

Table of Contents

AB ACQUISITION LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements

against Safeway. After lengthy litigation in the trial and appellate courts, both cases were certified as class actions and assigned to a single judge for all purposes in October 2013. On February 18, 2015, the parties signed a preliminary agreement of settlement that calls for Safeway to pay approximately \$31.0 million in total. This amount consists of a settlement fund of \$30.2 million, out of which will be paid relief to the class, and attorneys' fees and costs as awarded by the court. Safeway will also pay third-party settlement administrator costs, and its employer share of FICA/Medicare taxes. The motion for preliminary approval of the settlement has been granted. A hearing on the motion for final approval of the settlement is set for August 14, 2015. At this time, the Company does not believe that financial exposure to loss in excess of the amount accrued is probable.

Drug Enforcement Agency: The Company has received two subpoenas from the Drug Enforcement Administration ("DEA") concerning Safeway's record keeping, reporting and related practices associated with the loss or theft of controlled substances. We are not a party to any pending DEA administrative or judicial proceeding arising from or related to these subpoenas. The Company is cooperating with the DEA in all investigative matters.

Newman Development Group of Pottstown: On March 20, 2002, Safeway's Genuardi subsidiary was sued by a real estate developer for breach of a lease in the Court of Common Pleas, Chester County (Pa.), in a case entitled *Newman Development Group of Pottstown, LLC v. Genuardi's Family Markets, Inc. and Safeway Inc.* On December 19, 2006, the trial court entered a judgment in favor of Newman in the amount of \$0.3 million. On April 25, 2008, the appellate court remanded the case to the trial court for recalculation of damages. On February 25, 2010, the trial court entered a judgment in favor of Newman in the amount of \$18.5 million. Safeway appealed, and on March 18, 2011, the appellate court held that Safeway had waived its right to appeal. The Pennsylvania Supreme Court vacated this order on November 1, 2012. On July 29, 2013, an appellate court panel reversed three key elements of the trial court's damages calculation in Safeway's favor. On August 19, 2014, a rehearing by the appellate court en banc rejected the panel's July 29, 2013 ruling, effectively reinstating the \$18.5 million judgment. The Pennsylvania Supreme Court declined to hear Safeway's appeal on June 24, 2015, and the case will return to the trial court for calculation of interest and attorneys' fees and entry of judgment. At this time, the Company does not believe that financial exposure to loss in excess of the amount accrued is probable.

Rodman: On June 17, 2011, a customer of Safeway's home delivery business (safeway.com) filed a class action complaint in the United States District Court for the Northern District of California entitled *Rodman v. Safeway Inc.*, alleging that Safeway had inaccurately represented on its home delivery website that the prices paid there were the same as the prices in the brick-and-mortar retail store. Rodman asserted claims for breach of contract and unfair business practices under California law. The court certified a class for the breach of contract claim, but denied class treatment for the California business practices claims. On Rodman's motion for partial summary judgment, the court held that Rodman had established a prima facie claim for breach of contract, and that Safeway had not effectively cured the breach by revising the language on its website in November 2011. The court noted that its ruling did not address Safeway's affirmative defenses or the calculation of damages. The matter is set for trial on October 5, 2015. Based on proceedings to date, the Company is currently unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.