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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period (12 weeks) ended December 3, 2016.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 1-5418

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***SUPERVALU*<sup>®</sup>  
SUPERVALU INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**41-0617000**

(I.R.S. Employer  
Identification No.)

**11840 VALLEY VIEW ROAD  
EDEN PRAIRIE, MINNESOTA**  
(Address of principal executive offices)

**55344**  
(Zip Code)

**(952) 828-4000**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 6, 2017, there were 267,658,931 shares of the issuer's common stock outstanding.

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**SUPERVALU INC. and Subsidiaries**  
**Quarterly Report on Form 10-Q**  
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED SEGMENT FINANCIAL INFORMATION**  
**(Unaudited)**  
**(In millions, except percent data)**

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
<b>Net sales</b>				
Wholesale	\$ 1,906	\$ 1,902	\$ 5,912	\$ 6,195
% of total	63.5 %	62.5%	61.8 %	61.9%
Retail	1,060	1,097	3,524	3,662
% of total	35.3 %	36.0%	36.8 %	36.6%
Corporate	37	46	137	159
% of total	1.2 %	1.5%	1.4 %	1.5%
Total net sales	\$ 3,003	\$ 3,045	\$ 9,573	\$ 10,016
	100.0 %	100.0%	100.0 %	100.0%
<b>Operating earnings (loss)</b>				
Wholesale	\$ 52	\$ 54	\$ 174	\$ 180
% of Wholesale sales	2.7 %	2.8%	2.9 %	2.9%
Retail	(14)	21	(18)	64
% of Retail sales	(1.3)%	2.0%	(0.5)%	1.8%
Corporate	(37)	(9)	(8)	(21)
Total operating earnings	1	66	148	223
% of total net sales	0.1 %	2.2%	1.5 %	2.2%
<b>Interest expense, net</b>	40	45	141	148
<b>Equity in earnings of unconsolidated affiliates</b>	(1)	(1)	(3)	(3)
<b>(Loss) earnings from continuing operations before income taxes</b>	(38)	22	10	78
<b>Income tax (benefit) provision</b>	(27)	6	(11)	24
<b>Net (loss) earnings from continuing operations</b>	(11)	16	21	54
<b>(Loss) income from discontinued operations, net of tax</b>	(14)	19	33	78
<b>Net (loss) earnings including noncontrolling interests</b>	(25)	35	54	132
<b>Less net earnings attributable to noncontrolling interests</b>	(1)	(1)	(3)	(6)
<b>Net (loss) earnings attributable to SUPERVALU INC.</b>	\$ (26)	\$ 34	\$ 51	\$ 126

See Notes to Condensed Consolidated Financial Statements.

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In millions, except per share data)**

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
<b>Net sales</b>	\$ 3,003	\$ 3,045	\$ 9,573	\$ 10,016
<b>Cost of sales</b>	2,596	2,609	8,221	8,573
<b>Gross profit</b>	407	436	1,352	1,443
<b>Selling and administrative expenses</b>	391	364	1,189	1,214
<b>Goodwill and intangible asset impairment charges</b>	15	6	15	6
<b>Operating earnings</b>	1	66	148	223
<b>Interest expense, net</b>	40	45	141	148
<b>Equity in earnings of unconsolidated affiliates</b>	(1)	(1)	(3)	(3)
<b>(Loss) earnings from continuing operations before income taxes</b>	(38)	22	10	78
<b>Income tax (benefit) provision</b>	(27)	6	(11)	24
<b>Net (loss) earnings from continuing operations</b>	(11)	16	21	54
<b>(Loss) income from discontinued operations, net of tax</b>	(14)	19	33	78
<b>Net (loss) earnings including noncontrolling interests</b>	(25)	35	54	132
<b>Less net earnings attributable to noncontrolling interests</b>	(1)	(1)	(3)	(6)
<b>Net (loss) earnings attributable to SUPERVALU INC.</b>	\$ (26)	\$ 34	\$ 51	\$ 126
<b>Basic net (loss) earnings per share attributable to SUPERVALU INC.:</b>				
Continuing operations	\$ (0.04)	\$ 0.05	\$ 0.07	\$ 0.18
Discontinued operations	\$ (0.06)	\$ 0.07	\$ 0.12	\$ 0.30
Basic net (loss) earnings per share	\$ (0.10)	\$ 0.13	\$ 0.19	\$ 0.48
<b>Diluted net (loss) earnings per share attributable to SUPERVALU INC.:</b>				
Continuing operations	\$ (0.04)	\$ 0.05	\$ 0.07	\$ 0.18
Discontinued operations	\$ (0.06)	\$ 0.07	\$ 0.12	\$ 0.29
Diluted net (loss) earnings per share	\$ (0.10)	\$ 0.13	\$ 0.19	\$ 0.47
<b>Weighted average number of shares outstanding:</b>				
Basic	265	264	265	263
Diluted	265	268	267	268

See Notes to Condensed Consolidated Financial Statements.

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(In millions)**

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
<b>Net (loss) earnings including noncontrolling interests</b>	\$ (25)	\$ 35	\$ 54	\$ 132
<b>Other comprehensive income:</b>				
Recognition of pension and other postretirement benefit obligations <sup>(1)</sup>	102	27	113	50
Recognition of interest rate swap cash flow hedge <sup>(2)</sup>	2	—	2	(2)
<b>Total other comprehensive income</b>	<u>104</u>	<u>27</u>	<u>115</u>	<u>48</u>
<b>Comprehensive income including noncontrolling interests</b>	79	62	169	180
<b>Less comprehensive income attributable to noncontrolling interests</b>	(1)	(1)	(3)	(6)
<b>Comprehensive income attributable to SUPERVALU INC.</b>	<u>\$ 78</u>	<u>\$ 61</u>	<u>\$ 166</u>	<u>\$ 174</u>

(1) Amounts are net of tax expense of \$49, \$15, \$55 and \$29 for the third quarters of fiscal 2017 and 2016, and for fiscal 2017 and 2016 year-to-date, respectively.

(2) Amounts are net of tax expense (benefit) of \$1, \$0, \$1 and \$(1) for the third quarters of fiscal 2017 and 2016, and for fiscal 2017 and 2016 year-to-date, respectively.

See Notes to Condensed Consolidated Financial Statements.

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(In millions, except par value data)

ASSETS	December 3, 2016	February 27, 2016
<b>Current assets</b>		
Cash and cash equivalents	\$ 47	\$ 42
Receivables, net	440	406
Inventories, net	895	738
Other current assets	74	73
Current assets of discontinued operations	394	376
<b>Total current assets</b>	<b>1,850</b>	<b>1,635</b>
<b>Property, plant and equipment, net</b>	<b>1,014</b>	<b>1,021</b>
<b>Goodwill</b>	<b>710</b>	<b>725</b>
<b>Intangible assets, net</b>	<b>41</b>	<b>47</b>
<b>Deferred tax assets</b>	<b>169</b>	<b>238</b>
<b>Other assets</b>	<b>99</b>	<b>91</b>
<b>Long-term assets of discontinued operations</b>	<b>591</b>	<b>613</b>
<b>Total assets</b>	<b>\$ 4,474</b>	<b>\$ 4,370</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 924	\$ 829
Accrued vacation, compensation and benefits	152	148
Current maturities of long-term debt and capital lease obligations	1,091	123
Other current liabilities	125	126
Current liabilities of discontinued operations	305	346
<b>Total current liabilities</b>	<b>2,597</b>	<b>1,572</b>
<b>Long-term debt</b>	<b>1,261</b>	<b>2,197</b>
<b>Long-term capital lease obligations</b>	<b>193</b>	<b>194</b>
<b>Pension and other postretirement benefit obligations</b>	<b>430</b>	<b>578</b>
<b>Long-term tax liabilities</b>	<b>73</b>	<b>75</b>
<b>Other long-term liabilities</b>	<b>128</b>	<b>145</b>
<b>Long-term liabilities of discontinued operations</b>	<b>45</b>	<b>42</b>
<b>Commitments and contingencies</b>	<b>—</b>	<b>—</b>
<b>Stockholders' deficit</b>		
Common stock, \$0.01 par value: 400 shares authorized; 268 and 266 shares issued, respectively	3	3
Capital in excess of par value	2,820	2,808
Treasury stock, at cost, 0 and 1 shares, respectively	—	(5)
Accumulated other comprehensive loss	(307)	(422)
Accumulated deficit	(2,774)	(2,825)
<b>Total SUPERVALU INC. stockholders' deficit</b>	<b>(258)</b>	<b>(441)</b>
Noncontrolling interests	5	8
<b>Total stockholders' deficit</b>	<b>(253)</b>	<b>(433)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 4,474</b>	<b>\$ 4,370</b>

See Notes to Condensed Consolidated Financial Statements.

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
**(Unaudited)**  
**(In millions)**

	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	SUPERVALU INC. Stockholders' Deficit	Non-controlling Interests	Total Stockholders' Deficit
<b>Balances as of February 28, 2015</b>	\$ 3	\$ 2,810	\$ (33)	\$ (423)	\$ (3,003)	\$ (646)	\$ 10	\$ (636)
Net earnings	—	—	—	—	126	126	6	132
Other comprehensive income, net of tax of \$28	—	—	—	48	—	48	—	48
Sales of common stock under option plans	—	(12)	22	—	—	10	—	10
Stock-based compensation	—	19	—	—	—	19	—	19
Distributions to noncontrolling interests	—	—	—	—	—	—	(8)	(8)
Tax impact on stock-based awards and other	—	(15)	6	—	—	(9)	—	(9)
<b>Balances as of December 5, 2015</b>	<u>\$ 3</u>	<u>\$ 2,802</u>	<u>\$ (5)</u>	<u>\$ (375)</u>	<u>\$ (2,877)</u>	<u>\$ (452)</u>	<u>\$ 8</u>	<u>\$ (444)</u>
<b>Balances as of February 27, 2016</b>	\$ 3	\$ 2,808	\$ (5)	\$ (422)	\$ (2,825)	\$ (441)	\$ 8	\$ (433)
Net earnings	—	—	—	—	51	51	3	54
Other comprehensive income, net of tax of \$56	—	—	—	115	—	115	—	115
Sales of common stock under option plans	—	(3)	6	—	—	3	—	3
Stock-based compensation	—	16	—	—	—	16	—	16
Distributions to noncontrolling interests	—	—	—	—	—	—	(6)	(6)
Tax impact on stock-based awards and other	—	(1)	(1)	—	—	(2)	—	(2)
<b>Balances as of December 3, 2016</b>	<u>\$ 3</u>	<u>\$ 2,820</u>	<u>\$ —</u>	<u>\$ (307)</u>	<u>\$ (2,774)</u>	<u>\$ (258)</u>	<u>\$ 5</u>	<u>\$ (253)</u>

See Notes to Condensed Consolidated Financial Statements.

**SUPERVALU INC. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In millions)**

	Year-To-Date Ended	
	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
<b>Cash flows from operating activities</b>		
Net earnings including noncontrolling interests	\$ 54	\$ 132
Income from discontinued operations, net of tax	33	78
Net earnings from continuing operations	21	54
Adjustments to reconcile Net earnings from continuing operations to Net cash provided by operating activities – continuing operations:		
Goodwill and intangible asset impairment charges	15	6
Asset impairment and other charges	4	2
Loss on debt extinguishment	7	—
Net gain on sale of assets and exits of surplus leases	(1)	(2)
Depreciation and amortization	159	161
LIFO charge	3	6
Deferred income taxes	5	(14)
Stock-based compensation	13	17
Net pension and other postretirement benefits expense	23	29
Contributions to pension and other postretirement benefit plans	(2)	(38)
Other adjustments	6	18
Changes in operating assets and liabilities, net of effects from business acquisitions	(106)	(85)
<b>Net cash provided by operating activities – continuing operations</b>	<b>147</b>	<b>154</b>
<b>Net cash provided by operating activities – discontinued operations</b>	<b>69</b>	<b>98</b>
<b>Net cash provided by operating activities</b>	<b>216</b>	<b>252</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of assets	2	1
Purchases of property, plant and equipment	(118)	(112)
Payments for business acquisitions	(19)	(6)
Other	(1)	(24)
<b>Net cash used in investing activities – continuing operations</b>	<b>(136)</b>	<b>(141)</b>
<b>Net cash used in investing activities – discontinued operations</b>	<b>(65)</b>	<b>(57)</b>
<b>Net cash used in investing activities</b>	<b>(201)</b>	<b>(198)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt	218	—
Proceeds from sale of common stock	3	10
Payments of debt and capital lease obligations	(217)	(34)
Payments for debt financing costs	(6)	(1)
Distributions to noncontrolling interests	(6)	(8)
<b>Net cash used in financing activities – continuing operations</b>	<b>(8)</b>	<b>(33)</b>
<b>Net cash used in financing activities – discontinued operations</b>	<b>—</b>	<b>(1)</b>
<b>Net cash used in financing activities</b>	<b>(8)</b>	<b>(34)</b>
Net increase in cash and cash equivalents	7	20
<b>Cash and cash equivalents at beginning of period</b>	<b>57</b>	<b>114</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$ 64</b>	<b>\$ 134</b>
<b>Less cash and cash equivalents of discontinued operations at end of period</b>	<b>\$ (17)</b>	<b>\$ (47)</b>
<b>Cash and cash equivalents of continuing operations at end of period</b>	<b>\$ 47</b>	<b>\$ 87</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
The Company's non-cash investing and financing activities were as follows:		
Purchases of property, plant and equipment included in Accounts payable	\$ 25	\$ 31
Capital lease asset additions	\$ 15	\$ 18
Interest and income taxes paid:		
Interest paid, net of amounts capitalized	\$ 136	\$ 150
Income taxes paid, net	\$ 12	\$ 44

See Notes to Condensed Consolidated Financial Statements.



**SUPERVALU INC. and Subsidiaries**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars and shares in millions, except per share data)**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Statement of Registrant*

The accompanying Condensed Consolidated Financial Statements of SUPERVALU INC. (the “Company”, “SUPERVALU”, “we”, “us” or “our”) for the third quarters and year-to-date periods ended December 3, 2016 and December 5, 2015 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial condition, results of operations and cash flows for such periods. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes in the Company’s Annual Report on Form 10-K for the fiscal year ended February 27, 2016. The results of operations for the third quarter and fiscal year-to-date ended December 3, 2016 are not necessarily indicative of the results expected for the full year.

*Discontinued Operations*

On December 5, 2016, the Company completed the previously announced sale of the Company’s Save-A-Lot business (the “Sale”) to SAL Acquisition Corp (f/k/a Smith Acquisition Corp), an affiliate of Onex Partners Managers LP (“Purchaser”), for a purchase price of \$1,365 in cash, subject to customary closing adjustments that were estimated at the time of the Sale to reduce the purchase price by approximately \$64. The Sale was completed pursuant to the terms of the Agreement and Plan of Merger, dated as of October 16, 2016 (the “Merger Agreement”), by and among Purchaser, SAL Merger Sub Corp (f/k/a Smith Merger Sub Corp), a newly formed wholly owned subsidiary of the Purchaser, the Company and Moran Foods, LLC, a wholly owned subsidiary of the Company prior to the Sale (“Moran Foods”). Concurrently with entering into the Merger Agreement, the Company and Moran Foods also entered into a Separation Agreement (the “Separation Agreement”) pursuant to which, among other things, the assets and liabilities of the Save-A-Lot business were transferred to and assumed by Moran Foods prior to the completion of the Sale. As contemplated by the Merger Agreement, in connection with the completion of the Sale, on December 5, 2016, the Company and Moran Foods entered into a Services Agreement (the “Services Agreement”), whereby the Company is providing certain professional services to Save-A-Lot for a period of five years, on and subject to the terms and conditions set forth therein. The assets, liabilities, operating results, and cash flows of Save-A-Lot have been presented separately as discontinued operations in the Condensed Consolidated Financial Statements for all periods presented. See Note 14—Discontinued Operations for additional information regarding these discontinued operations.

*Accounting Policies*

The summary of significant accounting policies is included in the Notes to Consolidated Financial Statements set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended February 27, 2016.

*Fiscal Year*

The Company operates on a 52/53 week fiscal year basis, with its fiscal year ending on the last Saturday in February. References to the third quarters of fiscal 2017 and 2016 relate to the 12 week fiscal quarters ended December 3, 2016 and December 5, 2015, respectively. References to fiscal 2017 and 2016 year-to-date relate to the 40 week fiscal periods ended December 3, 2016 and December 5, 2015, respectively.

*Use of Estimates*

The preparation of the Company’s Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The Company’s banking arrangements allow the Company to fund outstanding checks when presented to the financial institution for payment. The Company funds all intraday bank balance overdrafts during the same business day. Checks outstanding in excess of bank balances create net book overdrafts, which are recorded in Accounts payable in the

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Condensed Consolidated Balance Sheets and are reflected as an operating activity in the Condensed Consolidated Statements of Cash Flows. As of December 3, 2016 and February 27, 2016, the Company had net book overdrafts of \$88 and \$79, respectively.

### *Inventories, Net*

Inventories are valued at the lower of cost or market. Substantially all of the Company's inventories consist of finished goods and a substantial portion of the Company's inventories have a last-in, first-out ("LIFO") reserve applied. Interim LIFO calculations are based on the Company's estimates of expected year-end inventory levels and costs, as the actual valuation of inventory under the LIFO method is computed at the end of each year based on the inventory levels and costs at that time. If the first-in, first-out method had been used, Inventories, net would have been higher by approximately \$218 at December 3, 2016 and \$215 at February 27, 2016. The Company recorded a LIFO charge of \$1 and \$1 for the third quarters ended December 3, 2016 and December 5, 2015, respectively. The Company recorded a LIFO charge of \$3 and \$6 for fiscal 2017 and 2016 year-to-date, respectively.

### *Recently Issued Accounting Standards*

In August 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance under Accounting Standard Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 clarifies how certain cash receipts and payments should be presented in the statement of cash flows. The Company is required to adopt this new guidance in the first quarter of fiscal 2019. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In June 2016, the FASB issued authoritative guidance under ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The Company is required to adopt this new guidance in the first quarter of fiscal 2021. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued authoritative guidance under ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 provides for simplification of several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company is required to adopt this new guidance in the first quarter of fiscal 2018. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In February 2016, the FASB issued authoritative guidance under ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 provides new comprehensive lease accounting guidance that supersedes existing lease guidance. Upon adoption of ASU 2016-02, the Company will be required to recognize most leases on its balance sheet at the beginning of the earliest comparative period presented with a corresponding adjustment to stockholders' equity. ASU 2016-02 requires the Company to capitalize most current operating lease obligations as right-of-use assets based on the present value of future operating lease payments and to recognize a corresponding liability. Criteria for distinguishing leases between finance and operating are substantially similar to criteria for distinguishing between capital leases and operating leases in existing lease guidance. The Company is required to adopt this new guidance in the first quarter of fiscal 2020. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In January 2016, the FASB issued authoritative guidance under ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 revises the classification, measurement and disclosure of investments in equity securities. The Company is required to adopt this new guidance in the first quarter of fiscal 2019. The Company is currently evaluating the potential impact of adoption of this standard on its consolidated financial statements.

In May 2014, the FASB issued authoritative guidance under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606): Revenue from Contracts with Customers*. ASU 2014-09 supersedes existing revenue recognition requirements and provides a new comprehensive revenue recognition model that requires entities to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The new guidance will likely be adopted by the Company during the first quarter of fiscal 2019, as permitted by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The adoption will include

updates as provided under ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*; and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*. Adoption is allowed by either the full retrospective or modified retrospective approach. The Company is currently evaluating which approach it will apply and the potential impact of the adoption on its consolidated financial statements.

## **NOTE 2—BUSINESS ACQUISITIONS**

The Condensed Consolidated Financial Statements reflect the final purchase accounting allocations of the acquisitions discussed below. Pro forma information for the acquisitions discussed below are not presented since the results of operations of the acquired businesses, both individually and in the aggregate, are not material to the Company's Condensed Consolidated Financial Statements.

In the third quarter of fiscal 2017, the Company paid \$17 to acquire 22 Food Lion stores located in northern West Virginia, western Maryland, south central Pennsylvania and northwestern Virginia. The acquisition included certain store assets, including inventories, property, plant, and equipment, and capital and operating leases. The fair value of assets acquired was \$17, including inventories of \$8, long-lived assets of \$7, favorable operating lease intangibles of \$1, and other current assets of \$1. The acquired stores were converted to the Company's Shop 'N Save format that is currently used by some of the Company's Wholesale customers in that region and are now included in the Company's Retail segment.

**NOTE 3—GOODWILL AND INTANGIBLE ASSETS**

Changes in the Company’s Goodwill and Intangible assets, net consisted of the following:

	February 27, 2016	Additions	Impairments	Other net adjustments	December 3, 2016
<b>Goodwill:</b>					
Wholesale	\$ 710	\$ —	\$ —	\$ —	\$ 710
Retail	15	—	(15)	—	—
Total goodwill	<u>\$ 725</u>	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ 710</u>
<b>Intangible assets:</b>					
Favorable operating leases, prescription files, customer lists and other (accumulated amortization of \$102 and \$95 as of December 3, 2016 and February 27, 2016, respectively)	\$ 131	\$ 2	\$ —	\$ (1)	\$ 132
Trademarks and tradenames – indefinite useful lives	10	—	—	—	10
Non-compete agreements (accumulated amortization of \$2 and \$2 as of December 3, 2016 and February 27, 2016, respectively)	3	—	—	—	3
Total intangible assets	144	2	—	(1)	145
Accumulated amortization	(97)	(7)	—	—	(104)
Total intangible assets, net	<u>\$ 47</u>				<u>\$ 41</u>

During the third quarter of fiscal 2017, the Company conducted an interim impairment review of the carrying value of the Company's reporting units in conjunction with its impairment review of Save-A-Lot’s goodwill and due to declines in sales and cash flows within Retail. The review indicated that the estimated fair value of the Wholesale reporting unit was in excess of 100 percent of its carrying value. The review also indicated that the carrying value of the Retail reporting unit exceeded its estimated fair value, as determined utilizing the income approach and market approach. As a result, the Company performed the step 2 assessment and recorded a non-cash goodwill impairment charge of \$15 in the Retail segment during the third quarter of fiscal 2017. The calculation of the impairment charge contains significant judgments and estimates including weighted average cost of capital, future revenue, profitability, cash flows and fair values of assets and liabilities.

During the third quarter of fiscal 2016, the Company received a notice pursuant to which the Company could exercise certain options to purchase operating assets. As a result, the Company performed a review of the associated indefinite-lived intangible assets for impairment, which indicated the carrying value of the intangible exceeded its estimated value. The Company recorded a non-cash intangible impairment charge of \$6 within its Wholesale segment during the third quarter of fiscal 2016.

Amortization of intangible assets with definite useful lives was \$7 and \$8 for fiscal 2017 and 2016 year-to-date, respectively. Future amortization expense is anticipated to approximate \$2, and \$9, \$5, \$3, \$3 and \$2 for the remainder of fiscal 2017, and fiscal 2018, 2019, 2020, 2021 and 2022, respectively.

**NOTE 4—RESERVES FOR CLOSED PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT-RELATED IMPAIRMENT CHARGES**

*Reserves for Closed Properties*

Changes in the Company’s reserves for closed properties consisted of the following:

	December 3, 2016 (40 weeks)
Reserves for closed properties at beginning of the fiscal year	\$ 29
Additions	3
Payments	(8)
Adjustments	(2)
Reserves for closed properties at the end of period	<u>\$ 22</u>

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*Property, Plant and Equipment-Related Impairment Charges*

The following table presents impairment charges related to property, plant and equipment measured at fair value on a non-recurring basis:

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Property, plant and equipment:				
Carrying value	\$ —	\$ 1	\$ 4	\$ 1
Fair value measured using Level 3 inputs	—	—	2	—
Impairment charge	\$ —	\$ 1	\$ 2	\$ 1

**NOTE 5—FAIR VALUE MEASUREMENTS**

Recurring fair value measurements were as follows:

Balance Sheet Location	December 3, 2016			Total	
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Deferred compensation	Other assets	\$ 5	\$ —	\$ —	\$ 5
Total		\$ 5	\$ —	\$ —	\$ 5

<b>Liabilities:</b>					
Deferred compensation	Other current liabilities	\$ —	\$ 7	\$ —	\$ 7
Deferred compensation	Other long-term liabilities	—	27	—	27
Diesel fuel derivatives	Other current liabilities	—	—	—	—
Interest rate swap derivative	Other current liabilities	—	3	—	3
Interest rate swap derivative	Other long-term liabilities	—	2	—	2
Total		\$ —	\$ 39	\$ —	\$ 39

Balance Sheet Location	February 27, 2016			Total	
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Deferred compensation	Other assets	\$ 6	\$ —	\$ —	\$ 6
Total		\$ 6	\$ —	\$ —	\$ 6

<b>Liabilities:</b>					
Deferred compensation	Other current liabilities	\$ —	\$ 7	\$ —	\$ 7
Deferred compensation	Other long-term liabilities	—	33	—	33
Diesel fuel derivatives	Other current liabilities	—	2	—	2
Interest rate swap derivative	Other current liabilities	—	3	—	3
Interest rate swap derivative	Other long-term liabilities	—	3	—	3
Total		\$ —	\$ 48	\$ —	\$ 48

*Diesel Fuel Derivatives*

Fuel derivative gains (losses) are included within Cost of sales in the Condensed Consolidated Statements of Operations and were \$0 and \$(0) for the third quarters of fiscal 2017 and 2016, and \$0 and \$(2) for fiscal 2017 and 2016 year-to-date, respectively.

[Table of Contents](#)*Interest Rate Swap Derivatives*

Interest rate swap derivative reclassifications from Accumulated other comprehensive loss into earnings are recorded within Interest expense, net in the Condensed Consolidated Statements of Operations and were \$2 and \$0 in the third quarters of fiscal 2017 and 2016, and \$3 and \$0 for fiscal 2017 and 2016 year-to-date, respectively. No amounts were reclassified related to hedging ineffectiveness.

As of December 3, 2016, a 100 basis point increase in forward LIBOR interest rates would increase the fair value of the interest rate swap by approximately \$6 and a 100 basis point decrease in forward LIBOR interest rates would decrease the fair value of the interest rate swap by approximately \$2.

*Non-recurring Fair Value Measurements*

Impairment charges related to goodwill and intangible assets discussed in Note 3—Goodwill and Intangible Assets and to property, plant and equipment discussed in Note 4—Reserves for Closed Properties and Property, Plant and Equipment-related Impairment Charges were measured at fair value using Level 3 inputs.

*Fair Value Estimates*

For certain of the Company's financial instruments, including cash and cash equivalents, receivables, accounts payable, accrued salaries and other current assets and liabilities, the fair values approximate carrying amounts due to their short maturities.

The estimated fair value of notes receivable was greater than their carrying amount by approximately \$1 and \$1 as of December 3, 2016 and February 27, 2016, respectively. Notes receivable are valued based on a discounted cash flow approach applying a market rate for similar instruments that is determined using Level 3 inputs.

The estimated fair value of the Company's long-term debt was greater than the carrying amount, excluding debt financing costs, by approximately \$2 as of December 3, 2016 and less than the carrying amount, excluding debt financing costs, by approximately \$236 as of February 27, 2016. The estimated fair value was based on market quotes, where available, or market values for similar instruments, using Level 2 and Level 3 inputs.

**NOTE 6—LONG-TERM DEBT**

The Company's long-term debt consisted of the following:

	December 3, 2016	February 27, 2016
5.50% Secured Term Loan Facility due March 2019	\$ 1,356	\$ 1,459
6.75% Senior Notes due June 2021	400	400
7.75% Senior Notes due November 2022	350	350
1.69% to 3.75% Revolving ABL Credit Facility due February 2021	260	138
Debt financing costs, net	(37)	(45)
Original issue discount on debt	(2)	(5)
Total debt	<u>2,327</u>	<u>2,297</u>
Less current maturities of long-term debt	<u>(1,066)</u>	<u>(100)</u>
Long-term debt	<u>\$ 1,261</u>	<u>\$ 2,197</u>

The Company's credit facilities and certain long-term debt agreements have restrictive covenants and cross-default provisions, which generally provide, subject to the Company's right to cure, for the acceleration of payments due in the event of a breach of a covenant or a default in the payment of a specified amount of indebtedness due under certain other debt agreements. The Company was in compliance with all such covenants and provisions for all periods presented.

*Senior Secured Credit Agreements*

As of December 3, 2016 and February 27, 2016, the Company had outstanding borrowings of \$1,356 and \$1,459, respectively, under its \$1,500 term loan facility (the "Secured Term Loan Facility"), which is secured by substantially all of the Company's real estate, equipment and certain other assets, and bears interest at the rate of LIBOR plus 4.50 percent subject to a floor on LIBOR of 1.00 percent. As of December 3, 2016, \$832 of the Secured Term Loan Facility and the related debt financing costs and original issue discount were classified as current based on the prepayments that were required with the Net Cash Proceeds (as defined in the facility) from the disposition of the Save-A-Lot business, as discussed below. As of December 3, 2016, \$260

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of the Company's \$1,000 asset-based revolving ABL credit facility (the "Revolving ABL Credit Facility") and the related debt financing costs were classified as current based on the Company's agreement with the Pension Benefit Guaranty Corporation ("PBGC") to repay any outstanding balance under this facility from the Sale proceeds and the Company's subsequent such repayment. As of February 27, 2016, \$102 of the Secured Term Loan Facility was classified as current, excluding debt financing costs and original issue discount.

The Secured Term Loan Facility is guaranteed by the Company's material subsidiaries (together with the Company, the "Term Loan Parties"). To secure their obligations under the Secured Term Loan Facility, the Term Loan Parties have granted a perfected first-priority security interest in substantially all of their intellectual property and a first-priority mortgage lien and security interest in certain owned or ground-leased real estate and associated equipment pledged as collateral. As of December 3, 2016, there was \$778 of owned or ground-leased real estate and associated equipment pledged as collateral, \$497 of which was included in Property, plant and equipment, net and \$281 of which was included in Long-term assets of discontinued operations in the Condensed Consolidated Balance Sheets. As of February 27, 2016, there was \$781 of owned or ground-leased real estate and associated equipment pledged as collateral, \$507 of which was included in Property, plant and equipment, net and \$274 of which was included in Long-term assets of discontinued operations in the Condensed Consolidated Balance Sheets. In addition, the obligations of the Term Loan Parties under the Secured Term Loan Facility are secured by second-priority security interests in the collateral securing the Revolving ABL Credit Facility.

On May 20, 2016, the Company entered into a third amendment to the Secured Term Loan Facility (the "Third Term Loan Amendment") that would permit the Company and its subsidiaries to undertake certain transactions reasonably determined by the Company to be necessary to effectuate a separation of the Save-A-Lot business. The Third Term Loan Amendment also increased the interest rate for the term loan from LIBOR plus 3.50 percent to LIBOR plus 4.50 percent with the floor on LIBOR remaining at 1.00 percent, subject to a further increase of 0.25 percent if certain rating conditions are not satisfied. During first quarter ended June 18, 2016, in connection with the completion of the Third Term Loan Amendment, the Company paid debt financing costs of approximately \$5, of which \$4 was capitalized and \$1 was expensed in Interest expense, net, and recognized non-cash charges of approximately \$3 in Interest expense, net for the write-off of existing unamortized debt financing costs and \$1 for the accelerated amortization of original issue discount.

The loans under the Secured Term Loan Facility may be voluntarily prepaid in certain minimum principal amounts, subject to the payment of breakage or similar costs. Pursuant to the Secured Term Loan Facility, the Company must, subject to certain customary reinvestment rights, apply 100 percent of Net Cash Proceeds (as defined in the facility) from certain types of asset sales (excluding proceeds of the collateral security of the Revolving ABL Credit Facility and other secured indebtedness) to prepay the loans outstanding under the Secured Term Loan Facility. The Company must also prepay loans outstanding under the facility no later than 90 days after the fiscal year end in an aggregate principal amount equal to a percentage (which percentage ranges from 0 to 50 percent depending on the Company's Total Secured Leverage Ratio (as defined in the facility) as of the last day of such fiscal year) of Excess Cash Flow (as defined in the facility) for the fiscal year then ended minus any voluntary prepayments made during such fiscal year with Internally Generated Cash (as defined in the facility). Based on the Company's Excess Cash Flow in fiscal 2016, a \$99 prepayment was required and paid in the first quarter ended June 18, 2016. Based on the Company's estimated Total Secured Leverage Ratio (as defined in the facility) as of the last day of fiscal 2017, no prepayment from Excess Cash Flow in fiscal 2017 is expected to be required in the first quarter of fiscal 2018.

The Company consummated the Sale of its Save-A-Lot business during the fourth quarter of fiscal 2017. Pursuant to the Secured Term Loan Facility, the Company made prepayments in an aggregate amount of \$832 towards the Secured Term Loan Facility, which represents \$750 plus 50% of the Net Cash Proceeds in excess of \$750 that caused the Company's Total Secured Leverage Ratio, on a pro forma basis after giving effect to such prepayment, to be no higher than 1.50:1.00. In connection with these mandatory prepayments, the Company will recognize non-cash charges of approximately \$10 in Interest expense, net for the write-off of existing unamortized debt financing costs and \$2 for the accelerated amortization of original issue discount based on the aggregate amount of the prepayments in the fourth quarter of fiscal 2017. Additionally, the security interests in the equity interests of Moran Foods and the Save-A-Lot assets were released under the Secured Term Loan Facility and the Revolving ABL Credit Facility at the time of the Sale.

As of December 3, 2016 and February 27, 2016, there were \$260 and \$138, respectively, of outstanding borrowings under the Revolving ABL Credit Facility. As of December 3, 2016, letters of credit outstanding under the Revolving ABL Credit Facility were \$65 at fees of 1.375 percent, and the unused available credit under this facility was \$675 with facility fees of 0.25 percent. As of February 27, 2016, letters of credit outstanding under the Revolving ABL Credit Facility were \$69 at fees of 1.625 percent, and the unused available credit under this facility was \$744 with facility fees of 0.25 percent. As of December 3, 2016, the Revolving ABL Credit Facility was secured on a first-priority basis by \$1,078 of certain inventory assets included in Inventories, net, \$246 of certain receivables included in Receivables, net, \$21 of certain amounts included in Cash and cash equivalents and all of the Company's pharmacy scripts included in Intangible assets, net and \$340 of certain amounts included in Current assets of discontinued operations in the Condensed Consolidated Balance Sheets. As of February 27, 2016, the

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Revolving ABL Credit Facility was secured on a first-priority basis by \$931 of certain inventory assets included in Inventories, net, \$222 of certain receivables included in Receivables, net, \$16 of certain amounts included in Cash and cash equivalents and all of the Company's pharmacy scripts included in Intangible assets, net and \$314 of certain amounts included in Current assets of discontinued operations in the Condensed Consolidated Balance Sheets.

The revolving loans under the Revolving ABL Credit Facility may be voluntarily prepaid in certain minimum principal amounts, in whole or in part, without premium or penalty, subject to breakage or similar costs. The Company and those subsidiaries named as borrowers under the Revolving ABL Credit Facility are required to repay the revolving loans in cash and provide cash collateral under this facility to the extent that the revolving loans and letters of credit exceed the lesser of the borrowing base then in effect or the aggregate amount of the lenders' commitments under the Revolving ABL Credit Facility. During fiscal 2017 year-to-date, the Company borrowed \$2,837 and repaid \$2,715 under its Revolving ABL Credit Facility. During fiscal 2016 year-to-date, the Company borrowed \$234 and repaid \$234 under its Revolving ABL Credit Facility. Certain of the Company's material subsidiaries are co-borrowers under the Revolving ABL Credit Facility, and this facility is guaranteed by the rest of the Company's material subsidiaries (the Company and those subsidiaries named as borrowers and guarantors under the Revolving ABL Credit Facility, the "ABL Loan Parties"). To secure their obligations under this facility, the ABL Loan Parties have granted a perfected first-priority security interest for the benefit of the facility lenders in their present and future inventory, credit card, wholesale trade, pharmacy and certain other receivables, prescription files and related assets. In addition, the obligations under the Revolving ABL Credit Facility are secured by second-priority liens on and security interests in the collateral securing the Secured Term Loan Facility, subject to certain limitations to ensure compliance with the Company's outstanding debt instruments and leases.

Both the Secured Term Loan Facility and the Revolving ABL Credit Facility limit the Company's ability to make Restricted Payments (as defined in both the Secured Term Loan Facility and the Revolving ABL Credit Facility), which include dividends to stockholders. The Secured Term Loan Facility caps the aggregate amount of Restricted Payments that may be made over the life of the Secured Term Loan Facility. That aggregate cap can fluctuate over time and the cap could be reduced by certain other actions taken by the Company, including certain debt prepayments and Permitted Investments (as defined in the Secured Term Loan Facility). As of December 3, 2016, the aggregate cap on Restricted Payments was approximately \$398. The Revolving ABL Credit Facility permits dividends up to \$75 per fiscal year, not to exceed \$175 in the aggregate over the life of the Revolving ABL Credit Facility as long as no Cash Dominion Event (as defined in the Revolving ABL Credit Facility) exists. Those caps could be reduced by certain debt prepayments made by the Company. The Revolving ABL Credit Facility permits other Restricted Payments as long as the Payment Conditions (as defined in the Revolving ABL Credit Facility) are met.

### *Debentures*

The \$400 of 6.75 percent Senior Notes due June 2021 and the \$350 of 7.75 percent Senior Notes due November 2022 contain operating covenants, including limitations on liens and on sale and leaseback transactions. The Company was in compliance with all such covenants and provisions for all periods presented.

## **NOTE 7—INCOME TAXES**

Fiscal 2017 and 2016 year-to-date tax provision included \$12 and \$3 of net discrete tax benefit, respectively.

The Company anticipates the utilization of capital loss carryforwards and the release of valuation allowances of approximately \$255 to \$275 in the fourth quarter of fiscal 2017 in relation to the sale of Save-A-Lot.

## **NOTE 8—STOCK-BASED AWARDS**

The Company recognized pre-tax stock-based compensation expense (included primarily in Selling and administrative expenses in the Condensed Consolidated Statements of Operations) related to stock options, restricted stock units, restricted stock awards and performance share units (collectively referred to as "stock-based awards") of \$5, \$5, \$13 and \$17 for the third quarters of fiscal 2017 and 2016, and for fiscal 2017 and 2016 year-to-date, respectively.

### *Stock Options*

In April 2016 and April 2015, the Company granted 1 and 4 non-qualified stock options, respectively, to certain employees under the Company's 2012 Stock Plan with weighted average grant date fair values of \$2.67 per share and \$3.67 per share, respectively. The stock options vest over a period of three years and were awarded as part of a broad-based employee incentive program designed to retain and motivate employees across the Company.

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The Company used the Black-Scholes option pricing model to estimate the fair value of the options at grant date based upon the following assumptions:

	Year-To-Date Ended	
	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Dividend yield	—%	—%
Volatility rate	54.2%	49.0—50.6%
Risk-free interest rate	1.3%	1.2—1.4%
Expected life	5.0 years	4.0—5.0 years

*Restricted Stock and Restricted Stock Units*

In fiscal 2017 year-to-date, the Company granted 4 restricted stock units ("RSUs") to certain employees under the 2012 Stock Plan. The RSUs vest over a three year period from the date of the grant and were granted at a fair value of \$5.64 per unit. In fiscal 2016 year-to-date, the Company granted 2 restricted stock awards ("RSAs") to certain employees under the 2012 Stock Plan. The RSAs vest over a three year period from the date of grant and were granted at a fair value of \$8.79 per award.

*Performance Share Units*

In fiscal 2017 year-to-date, the Company granted 1 performance share units ("PSUs") to certain employees under the 2012 Stock Plan. The PSUs have a fiscal 2017-2019 performance period and settle in shares of the Company's stock. The Company used the Monte Carlo method to estimate the fair value of the PSUs at grant date based upon the following assumptions:

	Year-To-Date Ended
	December 3, 2016 (40 weeks)
Dividend yield	—%
Volatility rate	41.3%
Risk-free interest rate	0.9%
Expected life	2.8 years

**NOTE 9—BENEFIT PLANS**

Net periodic benefit expense (income) and contributions for defined benefit pension and other postretirement benefit plans consisted of the following:

	Third Quarter Ended			
	Pension Benefits		Other Postretirement Benefits	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)
Interest cost	\$ 20	\$ 24	\$ —	\$ 1
Expected return on assets	(33)	(32)	—	—
Amortization of prior service benefit	—	—	(2)	(4)
Amortization of net actuarial loss	10	18	—	1
Pension settlement charge	41	—	—	—
Net periodic benefit expense (income)	\$ 38	\$ 10	\$ (2)	\$ (2)
Contributions to benefit plans	\$ —	\$ —	\$ —	\$ —

	Year-To-Date Ended			
	Pension Benefits		Other Postretirement Benefits	
	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Interest cost	\$ 66	\$ 81	\$ 1	\$ 3
Expected return on assets	(110)	(108)	—	—
Amortization of prior service benefit	—	—	(10)	(12)
Amortization of net actuarial loss	34	60	1	4
Pension settlement charge	41	—	—	—
Net periodic benefit expense (income)	\$ 31	\$ 33	\$ (8)	\$ (5)
Contributions to benefit plans	\$ (2)	\$ (27)	\$ —	\$ (11)

#### *Multiemployer Pension Plans*

During fiscal 2017 and 2016 year-to-date, the Company contributed \$31 and \$31, respectively, to various multiemployer pension plans, primarily defined benefit pension plans, under collective bargaining agreements.

#### *Pension Contributions*

No minimum contributions are required to the Company's pension plans in fiscal 2017 in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Company anticipates fiscal 2017 discretionary pension contributions and required minimum other postretirement benefit plan contributions will be approximately \$30 to \$35. In connection with the Sale, the Company entered into an agreement with the PBGC under which, among other things, the Company has agreed to make certain contributions to its qualified pension plan (the "SUPERVALU Retirement Plan") in excess of any required minimum contributions. Subsequent to December 3, 2016, the Company contributed \$25 to the SUPERVALU Retirement Plan pursuant to the agreement with the PBGC. In addition, under this same agreement with the PBGC, the Company is obligated to make additional payments of \$25 and \$10 on or before March 1, 2017 and November 15, 2017, respectively.

#### *Lump Sum Pension Settlements*

During the third quarter of fiscal 2017, the Company made lump sum settlement payments to certain deferred vested pension plan participants under a lump sum payment option window. The payments were equal to the present value of the participant's pension benefits, and were made to certain former employees who were deferred vested participants in the SUPERVALU Retirement Plan, who had not yet begun receiving monthly pension benefit payments and who elected to participate in the lump sum payment option window. In fiscal 2017 year-to-date, the SUPERVALU Retirement Plan made lump sum settlement payments of approximately \$195. The lump sum settlement payments resulted in a non-cash pension settlement charge of \$41 from the acceleration of a portion of the accumulated unrecognized actuarial loss. As a result of the lump sum settlements, the SUPERVALU Retirement Plan assets and liabilities were re-measured at December 3, 2016 using a discount rate of 4.1 percent, an expected rate of return on plan assets of 6.5 percent and the RP-2014 Generational Mortality Table. The settlement and subsequent re-measurement resulted in a decrease to accumulated other comprehensive loss of \$145 pre-tax (\$98 after-tax) and a corresponding improvement to the SUPERVALU Retirement Plan's unfunded status.

#### **NOTE 10—NET (LOSS) EARNINGS PER SHARE**

Basic net (loss) earnings per share is calculated using net (loss) earnings attributable to SUPERVALU INC. divided by the weighted average number of shares outstanding during the period. Diluted net (loss) earnings per share is similar to basic net (loss) earnings per share except that the weighted average number of shares outstanding is computed after giving effect to the dilutive impacts of stock-based awards, if any.

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The following table reflects the calculation of basic and diluted net (loss) earnings per share:

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Net (loss) earnings from continuing operations	\$ (11)	\$ 16	\$ 21	\$ 54
Less net earnings attributable to noncontrolling interests	(1)	(1)	(3)	(6)
Net (loss) earnings from continuing operations attributable to SUPERVALU INC.	(12)	15	18	48
(Loss) income from discontinued operations, net of tax	(14)	19	33	78
Net (loss) earnings attributable to SUPERVALU INC.	\$ (26)	\$ 34	\$ 51	\$ 126
Weighted average number of shares outstanding—basic	265	264	265	263
Dilutive impact of stock-based awards	—	4	2	5
Weighted average number of shares outstanding—diluted	265	268	267	268
Basic net (loss) earnings per share attributable to SUPERVALU INC.:				
Continuing operations	\$ (0.04)	\$ 0.05	\$ 0.07	\$ 0.18
Discontinued operations	\$ (0.06)	\$ 0.07	\$ 0.12	\$ 0.30
Basic net (loss) earnings per share	\$ (0.10)	\$ 0.13	\$ 0.19	\$ 0.48
Diluted net (loss) earnings per share attributable to SUPERVALU INC.:				
Continuing operations	\$ (0.04)	\$ 0.05	\$ 0.07	\$ 0.18
Discontinued operations	\$ (0.06)	\$ 0.07	\$ 0.12	\$ 0.29
Diluted net (loss) earnings per share	\$ (0.10)	\$ 0.13	\$ 0.19	\$ 0.47

Stock-based awards of 17 and 12 that were outstanding during the third quarters of fiscal 2017 and 2016, respectively, were excluded from the calculation of diluted net (loss) earnings per share from continuing operations for the periods because their inclusion would be antidilutive. Stock-based awards of 16 and 10 were outstanding during fiscal 2017 and 2016 year-to-date, respectively, but were excluded from the calculation of diluted net (loss) earnings per share from continuing operations for the periods because their inclusion would be antidilutive.

**NOTE 11—COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS**

The Company reports comprehensive income in the Condensed Consolidated Statements of Comprehensive Income. Comprehensive income includes all changes in stockholders' deficit during the reporting period, other than those resulting from investments by and distributions to stockholders. The Company's comprehensive income is calculated as net (loss) earnings including noncontrolling interests, plus or minus adjustments for pension and other postretirement benefit obligations, net of tax, and changes in the fair value of cash flow hedges, net of tax, less comprehensive income attributable to noncontrolling interests.

Accumulated other comprehensive loss represents the cumulative balance of other comprehensive income (loss), net of tax, as of the end of the reporting period and relates to pension and other postretirement benefit obligation adjustments, net of tax, and unrealized losses on cash flow hedges, net of tax.

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Changes in Accumulated other comprehensive loss by component for fiscal 2017 year-to-date are as follows:

	Benefit Plans	Interest Rate Swap	Total
Accumulated other comprehensive loss at beginning of the fiscal year, net of tax	\$ (418)	\$ (4)	\$ (422)
Other comprehensive loss before reclassifications <sup>(1)</sup>	69	—	69
Amortization of amounts included in net periodic benefit cost <sup>(2)</sup>	15	—	15
Amortization of cash flow hedge <sup>(3)</sup>	—	2	2
Pension settlement charge <sup>(4)</sup>	29	—	29
Net current-period Other comprehensive income <sup>(5)</sup>	113	2	115
Accumulated other comprehensive loss at the end of period, net of tax	<u>\$ (305)</u>	<u>\$ (2)</u>	<u>\$ (307)</u>

(1) Amount is net of tax expense of \$33, \$0 and \$33, respectively.  
(2) Amount is net of tax expense of \$10, \$0 and \$10, respectively.  
(3) Amount is net of tax expense of \$0, \$1 and \$1, respectively.  
(4) Amount is net of tax expense of \$12, \$0 and \$12, respectively.  
(5) Amount is net of tax expense of \$55, \$1 and \$56, respectively.

Changes in Accumulated other comprehensive loss by component for fiscal 2016 year-to-date are as follows:

	Benefit Plans	Interest Rate Swap	Total
Accumulated other comprehensive loss at beginning of the fiscal year, net of tax	\$ (423)	\$ —	\$ (423)
Other comprehensive loss before reclassifications <sup>(1)</sup>	18	(2)	16
Amortization of amounts included in net periodic benefit cost <sup>(2)</sup>	32	—	32
Net current-period Other comprehensive income (loss) <sup>(3)</sup>	50	(2)	48
Accumulated other comprehensive loss at the end of period, net of tax	<u>\$ (373)</u>	<u>\$ (2)</u>	<u>\$ (375)</u>

(1) Amount is net of tax expense (benefit) of \$9, \$(1) and \$8, respectively.  
(2) Amount is net of tax expense of \$20, \$0 and \$20, respectively.  
(3) Amount is net of tax expense (benefit) of \$29, \$(1) and \$28, respectively.

Items reclassified out of Accumulated other comprehensive loss had the following impact on the Condensed Consolidated Statements of Operations:

	Third Quarter Ended		Year-To-Date Ended		Affected Line Item on Condensed Consolidated Statements of Operations
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	
<b>Pension and postretirement benefit plan obligations:</b>					
Amortization of amounts included in net periodic benefit expense <sup>(1)</sup>	\$ 7	\$ 13	\$ 23	\$ 46	Selling and administrative expenses
Amortization of amounts included in net periodic benefit expense <sup>(1)</sup>	1	2	2	6	Cost of sales
Pension settlement charge	41	—	41	—	Selling and administrative expenses
Total reclassifications	49	15	66	52	
Income tax benefit	(16)	(6)	(22)	(20)	Income tax provision
Total reclassifications, net of tax	<u>\$ 33</u>	<u>\$ 9</u>	<u>\$ 44</u>	<u>\$ 32</u>	
<b>Interest rate swap cash flow hedge:</b>					
Reclassification of cash flow hedge	\$ 2	\$ —	\$ 3	\$ —	Interest expense, net
Income tax benefit	(1)	—	(1)	—	Income tax provision
Total reclassifications, net of tax	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	

(1) Amortization of amounts included in net periodic benefit expense include amortization of prior service benefit and amortization of net actuarial loss as reflected in Note 9 — Benefit Plans.

As of December 3, 2016, the Company expects to reclassify \$3 out of Accumulated other comprehensive loss into Interest expense, net during the following twelve month period.

## **NOTE 12—COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS**

### *Guarantees and Contingent Liabilities*

The Company has outstanding guarantees related to certain leases, fixture financing loans and other debt obligations of various retailers as of December 3, 2016. These guarantees were generally made to support the business growth of wholesale customers. The guarantees are generally for the entire terms of the leases or other debt obligations with remaining terms that range from less than one year to fifteen years, with a weighted average remaining term of approximately eight years. For each guarantee issued, if the wholesale customer or other third party defaults on a payment, the Company would be required to make payments under its guarantee. Generally, the guarantees are secured by indemnification agreements or personal guarantees of the wholesale customer.

The Company reviews performance risk related to its guarantee obligations based on internal measures of credit performance. As of December 3, 2016, the maximum amount of undiscounted payments the Company would be required to make in the event of default of all guarantees was \$60 (\$48 on a discounted basis). Based on the indemnification agreements, personal guarantees and results of the reviews of performance risk, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote. Accordingly, no amount has been recorded in the Condensed Consolidated Balance Sheets for these contingent obligations under the Company's guarantee arrangements.

The Company is contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. The Company could be required to satisfy the obligations under the leases if any of the assignees are unable to fulfill their lease obligations. Due to the wide distribution of the Company's lease assignments among third parties, and various other remedies available, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote.

The Company is a party to a variety of contractual agreements under which it may be obligated to indemnify the other party for certain matters in the ordinary course of business, which indemnities may be secured by operation of law or otherwise. These agreements primarily relate to the Company's commercial contracts, service agreements, contracts entered into for the purchase and sale of stock or assets, operating leases and other real estate contracts, financial agreements, agreements to provide services to the Company and agreements to indemnify officers, directors and employees in the performance of their work. While the Company's aggregate indemnification obligation could result in a material liability, the Company is not aware of any matters that are expected to result in a material liability.

Following the sale of New Albertson's, Inc. ("NAI") on March 21, 2013, the Company remains contingently liable with respect to certain self-insurance commitments and other guarantees as a result of parental guarantees issued by SUPERVALU with respect to the obligations of NAI that were incurred while NAI was a subsidiary of the Company. As of December 3, 2016, using actuarial estimates as of June 30, 2016, the total undiscounted amount of all such guarantees was estimated at \$121 (\$109 on a discounted basis). Based on the expected settlement of the self-insurance claims that underlie the Company's commitments, the Company believes that such contingent liabilities will continue to decline. Subsequent to the sale of NAI, NAI collateralized most of these obligations with letters of credit and surety bonds to numerous states. Because NAI remains a primary obligor on these self-insurance and other obligations and has collateralized most of the self-insurance obligations for which the Company remains contingently liable, the Company believes that the likelihood that it will be required to assume a material amount of these obligations is remote. Accordingly, no amount has been recorded in the Condensed Consolidated Balance Sheets for these guarantees.

### *Agreements with Save-A-Lot and Onex*

The Merger Agreement contains customary indemnification obligations of each party with respect to breaches of their respective representations, warranties and covenants, and certain other specified matters, on the terms and subject to the limitations set forth in the Merger Agreement. Similarly, the Separation Agreement contains indemnification obligations and covenants related to the separation of the assets and liabilities of the Save-A-Lot business from the Company. Pursuant to the Services Agreement, the Company is providing Save-A-Lot various technical, human resources, finance and other operational services for a term of five years, subject to termination provisions that can be exercised by each party. The Services Agreement generally requires each party to indemnify the other party against third-party claims arising out of the performance of or the provision or receipt of services under the Services Agreement. While the Company's aggregate indemnification obligations to Save-A-Lot and Onex could result in a material liability, the Company is not aware of any matters that are expected to result in a material liability.

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### *Agreements with AB Acquisition LLC and Affiliates*

In connection with the sale of NAI, the Company entered into various agreements with AB Acquisition LLC and its affiliates related to on-going operations, including a Transition Services Agreement with each of NAI and Albertson's LLC (collectively, the "TSA") and operating and supply agreements. At the time of the sale of NAI, these arrangements had initial terms ranging from 12 months to five years, and are generally subject to renewal upon mutual agreement by the parties thereto and also include termination provisions that can be exercised by each party. On September 6, 2016, NAI and Albertson's LLC each notified the Company that it was again exercising its right to renew the term of their respective Transition Services Agreement for an additional year. Pursuant to this notice, each TSA will now expire on September 21, 2018 unless renewed again by notice given no later than September 21, 2017. In addition, the Company operates a distribution center owned by NAI.

On April 16, 2015, the Company entered into a letter agreement pursuant to which the Company is providing services to NAI and Albertson's LLC as needed to transition and wind down the TSA. In exchange for these transition and wind down services, the Company is entitled to receive eight payments of approximately \$6 every six months for aggregate fees of \$50. These payments are separate from and incremental to the fixed and variable fees the Company receives under the TSA. The Company estimates that the complete transition and wind down of the TSA could take approximately two to three more years.

On May 28, 2015, the Company entered into a letter agreement with NAI and Albertson's LLC pursuant to which the Company received certain additional rights and benefits, and the Company and NAI and Albertson's LLC (and certain of their affiliates, including Safeway, with respect to provisions of the letter agreement applicable to them) agreed to resolve several issues. Among other matters resolved, NAI, Albertson's LLC and AB Acquisition agreed to no longer challenge, and waive all rights relating to, the Company's filing with the IRS in fiscal 2015 for a change in accounting method for NAI and its subsidiaries pursuant to the tangible property repair regulations. In consideration for the granting of the additional rights and benefits to the Company and the resolution of the various matters under the letter agreement, the Company paid \$35 to AB Acquisition, the parent entity of NAI and Albertson's LLC.

### *Haggen*

The Company entered into a transition services agreement with Haggen in December 2014 (the "Haggen TSA") to provide certain services to 164 stores owned and being acquired by Haggen in five states. The Company also entered into a supply agreement with Haggen to supply goods and products to Haggen stores in Washington and Oregon. On September 8, 2015, Haggen filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Through the bankruptcy process, Haggen has now closed or sold all 164 stores. The transition and wind down of the Haggen TSA and supply agreement occurred in the second quarter of fiscal 2017, with the Company now providing limited services in connection with the wind down of the Haggen estate. The Company filed approximately \$2 of administrative 503(b)(9) priority claims and approximately \$8 of unsecured claims with the bankruptcy court, including a number of contingent claims. On September 30, 2016, the bankruptcy court approved settlement agreements resolving the Company's unsecured claims against Haggen. In accordance with the terms of the settlement agreements, the Company received approximately \$3 from Haggen on October 11, 2016, and it anticipates Haggen will make further payments of approximately \$2 on account of the Company's claims. Pursuant to the settlement agreement, Haggen has agreed not to pursue claw-backs of any transfers made to the Company. The Company could be exposed to claims from third parties from which the Company sourced products, services, licenses and similar benefits on behalf of Haggen. The Company has reserved for probable losses related to a portion of these claims and receivables. It is reasonably possible that the Company could experience losses in excess of the amount of such reserves; however, at this time the Company cannot reasonably estimate a range of such excess losses because of the factual and legal issues related to whether the Company would have liability for any such third-party claims, if such third-party claims were asserted against the Company.

### *Information Technology Intrusions*

**Computer Network Intrusions** – In fiscal 2015, the Company announced it had experienced two separate criminal intrusions into the portion of its computer network that processes payment card transactions for some of its owned and franchised retail stores, including some of its associated stand-alone liquor stores. An investigation of those intrusions supported by third-party data forensics experts is ongoing. Given the continuing nature of the investigation, it is possible that it will be determined that information was stolen from the Company during one or both of these intrusions, or that new or different time frames, locations, at-risk data, and/or other facts will be identified in the future.

Some stores owned and operated by Albertson's LLC and NAI experienced related criminal intrusions. The Company provides information technology services to these Albertson's LLC and NAI stores pursuant to the TSA, and the Company has been working together with Albertson's LLC and NAI to respond to the intrusions into their stores. The Company believes that any losses incurred by Albertson's LLC or NAI as a result of the intrusions affecting their stores would not be the Company's responsibility.

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**Investigations and Proceedings** – As a result of the criminal intrusions, the payment card brands are conducting investigations and, although the Company’s network has previously been found to be compliant with applicable data security standards, the forensic investigator working on behalf of the payment card brands has concluded that the Company was not in compliance at the time of the intrusions and that the alleged non-compliance caused at least some portion of the compromise of payment card data that allegedly occurred during the intrusions. On August 1, 2016, MasterCard provided notice of its assessment of non-ordinary course expenses and incremental counterfeit fraud losses allegedly incurred by it or its issuers as a result of the criminal intrusions. On September 1, 2016, the Company submitted an appeal of the assessment to MasterCard and, while the Company continues to believe that the assessment is without merit, the Company believes that a settlement with MasterCard is probable. On December 5, 2016, MasterCard denied the appeal and imposed a reduced assessment. The Company expects the other payment card brands to also allege that the Company was not compliant with the applicable data security standards at the time of the intrusions and that such alleged non-compliance caused the compromise of payment card data during the intrusions. The Company believes these payment card brands will also make claims against the Company for non-ordinary course operating expenses and incremental counterfeit fraud losses allegedly incurred by them or their issuers by reason of the intrusions and the Company expects to dispute those claims. While the Company does not believe that a loss is probable by reason of these as yet unasserted claims, the Company believes that a loss in connection with these claims, should they be asserted, is reasonably possible; however, at this time the Company cannot reasonably estimate a range of possible losses because the payment card brands’ investigation is ongoing and the payment card brands have not alleged what payment cards they consider to have been compromised, what data from those cards they consider to have been compromised, or the amount of their and/or their issuers’ claimed losses. Similar to the assessment imposed by MasterCard, the Company does not currently believe that any amount that may be paid for other payment card brand claims that might be asserted will be material to the Company’s consolidated results of operations, cash flows or financial condition. In addition, one payment card brand has placed the Company in a “probationary status” for a period of two years following the Company’s re-validation as PCI-DSS compliant, during which time the Company’s failure to comply with the probationary requirements set forth by the payment card brand could result in the imposition of further conditions, including but not limited to disqualification from the payment system. The Company does not anticipate material costs to comply with the probationary requirements.

On October 23, 2015, the Company received a letter from a multistate group of Attorneys General seeking information regarding the intrusions. The Company is cooperating with the request. To date, no claims have been asserted against the Company related to this inquiry. If any claims are asserted, the Company expects to dispute those claims.

As discussed in more detail below in this Note 12 under *Legal Proceedings*, four class action complaints related to the intrusions have been filed against the Company and consolidated into one action and are currently pending. As indicated below, the Company believes that the likelihood of a material loss from the four class actions is remote. It is possible that other similar complaints by consumers, banks or others may be filed against the Company in connection with the intrusions.

**Insurance Coverage and Expenses** – The Company had \$50 of cyber threat insurance above a per incident deductible of \$1 at the time of the intrusions, which it believes should mitigate the financial effect of these intrusions, including claims made or that might be made against the Company based on these intrusions. The Company now maintains \$90 of cyber threat insurance above a per incident deductible of approximately \$3, in each case subject to certain sublimits.

### *Other Contractual Commitments*

In the ordinary course of business, the Company enters into supply contracts to purchase products for resale and purchase and service contracts for fixed asset and information technology commitments. These contracts typically include either volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations. As of December 3, 2016, the Company had approximately \$275 of non-cancelable future purchase obligations.

### *Legal Proceedings*

The Company is subject to various lawsuits, claims and other legal matters that arise in the ordinary course of conducting business. In the opinion of management, based upon currently available facts, the likelihood that the ultimate outcome of any lawsuits, claims and other proceedings will have a material adverse effect on the overall results of the Company’s operations, its cash flows or its financial position is remote.

In September 2008, a class action complaint was filed against the Company, as well as International Outsourcing Services, LLC (“IOS”); Inmar, Inc.; Carolina Manufacturer’s Services, Inc.; Carolina Coupon Clearing, Inc. and Carolina Services in the United States District Court in the Eastern District of Wisconsin. The plaintiffs in the case are a consumer goods manufacturer, a grocery co-operative and a retailer marketing services company that allege on behalf of a purported class that the Company and the other defendants (i) conspired to restrict the markets for coupon processing services under the Sherman Act and (ii) were part of an illegal enterprise to defraud the plaintiffs under the Federal Racketeer Influenced and Corrupt Organizations Act. The plaintiffs seek monetary damages, attorneys’ fees and injunctive relief. The Company intends to vigorously defend

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this lawsuit; however, all proceedings have been stayed in the case pending the result of the criminal prosecution of certain former officers of IOS.

In December 2008, a class action complaint was filed in the United States District Court for the Western District of Wisconsin against the Company alleging that a 2003 transaction between the Company and C&S Wholesale Grocers, Inc. (“C&S”) was a conspiracy to restrain trade and allocate markets. In the 2003 transaction, the Company purchased certain assets of the Fleming Corporation as part of Fleming Corporation’s bankruptcy proceedings and sold certain assets of the Company to C&S that were located in New England. Three other retailers filed similar complaints in other jurisdictions and the cases were consolidated and are proceeding in the United States District Court in Minnesota. The complaints allege that the conspiracy was concealed and continued through the use of non-compete and non-solicitation agreements and the closing down of the distribution facilities that the Company and C&S purchased from each other. Plaintiffs are seeking monetary damages, injunctive relief and attorneys’ fees. On July 5, 2011, the District Court granted the Company’s Motion to Compel Arbitration for those plaintiffs with arbitration agreements and plaintiffs appealed. On July 16, 2012, the District Court denied plaintiffs’ Motion for Class Certification and on January 11, 2013, the District Court granted the Company’s Motion for Summary Judgment and dismissed the case regarding the non-arbitration plaintiffs. On February 12, 2013, the 8th Circuit reversed the District Court decision requiring plaintiffs with arbitration agreements to arbitrate and remanded to the District Court. On October 30, 2013, the parties attended a District Court ordered mandatory mediation, which was not successful in resolving the matter. On May 21, 2014, a panel of the 8th Circuit (1) reversed the District Court’s decision granting summary judgment in favor of the Company, and (2) affirmed the District Court’s decision denying class certification of a class consisting of all retailers located in the States of Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio and Wisconsin that purchased wholesale grocery products from the Company between December 31, 2004 and September 13, 2008, but remanded the case for the District Court to consider whether to certify a narrower class of purchasers supplied from the Company’s Champaign, Illinois distribution center and potentially other distribution centers. On June 19, 2015, the District Court Magistrate Judge entered an order that decided a number of matters including granting plaintiffs’ request to seek class certification for certain Midwest Distribution Centers and denying plaintiffs’ request to add an additional New England plaintiff and denying plaintiffs’ request to seek class certification for a group of New England retailers. On August 20, 2015, the District Court affirmed the Magistrate Judge’s order. In September 2015, the plaintiffs appealed to the 8th Circuit the denial of the request to add an additional New England plaintiff and to seek class certification for a group of New England retailers and the hearing before the 8th Circuit occurred on May 17, 2016. On March 1, 2016, the plaintiffs filed a class certification motion seeking to certify five District Court classes of retailers in the Midwest and the Company filed its response on May 6, 2016. On September 7, 2016, the District Court granted plaintiffs’ motion to certify five Midwest distribution center classes, only one of which is suing the Company (the non-arbitration Champaign distribution center class). On September 21, 2016, the Company filed a petition with the 8th Circuit seeking permission to file an interlocutory appeal of the class certification decision, which was denied by the 8th Circuit on November 17, 2016. The District Court has ordered a mandatory settlement conference for February 14-15, 2017. The Company continues to vigorously defend this lawsuit. Due to the mandatory settlement conference, it is probable that the parties will engage in settlement negotiations as required by the District Court, which may result in a settlement of the matter. However, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter due to the procedural status of the case and the lack of a formal demand on the Company by the plaintiffs.

In August and November 2014, four class action complaints were filed against the Company relating to the criminal intrusions into its computer network announced by the Company in fiscal 2015 (the “Criminal Intrusion”). The cases were centralized in the Federal District Court for the District of Minnesota under the caption *In Re: SUPERVALU Inc. Customer Data Security Breach Litigation*. On June 26, 2015, the plaintiffs filed a Consolidated Class Action Complaint. The Company filed a Motion to Dismiss the Consolidated Class Action Complaint and the hearing took place on November 3, 2015. On January 7, 2016, the District Court granted the Motion to Dismiss and dismissed the case without prejudice, holding that the plaintiffs did not have standing to sue as they had not met their burden of showing any compensable damages. On February 4, 2016, the plaintiffs filed a motion to vacate the District Court’s dismissal of the complaint or in the alternative to conduct discovery and file an amended complaint, and the Company filed its response in opposition on March 4, 2016. On April 20, 2016, the District Court denied plaintiffs’ motion to vacate the District Court’s dismissal or in the alternative to amend the complaint. On May 18, 2016, plaintiffs appealed to the 8th Circuit and on May 31, 2016, the Company filed a cross-appeal to preserve its additional arguments for dismissal of the plaintiffs’ complaint. To date, no hearing date has been set for the 8th Circuit argument.

On June 30, 2015, the Company received a letter from the Office for Civil Rights of the U.S. Department of Health and Human Services (“OCR”) seeking documents and information regarding the Company’s HIPAA breach notification and reporting from 2009 to the present. The letter indicates that the OCR Midwest Region is doing a compliance review of the Company’s alleged failure to report small breaches of protected health information related to its pharmacy operations (e.g., any incident involving less than 500 individuals). On September 4, 2015, the Company submitted its response to OCR’s letter. While the Company does not believe that a loss is probable by reason of the compliance review, the Company believes that a loss is reasonably possible; however, at this time the Company cannot estimate a range of possible losses because the OCR’s review is at the early

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stages and the Company does not know if OCR will find a violation(s) and, if so, what violation(s) and whether OCR will proceed with corrective action, issuance of penalties or monetary settlement. The potential penalties related to the issues being investigated are up to \$50 thousand per violation (which can be counted per day) with a \$1.5 per calendar year maximum for multiple violations of a single provision (with the potential for finding violations of multiple provisions each with a separate \$1.5 per calendar year maximum); however, as noted above, any actual penalties will be determined only after consideration by OCR of various factors, including the nature of any violation, remedial actions taken by the Company and other factors determined relevant by OCR.

On September 21, 2016, the Company received an administrative subpoena issued by the Drug Enforcement Administration (“DEA”) on September 9, 2016. In addition to requesting information on the Company's pharmacy policies and procedures generally, the subpoena also requested the production of documents that are required to be kept and maintained by the Company pursuant to the Controlled Substances Act and its implementing regulations. On November 23, 2016, the Company responded to the subpoena and is cooperating fully with DEA. While the Company cannot predict the outcome of this matter at this time, the Company does not believe that a monetary loss is probable. However, the Company believes that a monetary loss is reasonably possible, but cannot estimate the amount of any such loss as the Company does not know what violation(s) the DEA will find and whether the DEA will pursue corrective action or monetary penalties.

Predicting the outcomes of claims and litigation and estimating related costs and exposures involves substantial uncertainties that could cause actual outcomes, costs and exposures to vary materially from current expectations. The Company regularly monitors its exposure to the loss contingencies associated with these matters and may from time to time change its predictions with respect to outcomes and its estimates with respect to related costs and exposures.

With respect to the IOS, Criminal Intrusion and OCR matters discussed above, the Company believes the chance of a material loss is remote. It is possible, although management believes that the likelihood is remote, that material differences in actual outcomes, costs and exposures relative to current predictions and estimates, or material changes in such predictions or estimates, could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**NOTE 13—SEGMENT INFORMATION**

Refer to the Condensed Consolidated Segment Financial Information for the Company's segment information.

**NOTE 14—DISCONTINUED OPERATIONS**

The Company determined that the Save-A-Lot business met the criteria to be held-for-sale and classified as a discontinued operation during the third quarter of fiscal 2017. The Save-A-Lot business was previously disclosed as a separate reporting segment of the Company. The assets, liabilities, operating results, and cash flows of the Save-A-Lot business as provided under the Merger Agreement and the Separation Agreement have been presented separately as discontinued operations in the Condensed Consolidated Financial Statements for all periods presented. In addition, discontinued operations include the results of operations and cash flows attributed to the assets and liabilities of the NAI business.

The major classes of operating results classified as discontinued operations within the Condensed Consolidated Statements of Operations were as follows:

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Net sales	\$ 1,038	\$ 1,069	\$ 3,529	\$ 3,567
Cost of sales	874	905	2,969	3,016
Gross profit	164	164	560	551
Selling and administrative expenses	135	129	454	430
Goodwill impairment charge	37	—	37	—
Operating (loss) earnings	(8)	35	69	121
Interest expense (income), net	—	—	1	(6)
(Loss) earnings from discontinued operations before income taxes	(8)	35	68	127
Income tax provision	6	16	35	49
(Loss) income from discontinued operations, net of tax	\$ (14)	\$ 19	\$ 33	\$ 78

The carrying amounts of major classes of assets and liabilities that were classified as discontinued operations on the Condensed Consolidated Balance Sheets were as follows:

	December 3, 2016	February 27, 2016
<b>Current assets</b>		
Cash and cash equivalents	\$ 17	\$ 15
Receivables, net	37	45
Inventories, net	321	298
Other current assets	19	18
<b>Total current assets of discontinued operations</b>	<b>394</b>	<b>376</b>
<b>Long-term assets</b>		
Property, plant and equipment, net	473	460
Goodwill	106	142
Intangible assets, net	8	8
Deferred tax assets	(8)	(10)
Other assets	12	13
<b>Total long-term assets of discontinued operations</b>	<b>591</b>	<b>613</b>
<b>Total assets of discontinued operations</b>	<b>\$ 985</b>	<b>\$ 989</b>
<b>Current liabilities</b>		
Accounts payable	\$ 244	\$ 289
Accrued vacation, compensation and benefits	35	34
Current maturities of capital lease obligations	1	1
Other current liabilities	25	22
<b>Total current liabilities of discontinued operations</b>	<b>305</b>	<b>346</b>
<b>Long-term liabilities</b>		
Long-term capital lease obligations	9	9
Long-term tax liabilities	7	6
Other long-term liabilities	29	27
<b>Total long-term liabilities of discontinued operations</b>	<b>45</b>	<b>42</b>
<b>Total liabilities of discontinued operations</b>	<b>350</b>	<b>388</b>
<b>Net assets of discontinued operations</b>	<b>\$ 635</b>	<b>\$ 601</b>

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*Gain on Sale*

The Company will record a gain on the Sale in an amount the Company estimates to be between \$560 and \$580 in the fourth quarter of fiscal 2017, which will be classified within discontinued operations. Income taxes on the gain are estimated to be recorded at a significantly reduced effective rate due to the anticipated utilization of capital loss carryforwards and the release of valuation allowances of approximately \$255 to \$275.

*Impairment Charge*

Prior to the classification of the Save-A-Lot business as held-for-sale, the Company assessed the carrying value of the Save-A-Lot business for impairment in accordance with generally accepted accounting principles to determine if the carrying value of the Save-A-Lot assets exceeded their estimated fair value, prior to measuring the held-for-sale business at fair value less cost to sell. The carrying value of the total net assets of the Save-A-Lot reporting units were compared to their estimated fair value based on the proceeds expected to be received pursuant to the Merger Agreement. The Company's review of goodwill indicated that the estimated fair value of the Save-A-Lot licensee distribution reporting unit was in excess of its carrying value, but that the carrying value of the Save-A-Lot corporate stores reporting unit exceeded its estimated fair value. The Company recorded a non-cash goodwill impairment charge of \$37 before tax during the third quarter of fiscal 2017, which was included as a component of (Loss) income from discontinued operations, net of tax, resulting from a decline in discounted cash flows under the income approach and indicated reporting unit fair values under the market approach. The calculation of the impairment charge contains significant judgments and estimates including weighted average cost of capital, future revenue, profitability, cash flows and fair values of assets and liabilities.

**NOTE 15—SUBSEQUENT EVENTS**

Refer to Note 1—Summary of Significant Accounting Policies, Note 6—Long-Term Debt and Note 14—Discontinued Operations for the Company's subsequent events information related to sale of the Save-A-Lot business.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### (Dollars and shares in millions, except per share data)

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q, the information contained under the caption "Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act" in this Quarterly Report on Form 10-Q and the information in the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016.

The results of operations, financial position and cash flows of Save-A-Lot are reported as discontinued operations for all periods presented.

### EXECUTIVE OVERVIEW

#### Third Quarter of Fiscal 2017 Highlights

Financial highlights for the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 include:

- Net sales were \$3,003, a decrease of \$42 or 1.4 percent, primarily due to lost Wholesale customers, lower identical store sales in our Retail business, lower sales to existing Wholesale customers, lower sales from closed Retail stores and lower fees under transition services agreements, offset in part by higher sales to new Wholesale customers and new stores operated by Wholesale customers, and higher sales from acquired and new Retail stores. Wholesale sales increased over last year.
- Gross profit was \$407, a decrease of \$29 or 6.7 percent, which reflects lower sales in our Retail business, lower fees under transition services agreements and higher employee-related costs.
- Operating earnings were \$1, a decrease of \$65, which reflects \$48 of higher charges and costs compared to last year, primarily due to a pension settlement charge and a goodwill impairment charge in the third quarter, offset by an intangible asset impairment charge and severance costs last year. When adjusted for these items (refer to the Operating Earnings section below for descriptions of these charges and costs), Operating earnings decreased by \$17, primarily due to the impact of lower sales in our Retail business, lower fees under transition services agreements and higher employee-related costs, partially offset by lower pension expense.

#### Year-To-Date Fiscal 2017 Highlights

Financial highlights for the year-to-date period of fiscal 2017 compared to the year-to-date period of fiscal 2016 include:

- Net sales were \$9,573, a decrease of \$443 or 4.4 percent, primarily due to lost Wholesale customers, lower identical store sales in our Retail business, lower sales to existing Wholesale customers and lower sales from closed Retail stores, offset in part by higher sales from new and acquired Retail stores, and new Wholesale customers and stores.
- Gross profit was \$1,352, a decrease of \$91 or 6.3 percent, which reflects declines in Retail and Wholesale sales, lower fees under transition services agreements and lower base margins, offset in part by higher vendor allowances.
- Operating earnings were \$148, a decrease of \$75, which reflects \$36 of higher net charges and costs compared to last year, primarily due to a pension settlement charge, a goodwill impairment charge and store closure charges and costs, offset by a supply agreement termination fee and other items, this year-to-date, offset by an intangible asset impairment charge and severance costs last year. When adjusted for these items (refer to the Operating Earnings section below for descriptions of these charges and costs), Operating earnings decreased \$39, primarily due to lower gross profit from decreased sales and lower base margins, partially offset by lower pension expense and higher vendor allowances.
- Net cash provided by operating activities of continuing operations was \$147, a decrease of \$7, primarily due to lower cash generated from earnings, partially offset by lower contributions to benefit plans.
- Net cash used in investing activities of continuing operations was \$136, a decrease of \$5, and included a decrease in cash paid for other intangible assets, offset in part by an increase in cash paid for business combinations and capital expenditures.
- Net cash used in financing activities of continuing operations was \$8, a decrease of \$25, primarily due to lower net payments on debt and capital lease obligations than last year.

#### Business Strategies and Initiatives

The Company's vision, which has and will continue to guide its strategic and operational decisions, is to become the leading distributor of consumable products and provider of services to retailers in the United States. Initiatives in each of the Company's segments include:

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### Wholesale:

- Retaining our existing customers by continuing to differentiate ourselves through our service levels, product offerings and growing professional services offerings, including administrative back-office solutions
- Targeting sales growth by continuing to affiliate new customers, including larger chain businesses, and more aggressively pursuing external growth and market opportunities
- Driving sales to existing customers with a sales-driven culture, emphasizing fresh product offerings, such as produce, and by enhancing the Company's professional services offerings, including merchandise and promotional planning, design and administrative back-office solutions
- Improving the efficiency of the Company's operations, including its information technology infrastructure and maximizing the use of trucking miles and warehouse capacity
- Strengthening core merchandising and marketing programs, including leveraging the Company's private-label programs, such as the Essential Everyday® and Equaline® labels, while marketing and adding depth to the Wild Harvest® and Culinary Circle® brands

### Retail:

- Driving profitable sales by investing in price and promotions, and enhancing product offerings and merchandising displays
- Driving improved store performance, including reducing inventory shrink rates and levels of out-of-stocks, through standardizing certain store processes
- Continued development and introduction of the Company's private-label product offerings, including organic products, by providing innovative products in multiple channels across Retail and Wholesale
- Investing capital on new stores, relocations and targeted store remodels

### Corporate:

- Continued management of the Company's overhead cost structure to enable investments in lower prices to customers
- Providing high-quality administrative support services by enhancing the Company's service offerings and information technology systems

### Recent Developments

In fiscal 2017 year-to-date, the Company has affiliated several large Wholesale customers through long-term supply agreements:

- In November 2016, the Company entered into a long-term supply agreement to serve as a grocery wholesaler and distributor to America's Food Basket, a regional cooperative that serves 47 neighborhood stores located primarily in New York and parts of New England. The Company expects to begin transitioning stores in the fourth quarter of fiscal 2017 and into the first quarter of fiscal 2018.
- The Company expects to begin transitioning the over 170 stores operated by The Fresh Market in late February 2017 under the long-term supply agreement that the Company entered into with The Fresh Market in August 2016.
- The Company has completed the transition of and is now supplying approximately 70 Marsh Supermarkets and O'Malia Food Markets under the long-term supply agreement the Company entered into with Marsh Supermarkets in August 2016.

In September 2016, the Company paid \$17 to acquire 22 Food Lion stores located in northern West Virginia, western Maryland, south central Pennsylvania and northwestern Virginia. The acquisition included certain store assets, including inventories, property, plant, and equipment, and capital and operating leases. The acquired stores were converted to the Company's Shop 'N Save format that is currently used by some of the Company's Wholesale customers in that region and are now included in the Company's Retail segment.

### **Sale of Save-A-Lot**

On December 5, 2016, the Company completed the previously announced sale of the Company's Save-A-Lot business (the "Sale") to SAL Acquisition Corp (f/k/a Smith Acquisition Corp), an affiliate of Onex Partners Managers LP ("Purchaser"), for a purchase price of \$1,365 in cash, subject to customary closing adjustments that were estimated at the time of the Sale to reduce the purchase price by approximately \$64. The Sale was completed pursuant to the terms of the Agreement and Plan of Merger, dated as of October 16, 2016 (the "Merger Agreement"), by and among Purchaser, SAL Merger Sub Corp (f/k/a Smith Merger Sub Corp), a newly formed wholly owned subsidiary of the Purchaser, the Company and Moran Foods, LLC, a wholly owned subsidiary of the Company prior to the Sale ("Moran Foods"). Concurrently with entering into the Merger Agreement, the Company and Moran Foods also entered into a Separation Agreement (the "Separation Agreement") pursuant to which, among other things, the assets and liabilities of the Save-A-Lot business were transferred to and assumed by Moran Foods prior to the completion of the Sale. As contemplated by the Merger Agreement, in connection with the completion of the Sale, on December 5, 2016, the Company and Moran Foods entered into a Services Agreement (the "Services Agreement"), whereby the Company is providing certain professional services to Save-A-Lot for a period of five years, on and subject to the terms and conditions set forth therein. The results of operations, financial position and cash flows of Save-A-Lot are reported as discontinued operations for all periods presented.

The Company used a portion of the cash proceeds, net of transaction-related fees, expenses and taxes, to make a mandatory prepayment of \$832 against the Company's outstanding balance under its Secured Term Loan Facility, which brought the Company's Total Secured Leverage Ratio, on a pro forma basis giving effect to such prepayment, to be no higher than 1.50:1.00. The Company also used a portion of the net cash proceeds from the Sale to repay the outstanding balance under its Revolving ABL Credit Facility and to make a \$25 contribution to the SUPERVALU Retirement Plan as required under the agreement the Company entered into with the Pension Benefit Guaranty Corporation ("PBGC") in connection with the Sale. The Sale provides additional financial flexibility for the Company to further improve its capital structure, as well as to fund corporate and growth initiatives.

The Company will record a gain on the Sale in an amount the Company estimates to be between \$560 and \$580 in the fourth quarter of fiscal 2017, which will be classified within discontinued operations. Income taxes on the gain are estimated to be recorded at a significantly reduced effective rate due to the anticipated utilization of capital loss carryforwards and the release of valuation allowances of approximately \$255 to \$275.

The Company assessed the carrying value of its assets held-for-sale for impairment and determined the carrying value of the Save-A-Lot corporate stores reporting unit was in excess of its fair value. As a result, the Company recorded a non-cash impairment charge of \$37.

### **Impact of Inflation and Deflation**

The Company monitors product cost inflation and deflation and evaluates whether to absorb cost increases or decreases, or pass on pricing changes. The Company has experienced a mix of inflation and deflation across product categories within its business segments during the third quarter of fiscal 2017.

In aggregate across all of the Company's businesses and taking into account the mix of products, management estimates the Company's businesses experienced low single digit cost deflation in the third quarter of fiscal 2017. Wholesale and Retail sustained higher levels of cost deflation within the meat and egg product categories. Cost deflation estimates are based on individual like items sold by the Company during the periods being compared.

Changes in merchandising, customer buying habits and competitive pressures create inherent difficulties in measuring the impact of inflation and deflation on Net sales and Gross profit.

### **Competitive Environment**

The United States grocery channel is highly competitive and management expects operating results will continue to be impacted by the effects of operating in a highly competitive and price-sensitive marketplace. In fiscal 2017 year-to-date, the Company's Retail segment has been impacted to a greater degree than anticipated by price competition, competitive store openings and a challenging sales and operating environment. These factors affecting the Retail segment are expected to impact the fourth quarter of fiscal 2017 as well.

**Professional Services**

The Company is focused on driving professional services sales to existing and new customers through enhanced offerings. The Company offers a broad range of services that can be designed to meet a customer's unique needs. The Company's services include retail store support, advertising, couponing, e-Commerce, network and data hosting solutions, consulting on cyber security issues, training and certifications classes, as well as administrative back-office solutions.

In connection with the completion of the Sale, on December 5, 2016, the Company and Moran Foods entered into a Services Agreement whereby the Company is providing certain technical, human resources, finance and other operational services to Save-A-Lot for a term of five years, on the terms and subject to the conditions set forth therein. Moran Foods paid the Company \$30 upon entry into the Services Agreement, which will be credited against fees due under the Services Agreement. The initial annual base charge under the Services Agreement is \$30 million, subject to adjustments. Pursuant to this Services Agreement, Save-A-Lot may also request new services through the "change control" procedures described therein, and the Company may also agree to conduct non-recurring projects for Save-A-Lot pursuant to project orders.

The Company provides back-office administrative support services under the TSA with NAI and Albertson's LLC and is also providing services as needed to transition and wind down the TSA with NAI and Albertson's LLC. The Company estimates that the complete transition and wind down of the TSA with NAI and Albertson's LLC could take approximately two to three more years. In September 2016, NAI and Albertson's LLC each notified the Company that it was again exercising its right to renew the term of their respective TSA for an additional year, which extended the expiration date of the NAI and Albertson's LLC TSA to September 21, 2018, unless renewed again by notice given no later than September 21, 2017.

In connection with Haggen's bankruptcy process, Haggen has now closed or sold all 164 of its stores. The transition and wind down of the Haggen transition services agreement occurred in the second quarter of fiscal 2017, with the Company now providing limited services in connection with the wind down of the Haggen estate.

**RESULTS OF OPERATIONS**

The following table summarizes operating data the Company believes is important to its business:

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
<b>Results of Operations</b>				
Net sales	\$ 3,003	\$ 3,045	\$ 9,573	\$ 10,016
Cost of sales	2,596	2,609	8,221	8,573
Gross profit	407	436	1,352	1,443
Selling and administrative expenses	391	364	1,189	1,214
Goodwill and intangible asset impairment charges	15	6	15	6
Operating earnings	1	66	148	223
Interest expense, net	40	45	141	148
Equity in earnings of unconsolidated affiliates	(1)	(1)	(3)	(3)
(Loss) earnings from continuing operations before income taxes	(38)	22	10	78
Income tax provision	(27)	6	(11)	24
Net (loss) earnings from continuing operations	(11)	16	21	54
(Loss) income from discontinued operations, net of tax	(14)	19	33	78
Net (loss) earnings including noncontrolling interests	(25)	35	54	132
Less net earnings attributable to noncontrolling interests	(1)	(1)	(3)	(6)
Net (loss) earnings attributable to SUPERVALU INC.	\$ (26)	\$ 34	\$ 51	\$ 126
Diluted continuing operations net (loss) earnings per share attributable to SUPERVALU INC.	\$ (0.04)	\$ 0.05	\$ 0.07	\$ 0.18
Weighted average shares outstanding—diluted	265	268	267	268
<b>Other Statistics of Continuing Operations</b>				
Depreciation and amortization	\$ 48	\$ 49	\$ 159	\$ 161
Capital expenditures <sup>(1)</sup>	\$ 60	\$ 55	\$ 134	\$ 123
Adjusted EBITDA <sup>(2)</sup>	\$ 107	\$ 125	\$ 359	\$ 400
<b>Financial Position of Continuing Operations</b>				
Working capital <sup>(3)</sup>			\$ (618)	\$ 117
Total assets <sup>(4)</sup>			\$ 3,489	\$ 3,653
Total debt and capital lease obligations <sup>(5)</sup>			\$ 2,545	\$ 2,704
<b>Stores Supplied and Operated:</b>				
Wholesale primary stores			1,850	1,871
Retail stores			217	200
Subtotal			2,067	2,071
Wholesale secondary stores <sup>(6)</sup>			237	224
Total number of stores			2,304	2,295

- (1) Capital expenditures include cash payments for purchases of property, plant and equipment and non-cash capital lease additions, and exclude cash payments for business acquisitions.
- (2) Adjusted EBITDA is a non-GAAP financial measure that the Company provides as a supplement to its results of operations and related analysis, and should not be considered superior to, a substitute for or an alternative to any financial measure of performance prepared and presented in accordance with GAAP. Refer to the “Non-GAAP Financial Measures” section below for additional information regarding the Company’s use of non-GAAP financial measures.
- (3) Working capital of continuing operations is calculated using the first-in, first-out method for inventories, after adding back the last-in, first-out method (“LIFO”) reserve. The LIFO reserve was \$218 and \$217 as of December 3, 2016 and December 5, 2015, respectively. Working capital of discontinued operations was \$89 and \$94 as of December 3, 2016 and December 5, 2015, respectively.
- (4) Total assets of continuing operations are calculated as Total assets of the Company excluding current assets and long-term assets of discontinued operations. Total assets of discontinued operations were \$985 and \$990 as of December 3, 2016 and December 5, 2015, respectively.
- (5) Total debt and capital lease obligations are calculated as Total debt and capital lease obligations of the Company excluding Total debt and capital leases from discontinued operations of \$10 and \$10 as of December 3, 2016 and December 5, 2015, respectively.
- (6) Wholesale secondary stores is defined as a customer location that falls under a certain dollar threshold of Wholesale sales for each of the last three fiscal periods in a given quarter.

**Third Quarter of Fiscal 2017 and Fiscal 2017 Year-to-Date**

The following discussion summarizes operating results for the third quarter and fiscal 2017 year-to-date compared to the comparative fiscal 2016 periods:

**Net Sales**

The following table outlines the composition of and variances in Net sales:

	Third Quarter Ended			Year-To-Date Ended		
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	Variance	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	Variance
Wholesale	\$ 1,906	\$ 1,902	\$ 4	\$ 5,912	\$ 6,195	\$ (283)
Retail	1,060	1,097	(37)	3,524	3,662	(138)
Corporate	37	46	(9)	137	159	(22)
Total Net sales	\$ 3,003	\$ 3,045	\$ (42)	\$ 9,573	\$ 10,016	\$ (443)

*Third Quarter Variances*

Wholesale's net sales increased primarily due to \$147 from increased sales to new customers and new stores operated by existing customers, and \$9 of higher other revenue, offset in part by \$111 of lost sales to stores the Company no longer supplies, including lost primary stores for which the Company continues to supply certain product categories, \$27 of lower sales to existing customers and \$14 of lower military sales. Lost sales to stores the Company no longer supplies include Haggen, a partial quarter's impact from certain Albertson's LLC stores in the Southeast region that have transitioned to self-distribution and Gordy's stores.

Retail's net sales decreased primarily due to \$59 of lower sales from negative identical store sales primarily driven by lower customer counts, \$20 of lower sales from closed stores and \$3 of lower other revenue, offset in part by a \$45 sales increase from acquired and new stores.

Corporate's net sales decreased primarily due to lower fees under transition services agreements driven by a lower number of stores serviced.

*Year-To-Date Variances*

Wholesale's net sales decreased primarily due to \$438 of lost sales to stores the Company no longer supplies, including lost primary stores for which the Company continues to supply certain product categories, \$73 of lower sales to existing customers, \$41 of lower military sales and \$5 of lower other revenue, offset in part by \$274 from increased sales to new stores operated by existing customers and new customers. Lost sales to stores the Company no longer supplies include the impact of certain Albertson's LLC stores in the Southeast region that have transitioned to self-distribution and ceasing distribution to Haggen and Gordy's stores. The Company anticipates new customer sales to more than offset the existing lost business in the second half of fiscal 2017, as was seen in the third quarter of fiscal 2017.

Retail's net sales decreased primarily due to \$184 of lower sales from negative identical store sales primarily driven by lower customer counts, \$36 of lower sales from closed stores and \$14 of lower other revenue, including fuel sales, offset in part by a \$95 sales increase from new and acquired stores.

Corporate's net sales decreased primarily due to lower fees under transition services agreements from a lower number of stores serviced.

*Identical Store Sales Variances for Retail*

The following table summarizes identical store sales variances in percentages for the Company's Retail segment for the third quarter and fiscal 2017 year-to-date:

	December 3, 2016 (12 weeks)	December 3, 2016 (40 weeks)
Identical store sales percent variance <sup>(1)</sup>	(5.7)%	(5.3)%
Average basket percent variance <sup>(2)</sup>	(1.9)%	(0.9)%
Customer count percent variance <sup>(3)</sup>	(3.8)%	(4.4)%

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- (1) Retail identical store sales are defined as net sales from stores operating for four full quarters, including store expansions and excluding fuel and planned store dispositions.
- (2) Average basket is defined as the average purchases by our customers per transaction within our Retail stores operating for four full quarters, including store expansions and excluding fuel and planned store dispositions.
- (3) Customer count is defined as the number of transactions by our customers within our Retail stores operating for four full quarters, including store expansions and excluding fuel and planned store dispositions.

**Gross Profit**

The following table outlines the composition of and variances in Gross profit:

	Third Quarter Ended			Year-To-Date Ended		
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	Variance	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	Variance
Wholesale	\$ 83	\$ 94	\$ (11)	\$ 271	\$ 299	\$ (28)
% of Wholesale sales	4.4%	4.9%	(0.5)%	4.6%	4.8%	(0.2)%
Retail	288	296	(8)	944	985	(41)
% of Retail sales	27.2%	27.0%	0.2 %	26.8%	26.9%	(0.1)%
Corporate	36	46	(10)	137	159	(22)
Total Gross profit	\$ 407	\$ 436	\$ (29)	\$ 1,352	\$ 1,443	\$ (91)
% of total Net sales	13.6%	14.3%	(0.7)%	14.1%	14.4%	(0.3)%

*Third Quarter Variances*

Wholesale gross profit decreased \$11, or 50 basis points as a percentage of net sales, primarily due to \$7 of higher employee-related costs, \$4 of lower base margins and \$3 of higher logistics costs, offset in part by \$3 of lower other operating costs.

Retail gross profit decreased \$8, but increased 20 basis points as a percentage of net sales, primarily due to \$11 of lower gross profit from decreased sales and \$4 of lower base margins, offset in part by \$4 of higher vendor allowances.

Corporate gross profit decreased \$10 primarily due to a lower number of stores serviced under transition services agreements.

*Year-To-Date Variances*

Wholesale gross profit decreased \$28, or 20 basis points as a percentage of net sales, primarily due to \$36 of lower gross profit from decreased sales, \$13 of lower base margins and \$9 of higher employee-related costs, offset in part by \$16 of higher vendor allowances, \$5 of lower logistics and other operating costs, \$4 of reduced costs from incremental vendor back-haul allowances and \$3 of lower pension expense.

Retail gross profit decreased \$41, or 10 basis points as a percentage of net sales, primarily due to \$42 of lower gross profit from decreased sales and \$18 of lower base margins from strategic investments to lower prices to customers, offset in part by \$7 of higher vendor allowances, \$3 of lower inventory shrink costs, \$3 of lower employee-related costs and \$3 of lower logistics costs.

Corporate gross profit decreased \$22 primarily due to a lower number of stores serviced under transition services agreements.

**Selling and Administrative Expenses**

*Third Quarter Variances*

Selling and administrative expenses for the third quarter of fiscal 2017 were \$391 or 13.0 percent of net sales, compared with \$364 or 12.0 percent of Net sales last year, an increase of \$27 or 7.4 percent. Selling and administrative expenses for the third quarter of fiscal 2017 included a pension settlement charge of \$41 and store closure charges and costs of \$1. Selling and administrative expenses for the third quarter of fiscal 2016 included severance costs of \$2 and store closure charges and costs of \$1. When adjusted for these items, the remaining decrease of \$12 in Selling and administrative expenses is primarily due to \$12 of lower pension expense, \$4 of lower contracted services and other operating costs and \$3 of lower bad debt expense, offset in part by \$7 of higher employee wage and benefit costs.

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*Year-To-Date Variances*

Selling and administrative expenses for fiscal 2017 year-to-date were \$1,189 compared with \$1,214 last year, a decrease of \$25 or 2.1 percent. Selling and administrative expenses for fiscal 2017 year-to-date included a pension settlement charge of \$41 and store closure charges and costs of \$4, offset in part by a fee received from a supply agreement termination of \$9, a sales and use tax refund of \$2 and a severance benefit of \$1. Selling and administrative expenses for fiscal 2016 year-to-date included severance costs of \$6 and store closure charges and costs of \$1. When adjusted for these items, the remaining decrease of \$51 in Selling and administrative expenses is primarily due to \$40 of lower pension expense, \$10 of lower employee incentive compensation, \$5 of lower bad debt expense, \$5 of lower other operating costs and \$3 of lower depreciation expense, offset in part by \$10 of higher employee wages and benefit costs and \$7 of higher contracted services.

**Goodwill and Intangible Asset Impairment Charges**

During the third quarter of fiscal 2017, the Company conducted an interim impairment review of the carrying value of the Company's reporting units in conjunction with its impairment review of Save-A-Lot's goodwill and due to declines in sales and cash flows within Retail. The review indicated that the estimated fair value of the Wholesale reporting unit was in excess of 100 percent of its carrying value. The review also indicated that the carrying value of the Retail reporting unit exceeded its estimated fair value, as determined utilizing the income approach and market approach. As a result, the Company performed the step 2 assessment and recorded a non-cash goodwill impairment charge of \$15 in the Retail segment during the third quarter of fiscal 2017. The calculation of the impairment charge contains significant judgments and estimates including weighted average cost of capital, future revenue, profitability, cash flows and fair values of assets and liabilities.

During the third quarter of fiscal 2016, the Company received a notice pursuant to which the Company could exercise certain options to purchase operating assets. As a result, the Company performed a review of the associated indefinite-lived intangible assets for impairment, which indicated the carrying value of the intangible exceeded its estimated value. The Company recorded a non-cash intangible impairment charge of \$6 within its Wholesale segment during the third quarter of fiscal 2016.

**Operating Earnings**

The following table outlines the composition of and variances in Operating earnings:

	Third Quarter Ended			Year-To-Date Ended		
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	Variance	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	Variance
Wholesale	\$ 52	\$ 54	\$ (2)	\$ 174	\$ 180	\$ (6)
% of Wholesale sales	2.7 %	2.8%	(0.1)%	2.9 %	2.9%	— %
Retail	(14)	21	(35)	(18)	64	(82)
% of Retail sales	(1.3)%	2.0%	(3.3)%	(0.5)%	1.8%	(2.3)%
Corporate	(37)	(9)	(28)	(8)	(21)	13
Total Operating earnings	\$ 1	\$ 66	\$ (65)	\$ 148	\$ 223	\$ (75)
% of total Net sales	0.1 %	2.2%	(2.1)%	1.5 %	2.2%	(0.7)%

*Third Quarter Variances*

Wholesale operating earnings for the third quarter of fiscal 2017 decreased \$2, or 10 basis points as a percentage of net sales. Wholesale operating earnings for the third quarter of fiscal 2016 included an intangible asset impairment charge of \$6. When adjusted for this item, the remaining decrease of \$8 is primarily due to \$7 of higher employee-related costs, \$4 of lower base margins and \$3 of higher logistics costs, offset in part by \$3 of lower other operating costs.

Retail operating loss for the third quarter of fiscal 2017 increased \$35, or 330 basis points as a percentage of net sales. Retail operating loss for the third quarter of fiscal 2017 included a goodwill impairment charge of \$15 and store closure charges and costs of \$1. Retail operating earnings for the third quarter of fiscal 2016 included store closure charges and costs of \$1. When adjusted for these items, the remaining increase in Retail operating loss of \$20 is primarily due to \$11 of lower gross profit from decreased sales and \$7 of higher employee-related costs.

Corporate operating loss for the third quarter of fiscal 2017 increased \$28. Corporate operating loss for the third quarter of fiscal 2017 included a pension settlement charge of \$41. Corporate operating loss for the third quarter of fiscal 2016 included severance costs of \$2. When adjusted for these items, the remaining increase in Corporate operating earnings of \$11 is primarily due to \$11 of lower pension expense, \$4 of lower contracted services and other operating costs, \$3 of lower bad debt expense and \$2 of lower employee-related costs, offset in part by \$9 of lower fees under transition services agreements.

*Year-To-Date Variances*

Wholesale operating earnings for fiscal 2017 year-to-date decreased \$6, and was flat to last year as a percentage of net sales. Wholesale operating earnings for fiscal 2017 year-to-date included a fee received from a supply agreement termination of \$9. Wholesale operating earnings for fiscal 2016 year-to-date included an intangible asset impairment charge of \$6. When adjusted for these items, the remaining decrease of \$21 is primarily due to \$36 of lower gross profit from decreased sales, \$13 of lower base margins and \$9 of higher employee-related costs, offset in part by \$16 of higher vendor allowances, \$7 of lower logistics costs, \$4 of reduced costs from incremental vendor back-haul allowances, \$4 of other operating costs, \$3 of lower pension expense and \$3 of lower bad debt expense and recoveries.

Retail operating loss for fiscal 2017 year-to-date increased \$82, or 230 basis points as a percentage of net sales. Retail operating losses for fiscal 2017 year-to-date included a goodwill impairment charge of \$15 and store closure charges and costs of \$5. Retail operating earnings for fiscal 2016 year-to-date included store closure charges and costs of \$1. When adjusted for these items, the remaining decrease in Retail operating earnings of \$63 is primarily due to \$42 of lower gross profit from decreased sales, \$18 of lower base margins from a strategic investment to lower prices to customers, \$14 of higher employee-related costs and \$3 of higher occupancy costs, offset in part by \$7 of higher vendor allowances, \$4 of lower depreciation expense and \$3 of lower logistics costs.

Corporate operating loss for fiscal 2017 year-to-date decreased \$13. Corporate operating loss for fiscal 2017 year-to-date included a pension settlement charge of \$41, offset in part by a sales and use tax refund of \$2 and a severance benefit of \$1. Corporate operating loss for fiscal 2016 year-to-date included severance costs of \$6. When adjusted for these items, the remaining increase in Corporate operating earnings of \$45 is primarily due to \$38 of lower pension expense, \$17 of lower employee-related costs driven primarily by lower incentive compensation, \$7 of lower occupancy costs, \$3 of lower bad debt expense and \$3 of lower other operating expenses, offset in part by \$23 of lower fees under transition services agreements.

**Interest Expense, Net**

Interest expense, net was \$40 for the third quarter of fiscal 2017, compared with \$45 for the third quarter last year. Interest expense, net, decreased \$5 primarily due to lower average outstanding debt balances.

Interest expense, net for fiscal 2017 year-to-date was \$141, compared with \$148 for the same period last year. Interest expense, net for fiscal 2017 year-to-date included charges of \$7 related to the amendment and prepayments of the Secured Term Loan Facility, comprised of unamortized financing cost charges of \$5 and refinancing costs of \$2. When adjusted for these items, Interest expense, net decreased \$14 primarily due to lower average outstanding debt balances.

**Income Tax (Benefit) Provision**

Income tax benefit on the loss from continuing operations for the third quarter of fiscal 2017 was \$27 or 71.6 percent of loss from continuing operations before income taxes, compared with an income tax expense of \$6 or 28.4 percent of earnings from continuing operations before income taxes for the third quarter last year. The change in the effective tax rate is primarily due to the pension settlement charge, the goodwill impairment charge, lower pre-tax earnings and certain discrete deferred tax items.

Income tax benefit on earnings from continuing operations for fiscal 2017 year-to-date was \$11 or 112.6 percent of earnings from continuing operations before income taxes, compared with income tax expense of \$24 or 31.0 percent of earnings from continuing operations before income taxes last year. The change in the effective tax rate is primarily due to the pension settlement charge, the goodwill impairment charge, lower pre-tax earnings and certain discrete deferred tax items.

**Net (Loss) Earnings from Continuing Operations**

*Third Quarter Variances*

Net loss from continuing operations for the third quarter of fiscal 2017 was \$11, compared with net earnings from continuing operations of \$16 last year. Net loss from continuing operations for the third quarter of fiscal 2017 included after-tax costs and charges of \$25, comprised of a pension settlement charge of \$24, a goodwill impairment charge of \$9 and store closure charges and costs of \$1, offset in part by a deferred income tax benefit of \$9. Net earnings from continuing operations for the third quarter of fiscal 2016 included after-tax costs and charges of \$6, comprised of an intangible asset impairment charge of \$4, severance costs of \$1 and store closure charges and costs of \$1. When adjusted for these items, the remaining \$8 after-tax decrease in net earnings from continuing operations is due to the variances discussed in the Operating Earnings, Interest Expense, Net and Income Tax (Benefit) Provision sections above.

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### *Year-To-Date Variances*

Net earnings from continuing operations for fiscal 2017 year-to-date were \$21, compared with \$54 last year. Net earnings from continuing operations for fiscal 2017 year-to-date included after-tax costs and charges of \$24, comprised of a pension settlement charge of \$24 and a goodwill impairment charge of \$9, unamortized financing cost charges of \$3, store closure charges and costs of \$4 and refinancing costs of \$1, offset in part by a deferred income tax benefit of \$9, a fee received from a supply agreement termination of \$6, a sales and use tax refund of \$1 and a severance benefit of \$1. Net earnings from continuing operations for fiscal 2016 year-to-date included after-tax costs and charges of \$8, comprised of an intangible asset impairment charge of \$4, severance costs of \$3 and store closure charges and costs of \$1. When adjusted for these items, the remaining \$17 after-tax decrease is due to the variances discussed in the Operating Earnings, Interest Expense, Net and Income Tax (Benefit) Provision sections above.

### **(Loss) Income from Discontinued Operations, Net of Tax**

#### *Third Quarter Variances*

Save-A-Lot's net sales for the third quarter of fiscal 2017 were \$1,038, compared with \$1,069 last year. Net sales decreased by \$31, primarily due to lower identical licensee store sales, lower identical corporate store sales, lower sales due to closed licensee stores and lower sales due to closed corporate stores, offset in part by higher sales from new corporate stores, higher sales to new licensee stores and higher sales from corporate store conversions.

Save-A-Lot's operating loss for the third quarter of fiscal 2017 was \$8, compared with operating earnings of \$35 last year. The \$43 decrease in operating earnings is primarily due to a goodwill impairment charge and higher employee-related costs driven by new corporate stores, offset in part by higher base margins driven by higher product margin rates.

Save-A-Lot's net loss for the third quarter of fiscal 2017 was \$14, compared with net earnings of \$19 last year. This decrease in net earnings is due to the operating earnings variances discussed above after providing for the applicable tax provision.

#### *Year-To-Date Variances*

Save-A-Lot's net sales for fiscal 2017 year-to-date were \$3,529, compared with \$3,567 last year. Net sales decreased by \$38, primarily due to lower identical licensee store sales, lower identical corporate store sales, lower sales due to closed licensee stores and lower sales due to closed corporate stores, offset in part by higher sales from new corporate stores, higher sales from new licensee stores and higher sales from corporate store conversions.

Save-A-Lot's operating earnings for fiscal 2017 year-to-date were \$69, compared with \$121 last year. The \$52 decrease is primarily due to a goodwill impairment charge, higher employee-related costs driven by new corporate stores and higher inventory shrink, offset in part by higher base margins driven by higher product margin rates.

Save-A-Lot's net earnings for fiscal 2017 year-to-date were \$33, compared with \$78 last year. The \$45 decrease is due to the operating earnings variances discussed above after providing for the applicable tax provision.

Refer to Note 14—Discontinued Operations in the Notes to Condensed Consolidated Financial Statements for further information regarding these discontinued operations.

## **NON-GAAP FINANCIAL MEASURES**

### *Use of Non-GAAP Financial Measures*

The Company's Condensed Consolidated Financial Statements are prepared and presented in accordance with generally accepted accounting principles ("GAAP"). In addition to the above analysis of results of operations, the Company also considers certain non-GAAP financial measures to assess the performance of its business and understand underlying operating performance and core business trends, which it uses to facilitate operating performance comparisons of its business on a consistent basis over time. The measures and items identified below, such as Adjusted EBITDA, are provided as a supplement to the Company's results of operations and related analysis, and should not be considered superior to, a substitute for or an alternative to any financial measure of performance prepared and presented in accordance with GAAP. In each of these measures, certain items are being omitted either because they are non-cash items or are items that are not considered in the Company's supplemental assessment of on-going business performance. Certain of these adjustments are considered in similar supplemental analyses by other companies, such as Depreciation and amortization, impairment charges and certain other adjustments.

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The Company believes these non-GAAP measures are useful to investors because Adjusted EBITDA provides additional understanding of other factors and trends affecting its business, which are used in the business planning process to understand expected performance, to evaluate results against those expectations, and as one of the compensation performance measures under certain compensation programs and plans. The Company believes Adjusted EBITDA is more reflective of factors that affect its underlying operating performance and facilitate operating performance comparisons of our business segments on a consistent basis over time.

*Limitations of Use*

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. Certain adjustments to our GAAP financial measures reflected below exclude certain items that may be recurring in nature and may be reflected in the Company's financial results for the foreseeable future. These measurements and items may be different from non-GAAP financial measures used by other companies. All measurements are provided with a reconciliation from a GAAP measurement. The non-GAAP financial measures below should only be considered as an additional supplement to the Company's financial results reported in accordance with GAAP and should be reviewed in conjunction with the Company's results reported in accordance with GAAP in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016.

There are significant limitations to using Adjusted EBITDA as a financial measure including, but not limited to, it not reflecting cash expenditures for capital assets or contractual commitments, changes in working capital, income taxes and debt service expenses that are recurring in the Company's results of operations.

*Definitions*

The Company defines Adjusted EBITDA as Net (loss) earnings from continuing operations, plus Interest expense, net and Income tax (benefit) provision, less Net earnings attributable to noncontrolling interests calculated in accordance with GAAP, plus non-GAAP adjustments for Depreciation and amortization, LIFO charge (credit), certain employee-related costs and pension-related charges (including severance costs, pension settlement charges, multiemployer pension withdrawal charges, accelerated stock-based compensation charges and other items), certain non-cash asset impairment and other charges (including asset write-offs, store closures and market exits), certain gains and losses on the sale of property, goodwill and intangible asset impairment charges, costs related to the separation of businesses, legal settlement charges and gains, contract breakage costs and certain other non-cash charges or items, as determined by management.

The following table reconciles Adjusted EBITDA to Net (loss) earnings from continuing operations:

	Third Quarter Ended		Year-To-Date Ended	
	December 3, 2016 (12 weeks)	December 5, 2015 (12 weeks)	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)
Net (loss) earnings from continuing operations	\$ (11)	\$ 16	\$ 21	\$ 54
Less net earnings attributable to noncontrolling interests	(1)	(1)	(3)	(6)
Income tax (benefit) provision	(27)	6	(11)	24
Interest expense, net	40	45	141	148
Depreciation and amortization	48	49	159	161
LIFO charge	1	1	3	6
Pension settlement charge <sup>(1)</sup>	41	—	41	—
Goodwill and intangible asset impairment charges <sup>(2)</sup>	15	6	15	6
Store closure charges and costs <sup>(3)</sup>	1	1	5	1
Severance costs <sup>(4)</sup>	—	2	(1)	6
Sales and use tax refunds <sup>(5)</sup>	—	—	(2)	—
Supply agreement termination fees <sup>(6)</sup>	—	—	(9)	—
<b>Adjusted EBITDA</b>	<b>\$ 107</b>	<b>\$ 125</b>	<b>\$ 359</b>	<b>\$ 400</b>

- (1) Pension settlement charge reflects lump sum settlement payments made to certain deferred vested pension plan participants under a lump sum payment option window offered by the Company.
- (2) The goodwill impairment charge relates to the Company's Retail business as a result of an interim impairment review conducted during the third quarter of fiscal 2017. The intangible asset impairment charge relates to the Company's non-exercise of certain options to purchase operating assets.
- (3) Store closure charges and costs include impairment, severance and related costs due to store closures.
- (4) Severance costs include separation-related costs for former employees.
- (5) Sales and use tax refunds reflect refunds received related to prior years.

- (6) Supply agreement termination fees reflect cash gains related to the termination of supply agreements.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Capital Resource Highlights

- Unused available credit under the Revolving ABL Credit Facility decreased to \$675 from \$744 as of December 3, 2016 compared to February 27, 2016.
- Total debt was \$2,327 and \$2,297 as of December 3, 2016 and February 27, 2016, respectively, net of unamortized debt financing costs and original issue discount, under senior secured credit agreements and debentures.
- In connection with the sale of Save-A-Lot and subsequent to the third quarter of fiscal 2017, the Company received proceeds from the sale of approximately \$1,300 in cash, including estimated customary closing adjustments, and used the proceeds to:
  - prepay \$832 of outstanding loans under the Secured Term Loan Facility comprised of (1) 100% of the first \$750 of Net Cash Proceeds (as defined in the facility) received and (2) \$82 from 50% of the Net Cash Proceeds in excess of \$750 that were up to an aggregate amount that reduced the Company's Total Secured Leverage Ratio on a pro forma basis after giving effect to such prepayment to be no higher than 1.50:1.00;
  - contribute \$25 to the SUPERVALU Retirement Plan, and the Company is further obligated to make additional payments of \$25 and \$10 on or before March 1, 2017 and November 15, 2017, respectively, under an agreement with the PBGC; and
  - pay off the remaining balance of the Revolving ABL Credit Facility with proceeds from the sale of Save-A-Lot, bringing the unused available credit to \$841 as of December 5, 2016.
- Subsequent to the sale of Save-A-Lot and the related Secured Term Loan Facility prepayments described above, no scheduled debt maturities or required prepayments are due in the remainder of fiscal 2017.
- Payments to reduce capital lease obligations are expected to be \$4 for the remainder of fiscal 2017 and approximately \$26 in fiscal 2018.
- Working capital decreased \$866 to a working capital deficit of \$618 as of December 3, 2016 from a positive working capital of \$248 as of February 27, 2016, excluding the impacts of the LIFO reserve, primarily due to the increase in current maturities of long-term debt under the Secured Term Loan Facility and the Revolving ABL Credit Facility and higher levels of accounts payable, partially offset by higher inventories within Wholesale and Retail.
- Management expects that the Company will be able to fund debt maturities through internally generated funds, borrowings under the Revolving ABL Credit Facility, additional term loans under the Secured Term Loan Facility (subject to identifying term loan lenders or other institutional lenders and satisfying certain terms and conditions) or through new debt issuances.
- No minimum pension contributions are required under ERISA for fiscal 2017; however, the Company has agreed to make additional contributions pursuant to its agreement with the PBGC, as discussed below.

### Sources and Uses of Cash

Management expects that the Company will continue to replenish operating assets with internally generated funds and pay down debt obligations with internally generated funds and new debt issuances or existing credit facilities. A significant reduction in operating earnings or the incurrence of operating losses could have a negative impact on the Company's operating cash flow, which may limit the Company's ability to pay down its outstanding indebtedness as planned. The Company's credit facilities are secured by a substantial portion of the Company's total assets.

The Company's primary sources of liquidity are from internally generated funds and from borrowing capacity under its credit facilities. The Company will continue to obtain short-term or long-term financing from its credit facilities. Long-term financing will be maintained through existing and new debt issuances and its credit facilities. The Company's short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund debt obligations and capital expenditures as opportunities arise. There can be no assurance, however, that the Company's business will continue to generate cash flow at current levels or that it will continually have access to credit on acceptable terms. Maturities of debt issued will depend on management's views with respect to the relative attractiveness of interest rates at the time of issuance and other debt maturities.

Primary uses of cash include debt servicing and maturities, capital expenditures, working capital maintenance, contributions to various benefit plans and income tax payments. The Company's working capital needs are generally greater during the months leading up to high sales periods, such as the time period from prior to Thanksgiving through December. The Company typically finances these working capital needs with cash provided from operating activities and short-term borrowings. Inventories are managed primarily through demand forecasting and replenishing depleted inventories. Strategic and operational investments in

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the Company's businesses are funded by cash provided from operating activities and on a short-term basis through available liquidity.

The Company's continued access to short-term and long-term financing through credit markets depends on numerous factors including the condition of the credit markets and the Company's results of operations, cash flows, financial position and credit ratings.

The Company does not pay dividends, and there is no current intent to pay dividends. The Company is limited in the aggregate amount of dividends that it may pay under the terms of its Secured Term Loan Facility and its Revolving ABL Credit Facility and would need to meet certain conditions under these credit facilities before paying a dividend, as described in Note 6—Long-Term Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q. The payment of future dividends is subject to the discretion of the Company's Board of Directors and the requirements of Delaware law, and will depend on a variety of factors that the Company's Board of Directors may deem relevant.

### Cash Flow Information

The following summarizes our Condensed Consolidated Statements of Cash Flows:

	Year-To-Date Ended		
	December 3, 2016 (40 weeks)	December 5, 2015 (40 weeks)	Variance
Cash flow activities			
Net cash provided by operating activities – continuing operations	\$ 147	\$ 154	\$ (7)
Net cash used in investing activities – continuing operations	(136)	(141)	5
Net cash used in financing activities – continuing operations	(8)	(33)	25
Net cash provided by discontinued operations	4	40	(36)
Net increase in cash and cash equivalents	7	20	(13)
Cash and cash equivalents at beginning of period	57	114	(57)
Cash and cash equivalents at the end of period	\$ 64	\$ 134	\$ (70)

The decrease in net cash provided by operating activities from continuing operations in fiscal 2017 year-to-date compared to last year is primarily due to lower cash generated from earnings, offset in part by \$36 of lower contributions to benefit plans.

The decrease in net cash used in investing activities in fiscal 2017 year-to-date compared to last year includes a \$23 decrease in cash paid for other intangible assets, offset in part by a \$19 increase in cash paid for business combinations and capital expenditures.

The decrease in net cash used in financing activities in fiscal 2017 year-to-date compared to last year is primarily due to \$218 of proceeds from the increased borrowings under the Revolving ABL Credit Facility and \$3 of increased distributions to noncontrolling interests, offset in part by a \$183 net increase in cash paid towards debt and capital lease obligations and a \$7 decrease in proceeds from the sale of common stock.

The decrease in net cash provided by discontinued operations in fiscal 2017 year-to-date compared to last year is primarily due to higher levels of cash utilized in operating assets and liabilities and lower cash generated from earnings.

### Credit Facilities and Debt Agreements

Total debt and capital lease obligations, net of unamortized debt financing costs and original issue discount, increased \$31 to \$2,545 as of December 3, 2016 from \$2,514 as of February 27, 2016. The increase in total debt and capital lease obligations is primarily due to \$122 of increased borrowings under the Revolving ABL Credit Facility and \$11 of non-cash amortization and write-offs of debt financing costs and original issue discount, offset in part by a Secured Term Loan Facility excess cash flow prepayment of \$99 that was required to be paid in the first quarter of fiscal 2017.

Refer to Note 6—Long-Term Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for a detailed discussion of the provisions of the Company's credit facilities and certain long-term debt agreements and additional information.

## **Capital Expenditures**

Capital expenditures in fiscal 2017 year-to-date were \$134, including capital lease additions but excluding cash paid for business acquisitions, and primarily consisted of investments in new Retail stores, store remodels and information technology investments. In addition, during fiscal 2017 year-to-date, the Company paid \$19 for 24 acquired stores. Capital expenditures of continuing operations for fiscal 2017 are projected to be approximately \$220 to \$240, including capital lease additions.

## **Pension and Other Postretirement Benefit Obligations**

Cash contributions to defined benefit pension and other postretirement benefit plans were \$2 and \$38 in fiscal 2017 and 2016 year-to-date, respectively. The decrease in contributions is primarily due to a \$25 discretionary contribution and an \$11 contribution in connection with the closing of a postretirement benefit plan audit made in fiscal 2016 year-to-date.

No minimum contributions are required to the Company's pension plans in fiscal 2017 in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Company anticipates fiscal 2017 discretionary pension contributions and required minimum other postretirement benefit plan contributions will be approximately \$30 to \$35. In connection with the Sale, the Company entered into an agreement with the PBGC under which, among other things, the Company has agreed to make certain contributions to the "SUPERVALU Retirement Plan in excess of any required minimum contributions. Subsequent to December 3, 2016, the Company contributed \$25 to the SUPERVALU Retirement Plan pursuant to the agreement with the PBGC. In addition, under this same agreement with the PBGC, the Company is obligated to make additional payments of \$25 and \$10 on or before March 1, 2017 and November 15, 2017, respectively.

The Company funds its defined benefit pension plans based on the minimum contribution amount required under ERISA, the Pension Protection Act of 2006 and other applicable laws, as determined by the Company's external actuarial consultant, and additional contributions made at the Company's discretion. The Company may accelerate contributions or undertake contributions in excess of the minimum requirements from time to time subject to the availability of cash in excess of operating and financing needs or other factors as may be applicable. The Company assesses the relative attractiveness of the use of cash to accelerate contributions considering such factors as expected return on assets, discount rates, cost of debt, reducing or eliminating required PBGC variable rate premiums or in order to achieve exemption from participant notices of underfunding.

## **COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS**

### *Guarantees*

The Company has outstanding guarantees and is contingently liable under other contractual arrangements. See Note 12—Commitments, Contingencies and Off-Balance Sheet Arrangements under the caption "Guarantees and Contingent Liabilities" in Part I, Item I of this Quarterly Report on Form 10-Q.

### *Legal Proceedings*

The Company is a party to various legal proceedings arising from the normal course of business as described in Note 12—Commitments, Contingencies and Off-Balance Sheet Arrangements in Part I, Item I of this Quarterly Report on Form 10-Q, none of which, in management's opinion, is expected to have a material adverse impact on the Company's financial condition, results of operations or cash flows.

### *Multiemployer Pension Plans*

The Company contributes to various multiemployer pension plans, which are primarily defined benefit pension plans, under collective bargaining agreements. During fiscal 2017 and 2016 year-to-date, the Company contributed \$31 and \$31, respectively, to these multiemployer pension plans. There have been no material changes in the Company's multiemployer pension plan arrangements since the end of fiscal 2016. Refer to Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016 for information regarding these arrangements.

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*Contractual Obligations*

As a result of the sale of Save-A-Lot, the Company's contractual obligations significantly decreased. The contractual obligations in the table below reflect continuing operations contractual obligations as of December 3, 2016 after giving effect to the sale of Save-A-Lot, including the required prepayments of \$832 on the Secured Term Loan Facility and \$260 on the Revolving ABL Credit Facility from the proceeds of the Sale that were made subsequent to December 3, 2016:

	Payments Due Per Period					
	Total	Remaining Fiscal 2017	Fiscal 2018	Fiscal 2019- 2020	Fiscal 2021- 2022	Thereafter
Contractual obligations <sup>(1)(2)</sup> :						
Long-term debt <sup>(3)</sup>	\$ 1,274	\$ —	\$ —	\$ 524	\$ 400	\$ 350
Interest on long-term debt <sup>(4)</sup>	361	6	86	146	68	55
Operating leases <sup>(5)</sup>	336	11	64	107	67	87
Capital leases <sup>(6)</sup>	271	7	41	74	55	94
Purchase obligations <sup>(7)</sup>	275	107	90	58	20	—
Self-insurance obligations <sup>(8)</sup>	74	5	22	21	10	16
Total contractual obligations	<u>\$ 2,591</u>	<u>\$ 136</u>	<u>\$ 303</u>	<u>\$ 930</u>	<u>\$ 620</u>	<u>\$ 602</u>

- (1) Because the timing of future payments beyond fiscal 2018 cannot be reasonably determined, contractual obligations payments due per period presented here exclude the Company's discretionary funding of its pension and required funding of its postretirement benefit obligations, which totaled \$2 for fiscal 2017 year-to-date, and multiemployer pension plan contributions, which totaled \$31 for fiscal 2017 year-to-date. Pension and postretirement benefit obligations were \$436 as of December 3, 2016. The Company expects to contribute \$30 to \$35 to pension and postretirement benefit plans during fiscal 2017, but is not required to make minimum pension contributions. In connection with the Sale, the Company entered into an agreement with the PBGC under which, among other things, the Company has agreed to make certain contributions to its qualified pension plan (the "SUPERVALU Retirement Plan") in excess of any required minimum contributions. Subsequent to December 3, 2016, the Company contributed \$25 to the SUPERVALU Retirement Plan pursuant to the agreement with the PBGC. In addition, under this same agreement with the PBGC, the Company is obligated to make additional payments of \$25 and \$10 on or before March 1, 2017 and November 15, 2017, respectively.
- (2) Unrecognized tax benefits, which totaled \$66 as of December 3, 2016, were excluded from the contractual obligations table because an estimate of the timing of future tax settlements cannot be reasonably determined.
- (3) Long-term debt amounts exclude any original issue discounts and deferred financing costs. Long-term debt payments due per period for fiscal 2018 through thereafter exclude any Excess Cash Flow prepayments required under the provisions of the Secured Term Loan Facility because the amount of future prepayment amounts, if any, are not reasonably estimable as of December 3, 2016.
- (4) Amounts include contractual interest payments using the interest rate as of December 3, 2016 applicable to the Company's variable interest debt instruments (including variable interest rates under the Secured Term Loan Facility that have been swapped to fixed interest rates) and stated fixed rates for all other debt instruments.
- (5) Represents the minimum rents payable under operating leases, excluding common area maintenance, insurance or tax payments, for which the Company is also obligated, offset by minimum subtenant rentals of \$58, \$2, \$13, \$19, \$8 and \$16, respectively.
- (6) Represents the minimum payments under capital leases, excluding common area maintenance, insurance or tax payments, for which the Company is also obligated, offset by minimum subtenant rentals of \$21, \$1, \$5, \$5, \$4 and \$6, respectively.
- (7) The Company's purchase obligations include various obligations that have annual purchase commitments of \$1 or greater. As of December 3, 2016, future purchase obligations existed that primarily related to fixed asset and information technology commitments. In addition, in the ordinary course of business, the Company enters into supply contracts to purchase product for resale to consumers and to Wholesale customers, which are typically of a short-term nature with limited or no purchase commitments. The majority of the Company's supply contracts are short-term in nature and relate to fixed assets, information technology and contracts to purchase product for resale. These supply contracts typically include either volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations. The supply contracts that are cancelable have not been included above.
- (8) The Company's insurance reserves include the undiscounted obligations related to workers' compensation, general and automobile liabilities at the estimated ultimate cost of reported claims and claims incurred but not yet reported and related expenses.

**CRITICAL ACCOUNTING POLICIES**

There were no material changes in the Company's critical accounting policies during the period covered by this Quarterly Report on Form 10-Q. Refer to the description of critical accounting policies included in Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

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Refer to Note 1—Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q under the caption “Recently Issued Accounting Standards” for a discussion of recently issued accounting standards not yet adopted by the Company, and for which the Company is currently evaluating their impact on its financial statements.

**CAUTIONARY STATEMENTS FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT**

Any statements contained in this Quarterly Report on Form 10-Q regarding the outlook for the Company’s businesses and their respective markets, such as projections of future performance, guidance, statements of the Company’s plans and objectives, forecasts of market trends and other matters, are forward-looking statements based on the Company’s assumptions and beliefs. Such statements may be identified by such words or phrases as “will likely result,” “are expected to,” “will continue,” “outlook,” “will benefit,” “is anticipated,” “estimate,” “project,” “believes,” “intends” or similar expressions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those discussed in such statements and no assurance can be given that the results in any forward-looking statement will be achieved. For these statements, SUPERVALU INC. claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any obligation to subsequently revise any forward-looking statement to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

Certain factors could cause the Company’s future results to differ materially from those expressed or implied in any forward-looking statements contained in this report. These factors include the factors discussed in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended February 27, 2016 under the heading “Risk Factors,” the factors discussed in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading “Risk Factors,” the factors discussed below and any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statements. Since it is not possible to foresee all such factors, these factors should not be considered as complete or exhaustive.

***Competition and Execution of Operations***

- The Company’s ability to attract and retain customers, and the success of the Company’s wholesale customers and their ability to maintain and grow sales
- Increased competition resulting from consolidation and new store openings in the grocery industry, and the Company’s ability to effectively respond
- Competition from other food or drug retail chains, supercenters, hard discount, dollar stores, online retailers, non-traditional competitors and alternative formats in the Company’s markets
- Customer reaction to the increased presence of competitors, including non-traditional competitors, in the Company’s markets
- Competition for employees, store sites and products
- The ability of the Company’s Wholesale business to maintain or increase sales and profitability due to wholesaler competition, increased competition faced by customers and increased customer self-distribution
- The Company’s ability to maintain or improve levels of identical store sales and operating margins
- Changes in economic conditions or consumer preferences that affect consumer spending or buying habits
- The success of the Company’s promotional and sales programs and the Company’s ability to respond to the promotional and pricing practices of competitors
- The Company’s ability to keep pace with changing customer expectations and new developments and technology investments by competitors

***Execution of Initiatives***

- The Company’s ability to identify and effectively execute on performance improvement and customer service initiatives
- The Company’s ability to offer competitive products and services at low prices and maintain high levels of productivity and efficiency
- The ability to grow by driving sales, attracting new customers and successfully opening new locations
- The ability to successfully execute on initiatives involving acquisitions or dispositions
- The Company’s ability to continue to become a more cost-efficient organization
- The Company’s ability to respond appropriately to competitors’ initiatives
- The Company’s ability to satisfy its obligations efficiently under the Services Agreement for its former Save-A-Lot business

***Substantial Indebtedness***

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- The impact of the Company's substantial indebtedness, including the restrictive operating covenants in the underlying debt instruments, on its business and financial flexibility
- The Company's ability to comply with debt covenants or to refinance or amend the Company's debt obligations
- A downgrade in the Company's debt ratings, which may increase the cost of borrowing or adversely affect the Company's ability to access one or more financial markets
- The availability of favorable credit and trade terms

### ***Increased Employee Benefit Costs and Labor Relations***

- Increased operating costs resulting from rising employee benefit costs
- Potential increases in health plan costs resulting from health care reform
- Pension funding obligations related to current and former employees of the Company and the Company's divested operations
- Required funding of multiemployer pension plans and any withdrawal liability
- The effect of the financial condition of the Company's pension plans on the Company's debt ratings
- The Company's ability to renegotiate labor agreements with its unions
- Resolution of issues associated with rising pension, healthcare and employee benefit costs
- Potential for work disruption from labor disputes

### ***Wind Down of Relationships with Albertson's LLC, New Albertson's, Inc. ("NAI") and Haggen***

- The Company's ability to effectively manage its cost structure and identify new revenue opportunities as the Transition Services Agreement with each of Albertson's LLC and NAI (collectively, the "TSA") wind down and with the wind down of the Transition Services Agreement with Haggen in the second quarter of fiscal 2017
- The Company's ability to provide services and transition and wind down services to NAI and Albertson's LLC under the TSA and the letter agreement regarding the transition and wind down of the TSA in an efficient manner that is not disruptive to the Company, while eliminating costs directly and not directly tied to providing these services
- The Company's ability to attract and retain qualified personnel to perform services under the TSA
- The effect of the information technology intrusions that also impacted Albertson's LLC and NAI
- Impact of the Albertson's acquisition of Safeway on the Company's operating agreement under which the Company operates a distribution center owned by NAI that services both NAI and certain of the Company's wholesale customers

### ***Intrusions to and Disruptions of Information Technology Systems***

- Dependence of the Company's businesses on computer hardware and software systems that are vulnerable to technical malfunction or security breach by computer hackers and cyber terrorists
- Risk of misappropriation of sensitive data, including customer and employee data, as a result of the information technology intrusions or any future cyber-attack or breach and potential related claims
- Costs of responding to inquiries, claims or enforcement actions in connection with the information technology intrusions or any future attack or breach resulting in fees and penalties, the loss, damage or misappropriation of information, and potential related damage to the Company's reputation
- Inability to timely obtain future PCI DSS report on compliance that could result in fines or assessments
- Costs of complying with stricter privacy and information security laws
- Ability of the information technology systems of the Company or its vendors to operate properly and to prevent, contain or detect cyber-attacks or security breaches
- Difficulties in developing, maintaining or upgrading information technology systems
- Major disasters, business disruptions or losses resulting from failure of these systems to perform as anticipated for any reason or data theft, information espionage, or other criminal activity directed at the Company's computer or communications systems
- Inability to keep pace with changing customer expectations and new developments and technology investments by the Company's competitors, including relating to the increase in information sharing and multichannel retailing

### ***Economic Conditions***

- Worsening economic conditions, consumer confidence or unemployment rates, each of which affect consumer spending or buying habits
- Increases in unemployment, insurance, healthcare or energy costs and changes in commodity prices, which could impact consumer spending or buying habits and the cost of doing business
- Increases in interest rates, labor costs and tax rates, and other changes in applicable law
- Food and drug inflation or deflation
- The Company's ability to address the compression of pharmacy gross margins

### ***Governmental Regulation***

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- Costs of compliance with existing laws and regulations and changes in applicable laws and regulations that impose additional requirements or restrictions on the operation of the Company's businesses
- The ability to timely obtain permits, comply with government regulations or make capital expenditures required to maintain compliance with government regulations, including those governing ethical, anti-bribery and similar business practices
- Potential costs of compliance with additional foreign laws and regulations if the Company seeks and attains a larger international footprint
- Potential costs of compliance with environmental laws and regulations, including relating to disposal of hazardous waste and any required removal or remediation of contamination at current or former locations

### ***Food and Drug Safety***

- Events that give rise to actual or potential food contamination, drug contamination or foodborne illness or injury or any adverse publicity relating to these types of concerns, whether valid or not
- Potential recall costs and product liability claims or claims that the Company's products are not of the quality or composition claimed

### ***Legal Proceedings***

- Unfavorable outcomes and the costs to defend litigation, governmental or administrative proceedings or other disputes, including those related to the information technology intrusions experienced by the Company
- Adverse publicity related to such unfavorable outcomes
- Risks related to infringement of the Company's intellectual property rights

### ***Severe Weather, Natural Disasters and Adverse Climate Changes***

- Property damage or business disruption resulting from severe weather conditions and natural disasters that affect the Company and the Company's customers or suppliers
- Unseasonably adverse climate conditions that impact the availability or cost of certain products in the grocery supply chain

### ***Disruption to Supply Chain and Distribution Network***

- The Company's ability to effectively maintain its supply chain and distribution network without interruption
- Disruptions due to weather, product recalls, crop conditions, regulatory actions, supplier instability, transportation interruptions, labor supply or vendor disputes

### ***Changes in Military Business***

- Competition in the Company's military business
- Changes in the commissary system or operating model, reductions in government expenditures or funding, or changes in military staffing levels or the locations of bases

### ***Adequacy of Insurance***

- Variability in actuarial projections regarding workers' compensation liability and associated medical costs and automobile and general liability
- Potential increase in the number or severity of claims for which the Company is self-insured
- Adequacy of cybersecurity insurance maintained by the Company to offset any losses or damages related to the information technology intrusions and any future intrusions experienced by the Company

### ***Volatility in Fuel and Energy Costs***

- Availability and cost of energy and fuel to store and transport products
- Volatility of fuel, energy and natural gas prices
- Risks associated with possession of compressed natural gas equipment and a fueling station

### ***Asset Impairment Charges***

- Unfavorable changes in the Company's industry, the broader economy, market conditions, business operations, competition or the Company's stock price and market capitalization that could require impairment to intangible assets, including goodwill, and tangible assets, including property, plant and equipment

### ***Stock Price Volatility***

- Fluctuations in the Company's stock price related to actual or perceived operating performance, any of the factors listed above or general stock market fluctuations

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Except as described in Note 6—Long-Term Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q, there were no material changes in market risk for the Company in the period covered by this report. See the discussion of market risk in Item 7A of the Company’s Annual Report on Form 10-K for the fiscal year ended February 27, 2016.

**ITEM 4. CONTROLS AND PROCEDURES**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 3, 2016. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms and (2) accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There has been no change to the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various lawsuits, claims and other legal matters that arise in the ordinary course of conducting business. In the opinion of management, based upon currently available facts, it is remote that the ultimate outcome of any lawsuits, claims and other proceedings will have a material adverse effect on the overall results of the Company's operations, its cash flows or its financial position. See Note 12—Commitments, Contingencies and Off-Balance Sheet Arrangements in Part I, Item I of this Quarterly Report on Form 10-Q under the caption "Legal Proceedings" for a discussion of certain of the Company's legal proceedings.

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the discussion of risk factors in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 2016. There were no material changes in risk factors for the Company in the period covered by this report other than (1) the risks described below and (2) the risk factors specific to Save-A-Lot including relating to its licensee distribution business are no longer applicable to the Company following the sale of Save-A-Lot.

***Changes or complications in the Company's relationship with Save-A-Lot and its purchaser and the Company's obligations in that relationship could adversely affect the Company.***

The Company completed the sale of its Save-A-Lot business on December 5, 2016, to SAL Acquisition Corp (f/k/a Smith Acquisition Corp), an affiliate of Onex Partners Managers LP, a private equity firm ("Purchaser"). To the extent that the Company is not able to adjust its operations quickly and efficiently to account for the sale of the Save-A-Lot assets and personnel, it could result in disruptions to the Company's operations, business relationships and ability to perform under the Services Agreement between the Company and Save-A-Lot. The Services Agreement has a five-year term but provides Save-A-Lot certain termination rights, including in the event of the Company's material breach, and gives Save-A-Lot certain termination and monetary rights with respect to specified services or service categories in the event the Company does not perform to agreed-upon minimum levels of service. The Services Agreement also generally requires the Company to indemnify Save-A-Lot against third-party claims arising out of the performance of the services under the Services Agreement. The Company cannot be certain of Purchaser's long-term plans for Save-A-Lot and its continued relationship with the Company. Termination of the Services Agreement, in whole or in part, could adversely affect the Company's business or results of operations.

***The Company's Wholesale distribution business model presents a number of risks.***

The Company's success relies in part on the financial success and cooperation of its Wholesale customers. These Wholesale customers manage their businesses independently, and therefore are responsible for the day-to-day operation of their stores. The revenues the Company realizes from these Wholesale customers are largely dependent on the customers' ability to maintain and grow their sales. They may not experience an acceptable level of sales or profitability, and the Company's revenues and gross margins could be negatively affected as a result. If sales trends or profitability worsen for Wholesale customers, their financial results may deteriorate, which could result in, among other things, lost business for the Company, delayed or reduced payments to the Company or defaults on payments or other liabilities owed by Wholesale customers to the Company, any of which could adversely impact the Company's financial condition and results of operation as well as its ability to grow its Wholesale business. In this regard, the Company's Wholesale customers are affected by the same economic conditions, including food deflation, and competition that the Company's Retail segment is facing. The magnitude of these risks increase as the size of the Company's Wholesale customers increase.

***The Company's businesses are subject to laws and governmental regulations that could adversely impact the Company's financial condition and results of operations.***

The Company's businesses are subject to various federal, state and local laws, regulations and administrative practices. These laws require the Company to comply with numerous provisions regulating health and sanitation standards, food safety, marketing of natural or organically produced food, facilities, environmental, equal employment opportunity, public accessibility, employee benefits, wages and hours worked and licensing for the sale of food, drugs and alcoholic beverages, among others. The Company is also required to meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. For example, see Note 12-Commitments, Contingencies and Off-Balance Sheet Arrangements in Part I,

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Item I of this Quarterly Report on Form 10-Q under the caption “Legal Proceedings” for a discussion of the administrative subpoena issued to the Company by the DEA requesting, among other things, information on the Company’s pharmacy policies and procedures generally as well as the production of documents that are required to be kept and maintained by the Company pursuant to the Controlled Substances Act and its implementing regulations. The Company’s inability to timely obtain permits, comply with government laws and regulations or make capital expenditures required to maintain compliance with governmental laws and regulations may adversely impact the Company’s business operations and prospects for future growth and its ability to participate in federal and state healthcare programs and may also result in monetary liabilities, fines or other sanctions. In addition, changes in federal or state minimum wage and overtime laws could cause the Company to incur additional wage costs, which could adversely affect the Company’s operating margins.

The Company cannot predict the nature of future laws, regulations, interpretations or applications, nor can the Company determine the effect that additional governmental regulations or administrative orders, when and if promulgated, or disparate federal, state and local regulatory schemes would have on the Company’s future business. They may, however, impose additional requirements or restrictions on the products the Company sells, require that the Company recall or discontinue sale of certain products, make substantial changes to the Company’s facilities or operations, or otherwise result in changes to the manner in which the Company operates its businesses. Any or all of such requirements may adversely affect the Company’s financial condition and results of operations.

The Company’s supplier base includes domestic and foreign suppliers. Accordingly, political or financial instability in these foreign countries, changes in U.S. and foreign relationships, laws and regulations affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws and regulations could adversely impact the Company’s financial condition and results of operations. In addition, the Company is required to comply with laws and regulations governing ethical, anti-bribery and similar business practices. In our foreign operations, the Company is subject to the risk that one or more of its employees, contractors or agents could engage in business practices prohibited by U.S. laws and regulations that are applicable to the Company, such as the Foreign Corrupt Practices Act, including those based in or from countries where practices that violate U.S. laws and regulations or the laws and regulations of other countries may be customary, or will engage in business practices that are prohibited by the Company’s policies or circumvent its compliance programs. Any of these violations could adversely affect the Company’s business, financial condition and operating results. The Company may choose to pursue further expansion into international markets. If the Company seeks and attains a larger international footprint, it would be required to comply with additional foreign laws and regulations. Any failure to comply with these laws or regulations could result in civil and/or criminal sanctions and could adversely affect the Company’s financial condition and results of operations. Further, foreign currency exchange rates and fluctuations may have an effect on our future costs or on future cash flows from our foreign operations, and could adversely affect our financial condition and operating results.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(in millions, except shares and per share amounts) Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
First four weeks				
September 11, 2016 to October 8, 2016	—	\$ —	—	\$ —
Second four weeks				
October 9, 2016 to November 5, 2016	5,344	\$ 4.47	—	\$ —
Third four weeks				
November 6, 2016 to December 3, 2016	—	\$ —	—	\$ —
Totals	<u>5,344</u>	<u>\$ 4.47</u>	<u>—</u>	<u>\$ —</u>

(1) The reported periods conform to the Company’s fiscal calendar composed of thirteen 28-day periods. The third quarter of fiscal 2017 contains three 28-day periods.

(2) These amounts include the deemed surrender by participants in the Company’s compensatory stock plans of 5,344 shares of previously issued common stock. These are from the vesting of restricted stock awards and restricted stock units granted under such plans.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 2.1 Agreement and Plan of Merger, dated as of October 16, 2016, by and among Smith Acquisition Corp., Smith Merger Sub Corp., Moran Foods, LLC and SUPERVALU INC. (incorporated by referenced to Exhibit 2.1 to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2016)\*
- 2.2 Separation Agreement, dated as of October 16, 2016, by and among SUPERVALU INC. and Moran Foods, LLC (incorporated by referenced to Exhibit 2.2 to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2016)\*
- 12.1 Ratio of earnings to fixed charges.
- 31.1 Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following information from the SUPERVALU INC. Quarterly Report on Form 10-Q for the fiscal quarter ended December 3, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Segment Financial Information, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Balance Sheets, (v) the Condensed Consolidated Statements of Stockholders' Deficit, (vi) the Condensed Consolidated Statements of Cash Flows and (vii) the Notes to Condensed Consolidated Financial Statements.

\* Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUPERVALU INC. (Registrant)

Dated: January 11, 2017

/s/ BRUCE H. BESANKO

Bruce H. Besanko  
Executive Vice President, Chief Operating Officer and Chief Financial Officer  
(principal financial officer)

SUPERVALU INC. (Registrant)

Dated: January 11, 2017

/s/ SUSAN S. GRAFTON

Susan S. Grafton  
Senior Vice President, Finance, and Chief Accounting Officer  
(principal accounting officer)

**EXHIBIT INDEX**

- 2.1 Agreement and Plan of Merger, dated as of October 16, 2016, by and among Smith Acquisition Corp., Smith Merger Sub Corp., Moran Foods, LLC and SUPERVALU INC. (incorporated by referenced to Exhibit 2.1 to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2016)\*
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**Ratio of Earnings to Fixed Charges**  
(In millions, except ratios)

	Year-To-Date Ended			Fiscal Year Ended		
	December 3, 2016 (40 weeks)	February 27, 2016 (52 weeks)	February 28, 2015 (53 weeks)	February 22, 2014 <sup>(1)</sup> (52 weeks)	February 23, 2013 <sup>(2)</sup> (52 weeks)	February 25, 2012 <sup>(3)</sup> (52 weeks)
Earnings (loss) from continuing operations before income taxes	\$ 10	\$ 107	\$ 12	\$ (162)	\$ (581)	\$ (387)
Less net earnings attributable to noncontrolling interests	(3)	(8)	(7)	(7)	(10)	(13)
Net overdistributed earnings of less than fifty percent owned affiliates	—	1	—	1	1	—
Fixed charges	161	220	269	430	304	290
Amortized capitalized interest	—	(1)	(1)	(1)	(3)	(5)
Earnings (loss) available to cover fixed charges	\$ 168	\$ 319	\$ 273	\$ 261	\$ (289)	\$ (115)
Interest expense	143	196	243	403	269	246
Capitalized interest	—	1	1	1	3	5
Interest on operating leases	18	23	25	26	32	39
Total fixed charges	\$ 161	\$ 220	\$ 269	\$ 430	\$ 304	\$ 290
Excess (deficiency) of earnings to fixed charges	\$ 7	\$ 99	\$ 4	\$ (169)	\$ (593)	\$ (405)
Ratio of earnings to fixed charges	1.04	1.45	1.01	N/A	N/A	N/A

N/A represents a ratio of less than one.

- (1) The Company's earnings available to cover fixed charges were insufficient to cover fixed charges for fiscal 2014 due to \$99 of charges for the write-off of non-cash unamortized financing costs and original issue discount acceleration before tax, \$75 of debt refinancing costs before tax, \$44 of severance costs and accelerated stock-based compensation charges before tax, \$13 of non-cash asset impairment and other charges before tax, \$6 of contract breakage and other costs before tax, and \$3 of multi-employer pension withdrawal charge before tax, offset in part by \$15 of gain on sale of property before tax.
- (2) The Company's earnings available to cover fixed charges were insufficient to cover fixed charges for fiscal 2013 due to \$214 of non-cash asset impairment and other charges before tax, administrative expenses related to divested NAI operations, \$36 of severance costs before tax, \$22 of non-cash unamortized financing costs before tax and \$6 of non-cash intangible asset impairment charges before tax, offset in part by \$10 in a cash settlement received from credit card companies before tax.
- (3) The Company's earnings available to cover fixed charges were insufficient to cover fixed charges for fiscal 2012 due to administrative expenses related to divested NAI operations, \$92 of non-cash goodwill impairment charges before tax and severance costs of \$15 before tax.

**Certification Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Mark Gross, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SUPERVALU INC. for the quarterly fiscal period ended December 3, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 11, 2017

/s/ MARK GROSS

Mark Gross

Chief Executive Officer and President

**Certification Pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002**

I, Bruce H. Besanko, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SUPERVALU INC. for the quarterly fiscal period ended December 3, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 11, 2017

/s/ BRUCE H. BESANKO

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Bruce H. Besanko  
Executive Vice President, Chief Operating Officer and Chief Financial  
Officer

**Certification Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of SUPERVALU INC. (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarterly fiscal period ended December 3, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the period and as of the dates covered thereby.

Date: January 11, 2017

*/s/* MARK GROSS

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Mark Gross  
Chief Executive Officer and President

**Certification Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of SUPERVALU INC. (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarterly fiscal period ended December 3, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the period and as of the dates covered thereby.

Date: January 11, 2017

/s/ BRUCE H. BESANKO

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Bruce H. Besanko  
Executive Vice President, Chief Operating Officer and Chief Financial  
Officer  
(principal financial officer)

