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AB ACQUISITION LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Company has established stop-loss amounts that limit the Company's further exposure after a claim reaches the designated stop-loss threshold. Stop-loss amounts for claims incurred for the years presented range from \$0.5 million to \$5.0 million per claim, depending upon the type of insurance coverage and the year the claim is incurred. In determining its self-insurance liabilities, the Company performs a continuing review of its overall position and reserving techniques. Since recorded amounts are based on estimates, the ultimate cost of all incurred claims and related expenses may be more or less than the recorded liabilities.

As a part of the Safeway acquisition and NAI acquisition, the Company assumed outstanding self-insurance liabilities. Under the acquisition method of accounting, these assumed liabilities were recorded on the acquisition dates of Safeway and NAI at fair values of \$613.5 million and \$1,082.9 million, respectively. Subsequent to the acquisitions, the Company measures and accounts for the assumed self-insurance liabilities using a systematic and rational approach, which considers actual claims experience in each period compared to total expected claims over the estimated remaining life of the claims.

The Company has deposits with its insurers to fund workers' compensation and automobile and general liability claims payments. The Company had \$12.9 million and \$14.9 million of deposits for its workers' compensation and automobile liability claims as of February 28, 2015, and February 20, 2014, respectively, included in Other assets. The Company has reinsurance receivables of \$30.4 million and \$24.3 million recorded within Receivables, net and \$70.8 million and \$76.5 million recorded within Other assets as of February 28, 2015 and February 20, 2014, respectively. The self-insurance liabilities and related reinsurance receivables are recorded gross.

Changes in self-insurance liabilities consisted of the following (in millions):

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Beginning balance	\$ 1,009.7	\$ 52.5	\$ 55.0
Assumed liabilities from acquisitions	613.5	1,082.9	—
Expense	157.7	128.6	14.2
Claim payments	(205.3)	(192.3)	(16.7)
Other reductions(1)	(130.3)	(62.0)	—
Ending balance	1,445.3	1,009.7	52.5
Less current portion	(311.6)	(200.4)	(16.8)
Long-term portion	<u>\$ 1,133.7</u>	<u>\$ 809.3</u>	<u>\$ 35.7</u>

(1) Primarily reflects the systematic adjustments to the fair value of the assumed self-insurance liabilities from acquisitions and actuarial adjustments for claims experience.

Deferred rents: The Company recognizes rent holidays, from the period of time the Company has possession of the property, as well as tenant allowances and escalating rent provisions, on a straight-line basis over the expected term of the operating lease. The expected term may also include the exercise of renewal options if such exercise is determined to be reasonably assured and is used to determine whether the lease is capital or operating. Certain leases call for payment of executory costs, such as property taxes, utilities, insurance and maintenance costs. Deferred rents are included in Other current liabilities and Other long-term liabilities.

Deferred gains on leases: The Company may receive up-front funds upon sublease or assignment of existing leases. Deferred gains related to subleases and assignments as of February 28, 2015 and February 20, 2014 were \$12.9 million and \$12.5 million, respectively, recorded