (benefit)	81.9	(11.9)	97.6	(14.9)
EBITDA	935.9	553.2	1,741.7	1,323.7
Integration costs (1)	4.0	64.2	22.4	134.9
Acquisition-related costs (2)	3.5	44.4	11.2	57.5
Equity-based compensation expense	6.5	12.2	17.6	25.6
Loss on debt extinguishment	23.1	—	65.8	—
Gain on property dispositions and impairment losses, net	(435.5)	(135.8)	(464.0)	(175.8)
LIFO expense	5.8	3.4	16.3	12.9
Miscellaneous adjustments (3)	24.3	7.0	33.4	(14.4)
Adjusted EBITDA	$ 567.6	$ 548.6	$ 1,444.4	$ 1,364.4

(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 in fiscal 2018) 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		28 weeks ended	
	September 7, 2019	**September 8, 2018**	**September 7, 2019**	**September 8, 2018**
Non-cash lease-related adjustments	$ 4.4	$ (1.3)	$ 6.3	$ (5.5)
Lease and lease-related costs for surplus and closed stores	5.2	9.9	12.0	14.6
Net realized and unrealized loss (gain) on non-operating investments	10.8	(3.9)	7.5	(33.3)
Adjustments to contingent consideration	—	(9.1)	—	(10.0)
Certain legal and regulatory accruals and settlements, net	0.3	—	(1.9)	—
Other (a)	3.6	11.4	9.5	19.8
Total other adjustments	$ 24.3	$ 7.0	$ 33.4	$ (14.4)

(a) Primarily includes adjustments for unconsolidated equity investments and costs related to transition services agreements.

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

	28 weeks ended	
	September 7, 2019	September 8, 2018
Net cash provided by operating activities	$ 1,084.8	$ 1,191.3
Income tax expense (benefit)	97.6	(14.9)
Deferred income taxes	14.4	66.2
Interest expense, net	402.7	449.5
Operating lease right-of-use assets amortization	(288.4)	—
Changes in operating assets and liabilities	100.3	(517.6)
Amortization and write-off of deferred financing costs	(26.1)	(17.7)
Integration costs	22.4	134.9
Acquisition-related costs	11.2	57.5
Other adjustments	25.5	15.2
Adjusted EBITDA	1,444.4	1,364.4
Less: capital expenditures	(716.3)	(631.2)
Free Cash Flow	$ 728.1	$ 733.2

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):

	28 weeks ended	
	September 7, 2019	September 8, 2018
Cash and cash equivalents and restricted cash at end of period	$ 464.7	$ 1,669.8
Cash flows provided by operating activities	1,084.8	1,191.3
Cash flows provided by (used in) investing activities	307.7	(88.2)
Cash flows used in financing activities	(1,895.5)	(114.1)

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $1,084.8 million for the first 28 weeks of fiscal 2019 compared to $1,191.3 million for the first 28 weeks of fiscal 2018. The reduction in cash flow from operations compared to the first 28 weeks of fiscal 2018 is due to changes in working capital, primarily related to accounts payable and inventory, partially offset by improvements in operating income, which includes the reduction in acquisition and integration costs. The year over year change in working capital was largely impacted by activities related to the store conversions that were ongoing during the first 28 weeks of fiscal 2018.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities was $307.7 million for the first 28 weeks of fiscal 2019 compared to net cash used in investing activities of $88.2 million for the first 28 weeks of fiscal 2018.

For the first 28 weeks of fiscal 2019, cash provided by investing activities consisted primarily of proceeds from the sale of assets of $1,029.5 million, partially offset by payments for property and equipment, including lease buyouts, of $716.3 million. Proceeds from the sale of assets primarily includes the sale and leaseback of 53 store properties and one distribution center for $931.3 million, net of closing costs during the second quarter of fiscal 2019. Payments for property and equipment included the opening of seven new stores, completion of 99 remodels and continued investment

in our digital and eCommerce technology. For the first 28 weeks of fiscal 2018, cash used in investing activities consisted primarily of payments for property and equipment, including lease buyouts, of $631.2 million, partially offset by proceeds from the sale of assets of $509.4 million. Payments for property and equipment included the opening of three new stores, completion of 59 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.

In fiscal 2019, we expect to spend approximately $1.45 billion in capital expenditures, as follows (in millions):

Projected Fiscal 2019 Capital Expenditures		
New stores and remodels	$	600.0
Maintenance		200.0
Supply chain		100.0
IT		350.0
Real estate and expansion capital		200.0
Total	$	1,450.0

Net Cash Used in Financing Activities

Net cash used in financing activities was $1,895.5 million during the first 28 weeks of fiscal 2019 compared to $114.1 million during the first 28 weeks of fiscal 2018.

Net cash used in financing activities during the first 28 weeks of fiscal 2019 consisted primarily of payments on long-term debt of $2,558.4 million, partially offset by proceeds from the issuance of long-term debt of $750.0 million. Payments on long-term debt principally consisted of the term loan repayment, tender offer and repurchase of notes, as further discussed below.

Net cash used in financing activities during the first 28 weeks of fiscal 2018 consisted primarily of payments on long-term debt of $780.1 million, partially offset by proceeds from the issuance of long-term debt of $750.0 million. Proceeds from the issuance of long-term debt and payments of long-term debt principally consisted of the issuance and subsequent redemption of floating rate senior secured notes as a result of the mutual termination of the Rite Aid Corporation merger agreement.

Debt Management

In our continued commitment to delever our balance sheet and improve financial flexibility, we have reduced our outstanding debt balance by more than $1.8 billion during fiscal 2019 to date. As of September 7, 2019, we had no borrowings outstanding under our $4.0 billion asset-based revolving credit facility, and total availability of approximately $3.3 billion (net of letter of credit usage).

On August 15, 2019, we repaid approximately $1,571 million in aggregate principal amount outstanding under our term loan facilities, along with accrued and unpaid interest and fees and expenses, using cash on hand and proceeds from the issuance of the 2028 Notes (as described below). Contemporaneously with the term loan repayment, we refinanced the remaining amounts outstanding with new term loan tranches. The new tranches consist of $3.1 billion in aggregate principal, of which $1,500.0 million matures on November 17, 2025 and $1,600.0 million matures on August 17, 2026. The new loans amortize, on a quarterly basis, at a rate of 1.0% per annum of the original principal amount. The new loans bear interest, at the borrower's option, at a rate per annum equal to either (a) the base rate plus 1.75% or (b) LIBOR plus 2.75%, subject to a 0.75% floor.

Also on August 15, 2019, we completed the sale of $750.0 million of principal amount of 5.875% Senior Unsecured Notes which will mature on February 15, 2028 (the "2028 Notes"). Proceeds from the 2028 Notes were used to partially fund the term loan repayment discussed above.

On May 24, 2019, we completed a cash tender offer and early redemption of $34.1 million of Safeway notes and $402.9 million of NALP Notes for an aggregate of $415.3 million in cash plus accrued and unpaid interest. During the first 28 weeks of fiscal 2019, we also repurchased NALP Notes on the open market with an aggregate par value of $553.9 million for $547.5 million in cash plus accrued and unpaid interest.

During the second quarter of fiscal 2019, we completed the sale and leaseback of 53 store properties and one distribution center, through three separate transactions, for an aggregate purchase price, net of closing costs, of $931.3 million. In connection with the sale and leaseback transactions, we entered into lease agreements for each of the properties for initial terms ranging from 15 to 20 years. The aggregate initial annual rent payment for the properties are approximately $53 million and includes 1.50% to 1.75% annual rent increases over the initial lease terms. All of the properties qualified for sale-leaseback and operating lease accounting, and we recorded total gains of $463.6 million. We also recorded operating lease ROU assets and corresponding operating lease liabilities of $602.5 million.

Liquidity Needs

We estimate our liquidity needs over the next 12 months to be in the range of $4.0 billion to $4.5 billion, which includes anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments of debt, operating leases and finance leases. 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.

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 23, 2019 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 23, 2019.

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 second quarter ended September 7, 2019 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 23, 2019 under the heading "Risk Factors."

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

4.1(a) Indenture, dated as of August 15, 2019, by and among Albertsons Companies, Inc., Safeway Inc., New Albertsons L.P., Albertson’s LLC, the guarantors party thereto from time to time, and Wilmington Trust, National Association, as Trustee.

10.2(b) Amendment No. 8, dated as of August 15, 2019, 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(c) Separation Agreement, dated as of August 21, 2019, by and between Albertsons Companies, Inc. and Shane Sampson.

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 - Inline 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 - Inline XBRL Taxonomy Extension Schema Document.

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

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

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

EXHIBIT 101.PRE - Inline XBRL Taxonomy Extension Presentation Linkbase Document

EXHIBIT 104 - Cover Page Interactive Data File (embedded within the Inline XBRL document)

(a) Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 15, 2019 and incorporated herein by reference.
(b) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 15, 2019 and incorporated herein by reference.
(c) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 22, 2019 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:	October 16, 2019	By:	/s/ Vivek Sankaran
			Vivek Sankaran
			President, Chief Executive Officer and Director (Principal Executive Officer)
Date:	October 16, 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-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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

I, Vivek Sankaran, 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) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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: October 16, 2019

/s/ Vivek Sankaran

Vivek Sankaran

President, Chief Executive Office and Director (Principal Executive Officer)

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Section 3: 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) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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: October 16, 2019

/s/ Robert B. Dimond

Robert B. Dimond

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

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350,

as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Albertsons Companies, Inc. (the "Company") on Form 10-Q for the period ended September 7, 2019 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: October 16, 2019

/s/ Vivek Sankaran

Vivek Sankaran

President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Robert B. Dimond

Robert B. Dimond

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

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