

Table of Contents

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Blackhawk sold the trading securities for cash on the day after closing, and this sale is presented as an inflow from investing activities in the accompanying consolidated statements of cash flows.

**Note D: Property Development Centers**

On December 23, 2014, Safeway and its wholly owned real estate development subsidiary, PDC, sold substantially all of the net assets of PDC to Terramar. PDC's assets were comprised of shopping centers that are completed or under development. Most of these centers included a grocery store that was leased back to Safeway. The sale was consummated pursuant to an Asset Purchase Agreement dated as of December 22, 2014 by and among Safeway, PDC and Terramar.

The following table summarizes the gain on this transaction (in millions).

|  |                |
|--|----------------|
| Total cash proceeds  | \$ 759.0       |
| Less proceeds for development properties recorded as Other Notes Payable | (120.1)        |
| Less cash paid for prorates  | <u>(1.7)</u>   |
| Total cash proceeds classified as investing activities                   | 637.2          |
| Net book value   | <u>(464.9)</u> |
| Total gain on sale of PDC  | 172.3          |
| Less gain deferred on sale leasebacks(1)                                 | <u>(150.3)</u> |
| Gain on sale of PDC  | <u>\$ 22.0</u> |

- (1) Current portion of \$25.3 million is included in other accrued liabilities, and the long-term portion of \$125.0 million is included in accrued claims and other liabilities in the consolidated balance sheet at year-end 2014.

Due to leasing back certain of these properties, Safeway has significant continuing involvement with a number of the properties subsequent to the sale. As a result, Safeway deferred the gain on the sale of those properties. Under GAAP, Safeway is still considered the owner of certain properties consisting primarily of the properties under development. Consequently, proceeds of \$120.1 million received for those properties have been recorded as Other Notes Payable and classified as a cash inflow from financing activities.

Safeway undertook the sale of PDC in connection with the Merger. See Note V.

**Note E: Goodwill**

Goodwill represents the excess of cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization but must be evaluated for impairment.

Safeway tests goodwill for impairment annually (on the first day of the fourth quarter) or whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying value.

The impairment test is a two-step process. In the first step, the Company determines if the fair value of the reporting units is less than the book value. Under generally accepted accounting