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**AB ACQUISITION LLC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The remaining 50% of the incentive units have performance-based vesting terms, which vest 25% on the last day of Safeway's fiscal year for each of the following four fiscal years, subject to specific performance targets. For the units subject to a service period, the estimated total fair value is charged to compensation expense on a straight-line basis over the vesting of four years and vest 25% on each of the subsequent four anniversaries of such date. For the units subject to a performance condition, compensation cost will be recognized on a graded vesting basis when probable and based on the estimated quantity of awards for which it is probable that the performance conditions will be achieved. All performance-based units that have not vested as of the fiscal year commencing in 2018 shall terminate. Upon the consummation of an IPO, the unvested units subject to performance conditions are converted into units subject to a continuation of service condition.

Incentive unit activity for each period was as follows:

	Investor incentive units	Series 1 incentive units	Weighted average grant date fair value per unit
Units unvested at February 20, 2014	—	—	\$ —
Granted	14,907,871	3,350,083	22.11
Vested	(14,907,871)	—	22.11
Forfeited	—	—	—
Units unvested at February 28, 2015	—	3,350,083	\$ 22.11

The aggregate fair value and grant date of Investor incentive units that vested in fiscal 2014 was \$330.0 million.

As of February 28, 2015, the Company had yet to recognize \$71.9 million in unrecognized compensation cost related to unvested equity-based compensation arrangements granted under the Company's Series-1 Incentive Unit Plan.

**Member Loans to Employees**

Upon termination of the Company's LTIPs, certain executives were entitled to the right to receive a loan from the Company to purchase additional ABS and NAI units. Employees took loans of \$21.6 million to purchase an additional 2.8 million units. At February 28, 2015, the principal amounts due to the Company under outstanding notes receivable were \$21.6 million. Each loan is collateralized by the additional units purchased with the loan, but in the event the loan amount exceeds the fair value of the units when repaid, the employee must repay the loan with other assets owned by the employee. Any distributions received with respect to any equity held by the individual in the Company must first be used to pay the loan. The loans are treated as non-recourse for accounting purposes and accounted for as equity-based compensation. Upon issuance the units issued to employees were fully vested, and as such we recognized compensation expense with an offsetting entry to Members' Investment. The units associated with the loan are not transferable, and the loans are payable on the earliest of: five years from January 30, 2015 or six months following the employee's termination, the date of the consummation of an IPO or the consummation of a corporate transaction constituting a change in control. The estimated fair value of equity granted under the loans during 2014 was \$62.2 million.

The Company determined fair value of unvested and issued awards on the grant date using an option pricing model adjusted for a lack of marketability and using an expected term or time to liquidity based on judgments made by management. Expected volatility is calculated based upon historical