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AB ACQUISITION LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Vendor Allowances that have been earned as a result of completing the required performance under terms of the underlying agreements but for which the product has not yet been sold are recognized as reductions of inventory. The reduction of inventory for these Vendor Allowances was \$92.0 million and \$45.3 million as of February 28, 2015 and February 20, 2014, respectively.

Advertising costs are included in Cost of sales and are expensed in the period the advertising occurs. Cooperative advertising funds are recorded as a reduction of Cost of sales when the advertising occurs. Advertising costs were \$239.9 million, \$192.4 million, and \$45.5 million, net of cooperative advertising allowances of \$16.9 million, \$11.5 million, and \$2.1 million for fiscal 2014, 2013, and 2012 respectively.

Selling and administrative expenses: Selling and administrative expenses consist primarily of store and corporate employee-related costs such as salaries and wages, health and welfare, workers' compensation and pension benefits, as well as marketing and merchandising, rent, occupancy and operating costs, amortization of intangibles and other administrative costs.

Equity-Based employee compensation: The Company has granted membership interests to employees and non-employees and accounts for these awards in accordance with the applicable accounting guidance for equity awards issued to employees and non-employees.

Employee awards are recorded under the provisions of ASC 718, *Compensation—Stock Compensation* with equity-based compensation expense measured at the grant date, based on the fair value of the award. As required under this guidance, the Company estimates forfeitures for equity-based grants which are not expected to vest. The Company recognizes compensation expense over the requisite vesting period of the award. The Company recognizes compensation expense for equity-based awards subject to a performance vesting condition when achieving the performance condition becomes probable. Changes in inputs and assumptions used to calculate the fair value of equity-based payments can materially affect the measurement of the estimated fair value of the Company's equity-based compensation expense.

The Company measures equity-based compensation to non-employees in accordance with ASC 505-50 *Equity-Based Payments to Non-Employees* ("ASC 505") and recognizes the fair value of the award over the period the services are rendered or goods are provided.

Net (Loss) Income Per Unit ("EPU"): The Company has two classes of common units: tracking units and residual units. The tracking units include ABS, NAI and Safeway Units (collectively referred to as the "Tracking Group") and residual units including Class C Units, Investor Incentive Units and Series-1 Incentive Units (collectively referred to as the "Residual Group"). EPU is calculated separately for the Tracking Group and for the Residual Group using the two-class method.

Basic (loss) income per unit ("Basic EPU") is computed by dividing net (loss) income attributable to the Tracking Group unit-holders and Residual Group unitholders by the weighted average number of Tracking Group and Residual Group units outstanding, respectively, for the period. Diluted (loss) income per unit ("Diluted EPU") gives effect to all dilutive potential tracking units and residual units outstanding during the period using the treasury stock method. Diluted EPU excludes all potentially dilutive units if the effect of their inclusion is anti-dilutive. Diluted EPU is computed by dividing net income (loss) attributable to the Tracking Group unitholders and Residual Group unitholders by the weighted average number of units outstanding, respectively, plus, where applicable, units that would have been outstanding related to dilutive units secured by member loans for the Tracking Group and Class C Units, Investor Incentive Units and Series-1 Incentive Units for the Residual Group.