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 ended September 6, 2014

☐ **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: 1-00041

SAFEWAY INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3019135**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5918 Stoneridge Mall Rd. Pleasanton, California	**94588-3229**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code (925) 467-3000

Not applicable
(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	☐ (Do not check if a smaller reporting company)	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 October 8, 2014, there were issued and outstanding 230.5 million shares of the registrant's common stock.

SAFEWAY INC. AND SUBSIDIARIES
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SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per-share amounts)
(Unaudited)

	12 Weeks Ended		36 Weeks Ended	
	September 6, 2014	September 7, 2013	September 6, 2014	September 7, 2013
Sales and other revenue	$ 8,307.9	$ 8,099.2	$ 24,652.8	$ 24,250.1
Cost of goods sold	(6,133.3)	(6,004.5)	(18,229.4)	(17,884.4)
Gross profit	2,174.6	2,094.7	6,423.4	6,365.7
Operating and administrative expense	(2,080.4)	(2,006.8)	(6,147.2)	(6,024.2)
Operating profit	94.2	87.9	276.2	341.5
Interest expense	(45.0)	(63.3)	(148.1)	(191.6)
Loss on extinguishment of debt	(84.4)	—	(84.4)	—
Loss on foreign currency	(3.8)	—	(111.6)	—
Other income, net	6.7	5.2	31.3	28.1
(Loss) income before income taxes	(32.3)	29.8	(36.6)	178.0
Income taxes	11.1	(6.4)	12.2	(32.5)
(Loss) income from continuing operations, net of tax	(21.2)	23.4	(24.4)	145.5
Income from discontinued operations, net of tax	30.7	43.0	30.9	48.5
Net income before allocation to noncontrolling interests	9.5	66.4	6.5	194.0
Noncontrolling interests - discontinued operations	—	(0.6)	0.9	(0.9)
Net income attributable to Safeway Inc.	$ 9.5	$ 65.8	$ 7.4	$ 193.1
Basic (loss) earnings per common share:				
Continuing operations	$ (0.09)	$ 0.10	$ (0.11)	$ 0.60
Discontinued operations	0.13	0.17	0.13	0.20
Total	$ 0.04	$ 0.27	$ 0.02	$ 0.80
Diluted (loss) earnings per common share:				
Continuing operations	$ (0.09)	$ 0.10	$ (0.11)	$ 0.60
Discontinued operations	0.13	0.17	0.13	0.19
Total	$ 0.04	$ 0.27	$ 0.02	$ 0.79
Weighted average shares outstanding:				
Basic	229.0	239.4	228.6	238.5
Diluted	230.9	241.6	230.4	240.3

See accompanying notes to condensed consolidated financial statements.

SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	12 Weeks Ended		36 Weeks Ended	
	September 6, 2014	**September 7, 2013**	**September 6, 2014**	**September 7, 2013**
Net income before allocation to noncontrolling interests	$ 9.5	$ 66.4	$ 6.5	$ 194.0
Other comprehensive income:				
Foreign currency translation adjustments, net of tax	0.3	(22.3)	2.4	(52.1)
Recognition of pension and post-retirement benefits actuarial loss, net of tax	7.3	15.8	22.0	47.0
Other, net of tax	0.5	(1.1)	1.4	(1.4)
Total comprehensive income including noncontrolling interests	17.6	58.8	32.3	187.5
Comprehensive income attributable to noncontrolling interests	—	(0.6)	0.9	(0.9)
Comprehensive income attributable to Safeway Inc.	$ 17.6	$ 58.2	$ 33.2	$ 186.6

See accompanying notes to condensed consolidated financial statements.

SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	September 6, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and equivalents	$ 1,348.7	$ 4,647.3
Receivables	334.1	1,211.4
Merchandise inventories	2,317.6	2,089.6
Income tax receivable	257.3	—
Prepaid expenses and other current assets	219.7	371.5
Assets held for sale	61.7	143.9
Total current assets	4,539.1	8,463.7
Property	17,512.4	17,722.7
Less accumulated depreciation and amortization	(10,203.6)	(10,185.2)
Property, net	7,308.8	7,537.5
Goodwill	330.9	464.5
Investment in unconsolidated affiliate	206.2	196.1
Other assets	415.8	557.7
Total assets	$ 12,800.8	$ 17,219.5

SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(In millions, except per-share amounts)
(Unaudited)

	September 6, 2014	December 28, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of notes and debentures	$ 1.8	$ 252.9
Current obligations under capital leases	72.8	49.3
Accounts payable	1,892.1	3,376.4
Accrued salaries and wages	362.5	419.4
Income taxes payable	—	1,135.2
Other accrued liabilities	567.9	623.2
Total current liabilities	2,897.1	5,856.4
Long-term debt:		
Notes and debentures	2,354.8	3,515.3
Obligations under capital leases	388.0	375.5
Total long-term debt	2,742.8	3,890.8
Pension and post-retirement benefit obligations	459.4	451.4
Accrued claims and other liabilities	1,153.9	1,145.8
Total liabilities	7,253.2	11,344.4
Commitments and contingencies		
Stockholders' equity:		
Common stock: par value $0.01 per share;1,500 shares authorized; 244.9 and 244.2 shares issued	2.4	2.4
Additional paid-in capital	2,022.1	1,981.9
Treasury stock at cost: 14.4 and 14.1 shares	(491.3)	(480.6)
Accumulated other comprehensive loss	(243.1)	(271.1)
Retained earnings	4,257.5	4,586.9
Total Safeway Inc. equity	5,547.6	5,819.5
Noncontrolling interests	—	55.6
Total equity	5,547.6	5,875.1
Total liabilities and stockholders' equity	$ 12,800.8	$ 17,219.5

See accompanying notes to condensed consolidated financial statements.

SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	36 Weeks Ended	
	September 6, 2014	**September 7, 2013**
OPERATING ACTIVITIES:		
Net income before allocation to noncontrolling interests	$ 6.5	$ 194.0
Income from discontinued operations, net of tax	(30.9)	(48.5)
(Loss) income from continuing operations, net of tax	(24.4)	145.5
Reconciliation to net cash flow (used) provided by operating activities:		
Depreciation and amortization	625.8	632.8
Loss on foreign currency	111.6	—
Property impairment charges	42.9	32.2
Share-based employee compensation	9.1	34.9
Equity in earnings of unconsolidated affiliate	(10.1)	(14.2)
Net pension and post-retirement benefits expense	52.7	79.6
Contributions to pension and post-retirement benefit plans	(8.5)	(41.1)
Gain on property retirements and lease exit costs, net	(32.7)	(4.8)
Loss on extinguishment of debt	84.4	—
Increase in accrued claims and other liabilities	0.9	46.0
Deferred income taxes	—	(17.2)
Other	18.5	8.7
Changes in working capital items:		
Receivables	18.6	(12.8)
Inventories at FIFO cost	(262.9)	(272.6)
Prepaid expenses and other current assets	59.6	11.1
Income taxes	(195.6)	(80.8)
Payables and accruals	200.3	220.4
Net cash flow provided by operating activities–continuing operations	690.2	767.7
Net cash flow used by operating activities–discontinued operations	(1,786.1)	(458.4)
Net cash flow (used) provided by operating activities	$ (1,095.9)	$ 309.3
INVESTING ACTIVITIES:		
Cash paid for property additions	(471.1)	(412.8)
Proceeds from sale of property	75.1	38.0
Proceeds from company-owned life insurance policies	—	68.7
Cash restricted by merger agreement for payment of mortgage	(40.0)	—
Release of restricted cash for payment of mortgage	40.0	—
Other	(51.0)	(3.8)
Net cash flow used by investing activities–continuing operations	(447.0)	(309.9)
Net cash flow provided (used) by investing activities–discontinued operations	131.1	(72.6)
Net cash flow used by investing activities	$ (315.9)	$ (382.5)

See accompanying notes to condensed consolidated financial statements.

SAFEWAY INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In millions)
(Unaudited)

	36 Weeks Ended	
	September 6, 2014	**September 7, 2013**
FINANCING ACTIVITIES:		
Additions to long-term borrowings	239.8	635.1
Payments on long-term borrowings	(1,705.1)	(635.6)
Payment of make-whole premiums on early extinguishment of debt	(82.0)	—
Dividends paid	(145.3)	(132.3)
Net proceeds from exercise of stock options	19.2	48.0
Other	(10.5)	(9.6)
Net cash flow used by financing activities–continuing operations	(1,683.9)	(94.4)
Net cash flow (used) provided by financing activities–discontinued operations	(57.2)	235.2
Net cash flow (used) provided by financing activities	$ (1,741.1)	$ 140.8
Effect of changes in exchange rates on cash	(145.7)	(1.5)
(Decrease) increase in cash and equivalents	(3,298.6)	66.1
CASH AND EQUIVALENTS:		
Beginning of period	4,647.3	352.2
End of period	1,348.7	418.3
Less cash held for sale	—	(5.2)
Cash and cash equivalents, excluding held for sale	$ 1,348.7	$ 413.1

See accompanying notes to condensed consolidated financial statements.

NOTE A–THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements of Safeway Inc. and subsidiaries (“Safeway” or the “Company”) for the 12 weeks and 36 weeks ended September 6, 2014 and September 7, 2013 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 position and results of operations for such periods. These condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared on an accrual basis in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to SEC regulations. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s 2013 Annual Report on Form 10-K, as amended. The results of operations for the 12 and 36 weeks ended September 6, 2014 are not necessarily indicative of the results expected for the full year or other future periods.

Recent Developments

On March 6, 2014, Safeway entered into an Agreement and Plan of Merger (as amended on April 7, 2014 and on June 13, 2014, the “Merger Agreement”), with AB Acquisition LLC (“AB Acquisition”), Albertson’s Holdings LLC (“Albertsons Holdings”), a subsidiary of AB Acquisition, Albertson’s LLC (“Albertson’s LLC”), a subsidiary of Albertsons Holdings, and Saturn Acquisition Merger Sub, Inc. (“Merger Sub” and together with AB Acquisition, Albertsons Holdings and Albertson’s LLC, “Albertsons”), a subsidiary of Albertsons Holdings, pursuant to which the parties agreed that, on the terms and subject to the conditions set forth in the Merger Agreement, Albertsons Holdings will acquire Safeway. At the Company's 2014 Annual Meeting of Stockholders held on July 25, 2014, Safeway stockholders approved the proposal to adopt and approve the Merger Agreement.

The Merger Agreement provides that, at the closing of the transactions contemplated thereby, Merger Sub will be merged with and into Safeway (the “Merger”), with Safeway continuing as the surviving corporation. Pursuant to the Merger, each outstanding share of common stock of Safeway will cease to be outstanding and will (other than excluded dissenting shares and shares held in treasury) be converted into the right to receive:

(i) $32.50 in cash,

(ii) pro-rata distributions of net proceeds with respect to certain sales of

(x) Safeway’s real-estate development subsidiaries, Property Development Centers, LLC and PDC I, Inc., and assets comprised of Safeway’s shopping center portfolio including certain related Safeway stores (“PDC”), and

(y) Safeway’s 49% interest (the “Casa Ley Interest”) in Casa Ley, S.A. de C.V., a Mexico-based food and general merchandise retailer (“Casa Ley”);

(iii) a pro-rata portion of certain after-tax amounts received by Safeway as dividends or distributions in respect of the Casa Ley Interest or that are paid from the operating earnings of PDC;

(iv) if the closing of the Merger occurs after March 5, 2015, $0.005342 per day for each day from (and including) March 5, 2015 through (and including) the closing; and

(v)if the sale of the Casa Ley Interest and/or the PDC assets are not fully completed on or prior to the closing of the Merger or there is any deferred consideration that has not been paid to Safeway with respect to pre-closing sales of the Casa Ley Interest and/or PDC, (x) one contingent value right relating to the sale of any remaining Casa Ley Interest and deferred consideration (a “Casa Ley CVR”) and/or (y) one contingent value right relating to the sale of any remaining PDC assets and deferred consideration (a “PDC CVR” which, together with a Casa Ley CVR, is referred to as a “CVR”)

SAFEWAY INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

((i), (ii), (iii), (iv) and (v) together, the "Per Share Merger Consideration").

Each outstanding Safeway restricted stock award, restricted stock unit and performance share award covering shares of Safeway common stock shall vest and be cancelled in exchange for a right to receive the Per Share Merger Consideration with respect to the shares subject to the applicable award and, if necessary, a CVR. Each outstanding option to purchase Safeway common stock will vest and be cancelled in exchange for the right to receive a payment equal to the excess, if any, of the cash portion of the Per Share Merger Consideration over the exercise price of the applicable option, and additionally, each Safeway option with an exercise price less than the cash portion of the Per Share Merger Consideration will receive, if necessary, the applicable non-transferable CVR.

Consummation of the Merger is subject to various customary conditions, including, among others, there not having been a "material adverse effect" on Safeway, compliance with covenants and accuracy of representations and warranties (in each case subject to materiality qualifiers) and expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The parties have agreed to use their respective reasonable best efforts to obtain all necessary regulatory approvals for the Merger provided that Albertsons will not be obligated to agree to divestitures or other restrictions that would reasonably be expected to have a material adverse effect on the parties to the Merger Agreement and their respective subsidiaries, taken as a whole, after giving effect to the reasonably anticipated economic benefits of the Merger.

Distribution of Blackhawk Shares

On April 14, 2014, Safeway distributed the remaining 37.8 million shares of Blackhawk stock that it owned to its stockholders. See Note B. Beginning in the second quarter of 2014, Blackhawk was reclassified as a discontinued operation.

Restricted Cash

In accordance with the Merger Agreement, the Company contributed $40.0 million in cash to PDC in the second quarter of 2014. This cash was to be held in a reserve account until the earlier to occur of (i) payment in full of the mortgage indebtedness encumbering a shopping center in Lahaina, Hawaii and (ii) the release of the Company from any guaranty obligations in connection with such indebtedness. During the third quarter of 2014, the Company deposited $40.0 million with a trustee and achieved a full legal defeasance of the mortgage indebtedness and was released from the guaranty obligations associated with such indebtedness. Therefore, during the third quarter of 2014, the Company extinguished the $40.8 million mortgage from the condensed consolidated balance sheet. This was previously included in Mortgage Notes Payable in Note G.

Inventory

Net income reflects the LIFO method of valuing certain domestic inventories based upon estimated annual inflation. The LIFO method of inventory valuation is determined annually when actual LIFO inflation indices for the year are calculated during the fourth quarter based upon a statistical sampling of inventories; therefore, LIFO inventory costs for interim financial statements are estimated. Safeway recorded no LIFO expense during the first 36 weeks of 2014 or during the first 36 weeks of 2013.

Corporate-Owned Life Insurance ("COLI")

Safeway has COLI policies that have a cash surrender value. During 2013, Safeway borrowed against these policies. The Company has no current intention of repaying the loans prior to maturity or cancellation of the policies. Therefore, the Company offsets the cash surrender value by the related loans. At September 6, 2014, the cash surrender value of the policies was $59.5 million, and the balance of the policy loans was $42.2 million, for a net of $17.3 million, which is included in Other Assets in the condensed consolidated balance sheet.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently assessing the potential impact of ASU No. 2014-09 on its financial statements.

On April 10, 2014, the FASB issued ASU No. 2014-08 “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU No. 2014-08 changes the criteria for reporting discontinued operations and modifies related disclosure requirements. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. The Company is currently assessing the future impact of ASU No. 2014-08 on its financial statements.

NOTE B–ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets and liabilities held for sale at September 6, 2014 and December 28, 2013 were as follows (in millions):

	September 6, 2014	December 28, 2013
Assets held for sale:		
Dominick's property, held for sale	$ 51.9	$ 136.7
Other United States real estate assets held for sale	9.8	7.2
Total assets held for sale	$ 61.7	$ 143.9
Liabilities held for sale:		
Dominick's:		
Deferred gain on property dispositions	$ —	$ 9.0
Obligations under capital leases	—	5.2
Deferred rent	—	2.6
Other liabilities	8.7	1.4
Total liabilities held for sale*	$ 8.7	$ 18.2

*Included in Other Accrued Liabilities on the consolidated balance sheet.

The notes to the consolidated financial statements exclude discontinued operations, unless otherwise noted. Historical financial information for Canada Safeway Limited ("CSL"), Dominick's and Blackhawk presented in the consolidated income statements has been reclassified to discontinued operations to conform to current-year presentation.

SAFEWAY INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The financial results of discontinued operations for the 12 and 36 weeks ended September 6, 2014 and September 7, 2013 were as follows (in millions):

	12 Weeks Ended		36 Weeks Ended	
	September 6, 2014	**September 7, 2013**	**September 6, 2014**	**September 7, 2013**
Sales and other revenue:				
Blackhawk	$ —	$ 194.4	$ 305.6	$ 582.8
CSL	—	1,454.1	—	4,469.6
Dominick's	—	328.4	7.3	991.9
Total	$ —	$ 1,976.9	$ 312.9	$ 6,044.3
(Loss) income from discontinued operations, before income taxes:				
Blackhawk	$ —	$ 3.8	$ (4.4)	$ 9.6
CSL	—	74.5	—	238.2
Dominick's	(2.9)	(13.4)	(65.7)	(34.4)
Total	(2.9)	64.9	(70.1)	213.4
Gain (loss) on sale or disposal of operations, net of lease exit costs and transaction costs, before income taxes:				
Blackhawk	0.3	—	(5.2)	—
CSL	(1.2)	—	(6.4)	—
Dominick's	26.0	—	81.5	—
Total	25.1	—	69.9	—
Total income (loss) from discontinued operations before income taxes	$ 22.2	$ 64.9	$ (0.2)	$ 213.4
Income tax benefit (expense) on discontinued operations	8.5	(21.9)	31.1	(164.9)
Income from discontinued operations, net of tax	$ 30.7	$ 43.0	$ 30.9	$ 48.5

Distribution of Blackhawk Shares On March 24, 2014, Safeway's Board of Directors declared a special stock dividend to its stockholders of all of the 37.8 million shares of Class B common stock of Blackhawk owned by Safeway, representing approximately 94.2% of the total outstanding shares of Blackhawk's Class B common stock and approximately 72% of the total number of shares of Blackhawk common stock of all classes outstanding. On April 14, 2014, Safeway distributed the special stock dividend to all Safeway stockholders of record on April 3, 2014 (the "Record Date"). The distribution took place in the form of a pro rata dividend of Blackhawk Class B common stock to each Safeway stockholder of record on the Record Date. Safeway stockholders received 0.164291 of a share of Blackhawk Class B common stock for every share of Safeway common stock held as of the Record Date, less any shares withheld in respect of applicable withholding taxes. No fractional shares of Blackhawk stock were distributed. Instead, Safeway stockholders received cash in lieu of any fraction of a share of Blackhawk stock.

Assuming the acquisition by AB Acquisition is completed as contemplated by the Merger Agreement (see Note A), it is expected that Safeway's distribution of Blackhawk shares will be taxable. Based on Safeway's preliminary estimates and after the application of $82 million tax payments previously made in connection with Safeway's sale of shares in the initial public offering of Blackhawk's Class A common stock in April 2013, Safeway expects that the distribution of Blackhawk shares will result in an incremental tax liability of approximately $360 million, which Safeway will be required to fund. In accordance with generally accepted accounting principles, Safeway did not consider the probability of the Merger occurring and, therefore, has not recorded a liability for its obligation to fund Blackhawk's tax obligation. Subsequent to the third quarter through the date of this filing, Safeway paid approximately $251 million of the incremental tax liability and expects to pay the remainder before year-end.

In addition, through the third quarter of 2014, Blackhawk has made certain estimated tax payments to certain state tax jurisdictions. Safeway advanced approximately $8.5 million to Blackhawk to fund these estimated tax payments ($24.5 million through the date of this filing). Safeway recorded these advances as receivables on the condensed consolidated balance sheet. In the event the Merger does not occur, Blackhawk will be required to repay these advances to Safeway.

SAFEWAY INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Dominick's During the fourth quarter of 2013, the Company sold or closed all stores in the Dominick's division. In 2013, cash proceeds on the sale of Dominick's stores were $72.2 million, with a pre-tax loss of $493.1 million (including a $310.8 million charge described in the succeeding paragraph). Year-to-date through the third quarter of 2014, cash proceeds on the sale of Dominick's stores were $150.7 million, with a pre-tax gain of $81.5 million.

As previously reported, Dominick's participated in certain multiemployer pension plans on which withdrawal liabilities have been or we expect will be incurred due to the Dominick's closure. Generally, the Company may pay such withdrawal liabilities in installment payments. Withdrawal liabilities are generally subject to a 20-year payment cap, but may extend into perpetuity if a mass withdrawal from the plan occurs.

During the fourth quarter of 2013, Safeway recorded a liability of $310.8 million, which represented the present value of estimated installment payments to be made to the plans based on the best information available at the time, without having yet received demand letters from the multiemployer pension plans. In April 2014 and September 2014, the Company received demand letters from three of the plans. These demand letters called for installment payments greater than Safeway's original actuarial estimate based on calculations Safeway disputes. The Company has requested a review by the plan trustee of the demands made by the three plans. The Company's estimate is in accordance with ASC 450, "Contingencies."

The following is a reconciliation of the estimated multiemployer pension withdrawal liability (in millions):

Balance at year-end 2013	$	310.8
Accrued interest		9.3
Adjustment to estimated liability		38.3
Installment payments		(3.7)
Balance at September 6, 2014	$	354.7

Accrued interest expense and adjustments to the estimated liability are recorded in discontinued operations. The $338.5 million long-term portion of the estimated liability is included in Accrued Claims and Other Liabilities, and the $16.2 million current portion is included in Other Accrued Liabilities in the condensed consolidated balance sheet.

Pending review of the demand letters received, receipt of a final demand letter, or any negotiated lump sum settlements, the final amount of the withdrawal liability may be greater than or less than the amount recorded, and this difference could be significant. The Company currently estimates the range of potential withdrawal liability to be between $355 million and $475 million.

NOTE C–CAPITAL STOCK

Stockholder Rights Plan On June 13, 2014, the Company's Board of Directors amended the stockholder rights plan to accelerate the expiration date to June 19, 2014, terminating the plan and the rights issued under the plan as of that date. The stockholder rights plan was originally scheduled to expire on September 15, 2014.

Share-based Compensation Expense The Company recognized share-based compensation expense of $9.1 million in the third quarter of 2014 and $13.0 million in the third quarter of 2013 as a component of operating and administrative expense. The Company recognized $9.1 million share-based compensation expense for the first 36 weeks of 2014 and $34.9 million in the first 36 weeks of 2013 as a component of operating and administrative expense.

In 2014, 2013 and 2012, Safeway granted performance share awards to certain executives. These performance share awards, covering a target of approximately 2.7 million shares, vest over three years. The 2014 performance share awards are subject to the achievement of specified levels of revenue growth and return on invested capital, as modified based on the Company's total stockholder return. The 2013 and 2012 performance share awards are subject to the achievement of earnings per share goals determined on a compound annual growth rate basis relative to the S&P 500. The Company recorded expense related to the 2014, 2013 and 2012 awards based on the then expected achievement of the performance targets. The Company no longer believes that achievement of the performance targets related to the 2013 and 2012 awards is probable. Accordingly, in the second quarter of 2014, the Company reversed $18.8 million of previously recorded expense on unvested performance shares.

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Under the terms of the awards, all unvested performance shares may vest upon the closing of the Merger. However, in accordance with generally accepted accounting principles, Safeway did not consider the probability of the Merger occurring in recording stock-based compensation expense.

The Company determines fair value of stock option awards using the Black-Scholes option pricing model. The weighted-average assumptions used to value Safeway's grants of stock options through the third quarter, by year, are as follows:

	2014	2013
Expected life (in years)	6.25	6.25 - 6.50
Expected stock volatility	27.9%	31.6% - 33.0%
Risk-free interest rate	2.0%	1.1% - 1.9%
Expected dividend yield during the expected term	2.8%	3.8% - 4.0%

NOTE D–(LOSS) INCOME PER SHARE

The following tables provide reconciliations of net earnings and shares used in calculating income (loss) per basic common share to those used in calculating income (loss) per diluted common share (in millions, except per-share amounts):

	12 Weeks Ended			
	September 6, 2014		September 7, 2013	
	Diluted	Basic	Diluted	Basic
(Loss) income from continuing operations, net of tax	$ (21.2)	$ (21.2)	$ 23.4	$ 23.4
Distributed and undistributed earnings allocated to participating securities	—	—	(0.2)	(0.2)
(Loss) income from continuing operations available to common stockholders	(21.2)	(21.2)	23.2	23.2
Income from discontinued operations, net of tax	30.7	30.7	43.0	43.0
Noncontrolling interests - discontinued operations	—	—	(0.6)	(0.6)
Income from discontinued operations, attributable to Safeway Inc.	30.7	30.7	42.4	42.4
Distributed and undistributed earnings allocated to participating securities	(0.5)	(0.5)	(0.5)	(0.5)
Income from discontinued operations available to common stockholders	30.2	30.2	41.9	41.9
Net income	$ 9.5	$ 9.5	$ 65.8	$ 65.8
Distributed and undistributed earnings allocated to participating securities	(0.5)	(0.5)	(0.7)	(0.7)
Net income available to common stockholders after earnings allocated to participating securities	$ 9.0	$ 9.0	$ 65.1	$ 65.1
Weighted average common shares outstanding	229.0	229.0	239.4	239.4
Common share equivalents	1.9		2.2	
Weighted average shares outstanding	230.9		241.6	
(Loss) earnings per common share:				
Continuing operations	$ (0.09)	$ (0.09)	$ 0.10	$ 0.10
Discontinued operations	0.13	0.13	0.17	0.17
Total	$ 0.04	$ 0.04	$ 0.27	$ 0.27

Anti-dilutive shares totaling 0.2 million and 8.1 million have been excluded from diluted weighted average shares outstanding for the 12 weeks ended September 6, 2014 and September 7, 2013, respectively. Additionally, performance shares totaling 1.9 million for which the Company does not forecast achievement of target have been excluded from diluted weighted average shares outstanding for the 12 weeks ended September 6, 2014.

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	36 Weeks Ended			
	September 6, 2014		September 7, 2013	
	Diluted	Basic	Diluted	Basic
(Loss) income from continuing operations, net of tax	$ (24.4)	$ (24.4)	$ 145.5	$ 145.5
Distributed and undistributed earnings allocated to participating securities	—	—	(1.6)	(1.6)
(Loss) income from continuing operations available to common stockholders	(24.4)	(24.4)	143.9	143.9
Income from discontinued operations, net of tax	30.9	30.9	48.5	48.5
Noncontrolling interests - discontinued operations	0.9	0.9	(0.9)	(0.9)
Income from discontinued operations, attributable to Safeway Inc.	31.8	31.8	47.6	47.6
Distributed and undistributed earnings allocated to participating securities	(2.7)	(2.7)	(0.5)	(0.5)
Income from discontinued operations available to common stockholders	29.1	29.1	47.1	47.1
Net income	$ 7.4	$ 7.4	$ 193.1	$ 193.1
Distributed and undistributed earnings allocated to participating securities	(2.7)	(2.7)	(2.1)	(2.1)
Net income available to common stockholders after earnings allocated to participating securities	$ 4.7	$ 4.7	$ 191.0	$ 191.0
Weighted average common shares outstanding	228.6	228.6	238.5	238.5
Common share equivalents	1.8		1.8	
Weighted average shares outstanding	230.4		240.3	
(Loss) earnings per common share:				
Continuing operations	$ (0.11)	$ (0.11)	$ 0.60	$ 0.60
Discontinued operations	0.13	0.13	0.19	0.20
Total	$ 0.02	$ 0.02	$ 0.79	$ 0.80

Anti-dilutive shares totaling 0.4 million and 13.9 million have been excluded from diluted weighted average shares outstanding for the 36 weeks ended September 6, 2014 and September 7, 2013, respectively. Additionally, performance shares totaling 1.9 million for which the Company does not forecast achievement of target have been excluded from diluted weighted average shares outstanding for the 36 weeks ended September 6, 2014.

NOTE E–TAXES ON INCOME

In the first quarter of 2013, Safeway withdrew $68.7 million from the accumulated cash surrender value of COLI policies purchased in the early 1980s and determined that a majority of the remaining cash surrender value would be received in the future through tax-free death benefits. Consequently, Safeway reversed deferred taxes on that remaining cash surrender value and reduced tax expense by $17.2 million. In addition, income tax expense in the first quarter of 2013 was reduced by $5.0 million due to the resolution of federal income tax matters.

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NOTE F–GOODWILL

A summary of changes in Safeway's goodwill during the first 36 weeks of 2014 is as follows (in millions):

Balance – beginning of year:		
Goodwill	$	4,455.8
Accumulated impairment charges		(3,991.3)
		464.5
Activity:		
Distribution of Blackhawk stock (1)		(133.6)
		(133.6)
Balance – end of quarter:		
Goodwill		4,322.2
Accumulated impairment charges		(3,991.3)
Balance – end of quarter	$	330.9

(1) See Note B.

NOTE G–FINANCING

Notes and debentures were composed of the following at September 6, 2014 and December 28, 2013 (in millions):

	September 6, 2014	December 28, 2013
Commercial paper	$ —	$ —
Bank credit agreement, unsecured	—	—
Term credit agreement, unsecured	—	400.0
Mortgage notes payable, secured	4.9	46.8
5.625% Senior Notes due August 2014, unsecured	—	250.0
3.40% Senior Notes due 2016, unsecured (See Note N)	80.0	400.0
6.35% Senior Notes due 2017, unsecured (See Note N)	100.0	500.0
5.00% Senior Notes due 2019, unsecured (See Note N)	500.0	500.0
3.95% Senior Notes due 2020, unsecured	500.0	500.0
4.75% Senior Notes due 2021, unsecured	400.0	400.0
7.45% Senior Debentures due 2027, unsecured	150.0	150.0
7.25% Senior Debentures due 2031, unsecured	600.0	600.0
Other notes payable, unsecured	21.7	21.4
	$ 2,356.6	$ 3,768.2
Less current maturities	(1.8)	(252.9)
Long-term portion	$ 2,354.8	$ 3,515.3

In August 2014, Safeway paid $802.7 million to redeem $320.0 million of the 3.40% Senior Notes due 2016 and $400.0 million of the 6.35% Senior Notes due 2017. The $802.7 million included principal payments of $720.0 million, make-whole premiums of $80.2 million and accrued interest of $2.5 million. Unamortized deferred finance fees of $2.2 million were also expensed.

In accordance with the Merger Agreement, the Company contributed $40.0 million in cash to PDC in the second quarter of 2014. This cash was to be held in a reserve account until the earlier to occur of (i) payment in full of the mortgage indebtedness encumbering a shopping center in Lahaina, Hawaii and (ii) the release of the Company from any guaranty obligations in connection with such indebtedness. During the third quarter of 2014, the Company deposited $40.0 million with a trustee and achieved a full legal defeasance of the mortgage indebtedness and was released from the guaranty obligations associated with such indebtedness. Therefore, during the third quarter of 2014, the Company extinguished the $40.8 million mortgage from the condensed consolidated balance sheet. Additionally, Safeway paid $1.8 million in third-party costs and wrote off $0.2 million of unamortized deferred finance fees.

These transactions resulted in a loss on extinguishment of debt of $84.4 million in the third quarter of 2014, which consisted of $80.2 million in make-whole premiums on the Senior Notes, the write-off of $2.4 million of unamortized deferred finance fees and $1.8 million of third-party costs associated with the defeasance of the Lahaina mortgage.

NOTE H–PENSION AND POST-RETIREMENT PLANS

The following tables provide the components of net pension and post-retirement expense (in millions):

	12 Weeks Ended			
	September 6, 2014		September 7, 2013	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Estimated return on assets	$ (27.6)	$ —	$ (24.9)	$ —
Service cost	10.0	0.2	9.7	0.2
Interest cost	22.1	0.8	19.7	0.7
Amortization of prior service cost	2.2	—	3.0	—
Amortization of unrecognized losses	9.7	0.1	18.0	0.2
Total	$ 16.4	$ 1.1	$ 25.5	$ 1.1

	36 Weeks Ended			
	September 6, 2014		September 7, 2013	
	Pension	Other Post-Retirement Benefits	Pension	Other Post-Retirement Benefits
Estimated return on assets	$ (82.6)	$ —	$ (74.7)	$ —
Service cost	29.5	0.6	29.2	0.5
Interest cost	66.6	2.4	59.1	2.1
Amortization of prior service cost (credit)	6.7	(0.1)	8.9	(0.1)
Amortization of unrecognized losses	29.3	0.3	53.9	0.7
Total	$ 49.5	$ 3.2	$ 76.4	$ 3.2

The Company contributed $8.5 million to its defined benefit pension plans and post-retirement benefit plans in the first 36 weeks of 2014 compared to $41.1 million in the first 36 weeks of 2013. For the remainder of 2014, Safeway currently anticipates contributing an additional $5 million to these plans.

NOTE I–CONTINGENCIES

Legal Matters

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits involving trade practices, lawsuits alleging violations of state and/or federal wage and hour laws (including alleged violations of meal and rest period laws and alleged misclassification issues), real estate disputes and other matters. Some of these suits purport or may be determined to be class actions and/or seek substantial damages.

Note P to the Company's consolidated financial statements in its 2013 Annual Report on Form 10-K, as amended, provides information on certain litigation in which the Company is involved under the caption "Legal Matters." Except as noted in subsequent Quarterly Reports on Form 10-Q and below, there have been no subsequent material developments to these matters.

Following the announcement of the Merger, 14 purported class action complaints were filed by alleged stockholders of the Company against the Company, the individual directors of the Company, and against Cerberus Capital Management, L.P., AB Acquisition, Albertsons Holdings, Albertson's LLC and/or Merger Sub. Seven lawsuits were filed in the Delaware Court of Chancery, captioned Barnhard v. Safeway Inc., et al., C.A. No. 9445-VCL (March 13, 2014); Morales v. Safeway Inc., et al., C.A. No. 9455-VCL (March 18, 2014); Ogurkiewicz v. Safeway Inc., et al., C.A. No. 9454-VCL (March 18, 2014); Pipefitters Local 636 Defined Benefit Fund and Oklahoma Firefighters Pension and Retirement System v. Safeway Inc., et al., C.A. No. 9461-VCL (March 20, 2014); Cleveland Bakers and Teamsters Pension and Health & Welfare Funds v. Safeway Inc., et al., C.A. No. 9466-VCL (March 24, 2014); KBC Asset Management NV, Erste-Sparinvest Kapitalanlagegesellschaft m.b.H., Louisiana Municipal Police Employees' Retirement System, and Bristol County Retirement System v. Safeway Inc., et al., C.A. No. 9492-VCL (March 31, 2014); and The City of Atlanta Firefighters' Pension Fund v. Safeway Inc., et al., C.A. No. 9495-VCL (April 1, 2014), which have been consolidated by order of the Court as In Re Safeway Inc. Stockholders Litigation, Consol. C.A. 9445-VCL (the "Delaware Action").

Four other lawsuits were filed in the Superior Court of the State of California, County of Alameda, and are captioned Lopez v. Safeway Inc., et al., Case No. HG14716651 (March 7, 2014); Groen v. Safeway Inc., et al., Case No. RG14716641 (March 7, 2014); Ettinger v. Safeway Inc., et al., Case No. RG14716842 (March 11, 2014); and Brockton Ret. Board v. Edwards, et. al., Case No. RG 14720450 (April 7, 2014), which were consolidated by order of the court (the "Consolidated California State Action"). On May 7, 2014, an amended complaint was filed in the Consolidated California State Action. On May 14, 2014, the court in the above-referenced actions entered an order dismissing the Consolidated California State Action, finding that the plaintiffs were contractually obligated to bring their claims against defendants in the Delaware Court of Chancery in light of the forum selection clause in the Company's By-Laws.

Three other lawsuits were filed in the United States District Court for the Northern District of California, and are captioned Steamfitters Local 449 Pensions Fund v. Safeway Inc., et al., Case No. 4:14-cv-01670 (April 10, 2014); Romaneck v. Safeway Inc., et al., Case No. 4:14-cv-02015 (May 1, 2014); and Templeton v. Safeway Inc., et al., Case No. 3:14-cv-02412 (May 23, 2014) (collectively, the "Federal Court Actions"). An amended complaint was filed in the Steamfitters action on May 15, 2014.

Each of the cases is purportedly brought on behalf of the Company stockholder class. Collectively, the actions generally allege that the members of the Board breached their fiduciary duties in connection with the Merger because, among other things, the Merger involves an unfair price, a flawed sales process and preclusive deal protection devices. The actions allege that the Company and various combinations of the Albertsons entities aided and abetted those alleged breaches of fiduciary duty. The amended complaint in the dismissed Consolidated California State Action further alleged that the proxy statement for the Company's Annual Meeting of Stockholders failed to disclose material information relating to, among other things, the fairness opinions of Goldman, Sachs and Co. and Greenhill & Co., LLC, the Company's financial projections, analyses concerning the intrinsic value of Blackhawk, and the background of the proposed transaction. The Federal Court Actions also allege that the defendants violated Sections 14 and 20(a) of the Exchange Act because the proxy statement failed to disclose material information relating to, among other things, the background of the proposed transaction, the fairness opinions of Goldman Sachs and Greenhill and the Company's financial projections. Among other remedies, the lawsuits seek to enjoin the Merger, or in the event that an injunction is not entered and the Merger closes, rescission of the Merger or unspecified money damages, costs and attorneys' and experts' fees.

On June 13, 2014, the defendants reached an agreement-in-principle providing for a settlement of all of the claims in the Delaware Action on the terms and conditions set forth in a Memorandum of Understanding (the "Memorandum of Understanding"). Pursuant to the Memorandum of Understanding:

- the Board amended the Merger Agreement (which such amendments are incorporated into Amendment No. 2 to the Merger Agreement) to (i) change the terms of the PDC CVR Agreement so that, among other things, the holders would, instead of not receiving any value for any PDC assets that remain unsold at the end of the PDC Sale Deadline (as defined in the Merger Agreement), be entitled to the fair market value of the unsold PDC assets, after the payment of certain fees, expenses and debt repayments, and net of certain assumed taxes (based on a 39.25% rate) and (ii) change the terms of the Casa Ley CVR Agreement to, among other things, (A) reduce the Casa Ley Sale Deadline (as defined in the Merger Agreement) from four years to three years and (B) provide that in the event that any equity interests of Casa Ley owned by the Company remain unsold as of the Casa Ley Sale Deadline, the fair market value determination to be made either mutually by the Company and the Shareholder Representative (as defined in the Merger Agreement) or by an independent investment banking firm shall exclude any minority, liquidity or similar discount regarding such equity interests relative to the value of Casa Ley in its entirety;

- the Board adopted an amendment to the Company's Stockholder Rights Plan to accelerate the expiration date; and
- the Company made certain changes to the Proxy Statement for the Annual Meeting of Stockholders.

The plaintiffs in the Federal Court Actions have reached an agreement with the plaintiffs in the Delaware Action whereby they will participate in the settlement, and the parties in the Federal Court Actions have entered into stipulations staying the Federal Court Actions pending resolution of the Delaware Action. On July 14, 2014, the parties presented a negotiated stipulation of settlement to the Delaware Court of Chancery for approval. On September 2, 2014, the plaintiffs in the Delaware Action filed a motion for final approval of the proposed settlement and award of attorneys' fees and expenses with the Delaware Court of Chancery. On September 17, 2014, the Delaware court approved the settlement, including an award of attorneys' fees in the amount of $8.95 million and an expense reimbursement in the amount of $0.2 million to plaintiffs' counsel, entered final judgment and dismissed the case. The settlement will become effective upon, among other things, the closing of the Merger. In October 2014, Safeway received $3.5 million from insurance coverage.

In the second quarter of 2014, the Company received two subpoenas from the Drug Enforcement Administration ("DEA") concerning the Company's record keeping, reporting and related practices associated with the loss or theft of controlled substances. The Company is cooperating with the DEA on this matter.

It is management's opinion that although the amount of liability with respect to certain of the above matters cannot be ascertained at this time, any resulting liability of these and other matters, including any punitive damages, will not have a material adverse effect on the Company's financial statements taken as a whole.

Guarantees

Note S to the Company's consolidated financial statements, under the caption "Guarantees" of the 2013 Annual Report on Form 10-K, as amended, provides information on guarantees.

NOTE J–STOCKHOLDERS' EQUITY

Cash Dividends Declared on Common Stock The following table presents information regarding cash dividends declared on Safeway's common stock for the first 36 weeks of fiscal 2014 and 2013.

(in millions, except per-share amounts)	Date Declared	Record Date	Per-Share Amounts	Total	YTD Total
2014					
Quarter 3	08/21/14	09/18/14	$ 0.230	$ 53.2	$ 152.5
Quarter 2	05/14/14	06/19/14	0.230	53.1	99.3
Quarter 1	03/12/14	03/24/14	0.200	46.2	46.2
2013					
Quarter 3	08/22/13	09/19/13	$ 0.200	$ 49.1	$ 139.5
Quarter 2	05/14/13	06/20/13	0.200	48.2	90.4
Quarter 1	03/14/13	03/25/13	0.175	42.2	42.2

Cash Dividends Paid on Common Stock The following table presents information regarding cash dividends paid on Safeway's common stock through the first 36 weeks of fiscal 2014 and 2013.

(in millions, except per-share amounts)	Date Paid	Record Date	Per-Share Amounts	Total	YTD Total
2014					
Quarter 3	07/10/14	06/19/14	$ 0.230	$ 53.1	$ 145.3
Quarter 2	04/10/14	03/24/14	0.200	46.2	92.2
Quarter 1	01/09/14	12/19/13	0.200	46.0	46.0
2013					
Quarter 3	07/11/13	06/20/13	$ 0.200	$ 48.2	$ 132.3
Quarter 2	04/11/13	03/25/13	0.175	42.2	84.1
Quarter 1	12/31/12	12/17/12	0.175	41.9	41.9

NOTE K–FAIR VALUE MEASUREMENTS

The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
Level 3	Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

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The following table presents assets and liabilities which are measured at fair value on a recurring basis at September 6, 2014 (in millions):

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents				
Money market	$ 600.9	$ 600.9	$ —	$ —
Commercial paper	474.6	—	474.6	—
Other	0.2	—	0.2	—
Short-term investments [1]	66.2	30.2	36.0	—
Non-current investments [2]	44.7	—	44.7	—
Total	$ 1,186.6	$ 631.1	$ 555.5	$ —
Liabilities:				
Contingent consideration [3]	$ 2.7	$ —	$ —	$ 2.7
Total	$ 2.7	$ —	$ —	$ 2.7

(1) Included in Prepaid Expenses and Other Current Assets on the balance sheet.
(2) Included in Other Assets on the balance sheet.
(3) Included in Other Accrued Liabilities and Accrued Claims and Other Liabilities on the balance sheet.

The following table presents assets and liabilities which are measured at fair value on a recurring basis at year-end 2013 (in millions):

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents				
Term deposits	$ 2,818.0	$ —	$ 2,818.0	$ —
Money market	449.0	449.0	—	—
Bankers' acceptances	309.6	—	309.6	—
Commercial paper	274.0	—	274.0	—
Short-term investments [1]	81.0	42.0	39.0	—
Non-current investments [2]	38.0	—	38.0	—
Total	$ 3,969.6	$ 491.0	$ 3,478.6	$ —
Liabilities:				
Contingent consideration [3]	$ 2.9	$ —	$ —	$ 2.9
Total	$ 2.9	$ —	$ —	$ 2.9

(1) Included in Prepaid Expenses and Other Current Assets on the balance sheet.
(2) Included in Other Assets on the balance sheet.
(3) Included in Other Accrued Liabilities and Accrued Claims and Other Liabilities on the balance sheet.

A reconciliation of the beginning and ending balances for Level 3 liabilities for the first 36 weeks of 2014 follows (in millions):

	Contingent consideration
Balance at December 28, 2013	$ 2.9
Settlements	(0.2)
Balance at September 6, 2014	$ 2.7

In determining the fair value, the Company maximizes the use of quoted market prices and minimizes the use of unobservable inputs. The Level 1 fair values are based on quoted market values for identical assets. The fair values of Level 2 are determined using prices from pricing agencies and financial institutions that develop values based on observable inputs in active markets. Level 3 fair values are determined from industry valuation models based on externally developed inputs.

Long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. Fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows (including rental expense for leased properties, sublease rental income, common area maintenance costs and real estate taxes) and discounting them using a risk-adjusted rate of interest. Safeway estimates future cash flows based on its experience and knowledge of the market in which the store is located and, when necessary, uses real estate brokers.

During the third quarter of 2014, long-lived assets with a carrying value of $46.4 million, primarily store assets, were written down to their fair value of $29.4 million, resulting in an impairment charge of $17.0 million. During the third quarter of 2013, long-lived assets with a carrying value of $22.7 million, primarily store assets, were written down to their fair value of $5.9 million, resulting in an impairment charge of $16.8 million. For the first 36 weeks of 2014, long-lived assets with a carrying value of $80.9 million, primarily stores assets, were written down to their fair value of $38.0 million, resulting in an impairment charge of $42.9 million. For the first 36 weeks of 2013, long-lived assets with a carrying value of $52.8 million, primarily store assets, were written down to their fair value of $20.6 million, resulting in an impairment charge of $32.2 million.

NOTE L–SEGMENTS

Safeway's retail business operates in the United States. Safeway is organized into seven geographic retail operating segments (Denver, Eastern, Northern California, Phoenix, Northwest, Texas and Southern California). Across all seven retail operating segments, the Company operates primarily one store format, where each store offers the same general mix of products with similar pricing to similar categories of customers. Safeway does not operate supercenters, warehouse formats, combination clothing/grocery stores or discount stores.

The seven operating segments have been aggregated into one reportable segment called Safeway, because, in the Company's judgment, the operating segments have similar historical economic characteristics and are expected to have similar economic characteristics and similar long-term financial performance in the future. The principal measures and factors the Company considered in determining whether the economic characteristics are similar are gross margin percentage, operating profit margin, sales growth, capital expenditures, competitive risks, operational risks and challenges, retail store sales, costs of goods sold and employees. In addition, each operating segment has similar products, similar production processes, similar types of customers, similar methods of distribution and a similar regulatory environment. The Company believes that disaggregating its operating segments would not provide material or meaningful additional information.

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The following table presents sales revenue by type of similar product (dollars in millions):

	12 Weeks Ended				36 Weeks Ended			
	September 6, 2014		September 7, 2013		September 6, 2014		September 7, 2013	
Non-perishables (1)	$ 3,445.6	41.5%	$ 3,403.5	42.0%	$ 10,255.0	41.6%	$ 10,170.8	41.9%
Perishables (2)	3,116.5	37.5	2,963.7	36.6	9,224.1	37.4	8,864.7	36.6
Fuel	980.2	11.8	990.2	12.3	2,868.6	11.6	2,974.1	12.3
Pharmacy	625.0	7.5	602.0	7.4	1,873.4	7.6	1,829.1	7.5
Other (3)	140.6	1.7	139.8	1.7	431.7	1.8	411.4	1.7
Total sales and other revenue	$ 8,307.9	100.0%	$ 8,099.2	100.0%	$ 24,652.8	100.0%	$ 24,250.1	100.0%

(1) Consists primarily of general merchandise, grocery, meal ingredients, soft drinks and other beverages, snacks and frozen foods.
(2) Consists primarily of produce, dairy, meat, bakery, deli, floral and seafood.
(3) Consists primarily of wholesale sales and other revenue.

NOTE M–OTHER COMPREHENSIVE INCOME OR LOSS

Total comprehensive earnings are defined as all changes in stockholders' equity during a period, other than those resulting from investments by and distributions to stockholders. Generally, for Safeway, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities and foreign currency translation adjustments. Total comprehensive earnings, including continuing and discontinued operations, represent the activity for a period, net of tax, and was $33.2 million in the first 36 weeks of 2014 and $186.6 million in the first 36 weeks of 2013.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For Safeway, AOCI is primarily the cumulative balance related to pension and other post-retirement benefit adjustments and foreign currency translation adjustments. Changes in the AOCI balance by component are shown below (in millions):

	36 Weeks Ended Sept. 6, 2014			
	Pension and Post-Retirement Benefit Plan Items	Foreign Currency Items	Other	Total Comprehensive (Loss) Income Including Noncontrolling Interests
Beginning balance	$ (130.7)	$ (138.8)	$ (1.6)	$ (271.1)
Other comprehensive income before reclassifications	—	2.4	1.8	4.2
Amounts reclassified from accumulated other comprehensive income	36.2	—	—	36.2
Tax expense	(14.2)	—	(0.4)	(14.6)
Net current-period other comprehensive income	22.0	2.4	1.4	25.8
Distribution of Blackhawk (See Note B)	—	2.2	—	2.2
Ending balance	$ (108.7)	$ (134.2)	$ (0.2)	$ (243.1)

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	36 Weeks Ended Sept.7, 2013			
	Pension and Post-Retirement Benefit Plan Items	Foreign Currency Items	Other	Total Comprehensive (Loss) Income Including Noncontrolling Interests
Beginning balance	$ (472.3)	$ 399.0	$ (0.5)	$ (73.8)
Other comprehensive (loss) income before reclassifications	—	(52.1)	(1.2)	(53.3)
Amounts reclassified from accumulated other comprehensive income	74.4	—	—	74.4
Tax expense	(27.4)	—	(0.2)	(27.6)
Net current-period other comprehensive income (loss)	47.0	(52.1)	(1.4)	(6.5)
Ending balance	$ (425.3)	$ 346.9	$ (1.9)	$ (80.3)

NOTE N–SUBSEQUENT EVENT

On October 6, 2014, after receiving the required majority consent from holders of $80 million of 3.40% Senior Notes due December 1, 2016 ("2016 Notes"), Safeway entered into a supplemental indenture to amend the change of control provision relating to these notes to remove the requirement to offer to repurchase the notes at $1,010 per $1,000 aggregate principal amount of notes, plus accrued and unpaid interest ("Repurchase Requirement"), in connection with the change of control resulting from the proposed Merger. On October 9, 2014, after receiving the required majority consent from holders of $100 million of 6.35% Senior Notes due August 15, 2017 ("2017 Notes"), Safeway entered into a supplemental indenture to amend the change of control provision relating to these notes to remove the Repurchase Requirement. All consent fees were paid to the holders of such notes by Albertsons.

Following the Merger, the 2016 Notes and 2017 Notes and any of the $500 million of 5.00% Senior Notes due August 15, 2019 ("2019 Notes") that remain outstanding will be secured by substantially all of the assets of Albertsons and Safeway and their respective subsidiaries on a pari passu basis with the new secured notes due 2022 that will be issued by Albertsons as part of the financing for the Merger ("Albertsons Notes"), and will be guaranteed, on the same basis as the Albertsons Notes, by Albertsons and Safeway and their respective subsidiaries. Following the Merger, other series of Safeway's senior notes and debentures (the 3.95% Senior Notes due 2020, the 4.75% Senior Notes due 2021, the 7.45% Senior Debentures due 2027 and the 7.25% Senior Debentures due 2031) that remain outstanding will become equally and ratably secured by certain assets of Safeway and its subsidiaries on a pari passu basis with the 2016 Notes, 2017 Notes, 2019 Notes and Albertsons Notes, but will not by the other assets of Safeway and Albertsons and their subsidiaries that will secure the 2016 Notes, 2017 Notes, 2019 Notes and Albertsons Notes.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (“Exchange Act”). Forward-looking statements contain information about our future operating or financial performance. Forward-looking statements are based on our current expectations and involve risks and uncertainties, which may be beyond our control, as well as assumptions. If assumptions prove to be incorrect or if known or unknown risks and uncertainties materialize into actual events or circumstances, actual results could differ materially from those included in or contemplated or implied by these statements. Forward-looking statements do not strictly relate to historic or current facts. Forward-looking statements are indicated by words or phrases such as “will,” “may,” “continuing,” “ongoing,” “expects,” “estimates,” “anticipates,” “believes,” “guidance” and similar words or phrases and the negative of such words or phrases.

This Quarterly Report on Form 10-Q includes forward-looking statements, including but not limited to forward-looking statements relating to pension and post-retirement benefit plan contributions; ability to make future borrowings; sufficiency of liquidity for the foreseeable future; the total amount of multiemployer pension plan withdrawal liability related to Dominick's; the annual amount of multiemployer pension plan withdrawal liability expected to be paid for Dominick's and the number of years expected to make those payments; effect of the Merger on our notes and debentures; the timing of the receipt of the demand letter from the remaining multiemployer pension plan related to Dominick's; gains/losses on foreign currency translation; the tax treatment of the distribution of Blackhawk shares; the incremental tax to Safeway resulting from the distribution of the Blackhawk shares; and the outcome of legal proceedings. The following are among the principal factors that could cause actual results to differ materially from those included in or contemplated or implied by the forward-looking statements:

- The occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement;
- The possibility that various closing conditions for the Merger may not be satisfied or waived;
- The possibility of a failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory or other approvals;
- The failure to obtain sufficient funds to close the Merger;
- The failure of the Merger to close for any other reason;
- The amount of fees and expenses related to the Merger;
- The diversion of the Board’s attention from ongoing business concerns;
- The effect of the announcement of the Merger on our business relationships, operating results and business generally, including our ability to retain key employees;
- The Merger Agreement’s contractual restrictions on the conduct of our business prior to the closing of the Merger;
- The possible adverse effect on our business and the price of our common stock if the Merger is not completed in a timely matter or at all;
- The outcome of, or delays caused by, any legal proceedings, regulatory proceedings or enforcement matters that have been or may be instituted against us and others relating to the Merger;
- General business and economic conditions in our operating regions, including the rate of inflation or deflation, consumer spending levels, currency valuations, population, employment and job growth and/or losses in our markets;
- Sales volume levels and price per item trends;
- Pricing pressures and competitive factors, which could include pricing strategies, store openings, remodels or acquisitions by our competitors;
- Results of our programs to control or reduce costs, improve buying practices and control shrink;
- Results of our programs to increase sales;
- Results of our continuing efforts to expand corporate brands;

- Results of our programs to improve our perishables and center of store departments;
- The impact of generic drugs on pharmacy sales and identical-store sales;
- Results of our promotional programs;
- Results of our capital program;
- Results of our efforts to improve working capital;
- Results of any ongoing litigation in which we are involved or any litigation in which we may become involved (other than litigation related to the Merger);
- The resolution of uncertain tax positions;
- The outcome of the sale of substantially all the net assets of Canada Safeway Limited to Sobeys Inc. including the ability to project the impact of the transaction on our ongoing operations;
- The ability to achieve satisfactory operating results in all geographic areas where we operate;
- Changes in the financial performance of our equity investments;
- Labor costs, including benefit plan costs and severance payments, or labor disputes that may arise from time to time and work stoppages that could occur in areas where certain collective bargaining agreements have expired or are on indefinite extensions or are scheduled to expire in the near future;
- Potential costs and risks associated with actual or potential cyber attacks;
- Data security or other information technology issues that may arise;
- Failure to fully realize or delay in realizing growth prospects for existing or new business ventures;
- Legislative, regulatory, tax, accounting or judicial developments;
- The cost and stability of fuel, energy and other power sources;
- The impact of the cost of fuel on gross margin and identical-store sales;
- Discount rates used in actuarial calculations for pension obligations and self-insurance reserves;
- The rate of return on our pension assets;
- The availability and terms of financing, including interest rates;
- Adverse developments with regard to food and drug safety and quality issues or concerns that may arise;
- Loss of key members of senior management (other than as a result of the pending Merger);
- Unanticipated events or changes in real estate matters, including acquisitions, dispositions and impairments;
- Adverse weather conditions and effects from natural disasters;
- Performance in new business ventures or other opportunities that we pursue; and
- The capital investment in and financial results from our retail stores.

In addition, there is no assurance that any payments will be made with respect to the sales of the Casa Ley Interest and/or PDC, including with respect to the CVRs after the closing of the Merger. The right to receive any future payments with respect to the sales of the Casa Ley Interest and/or PDC, including with respect to the CVRs after the closing of the Merger, will be contingent on a number of factors, including our ability to sell all or a portion of the Casa Ley Interest and/or PDC, and the amount of net proceeds realized. There can be no assurance as to the value of the Casa Ley Interest and/or PDC or that stockholders will receive net proceeds in the amount of the value estimated in the joint press release previously issued by Safeway, or any other amount.

We undertake no obligation to update forward-looking statements to reflect new information, events or developments after the date hereof including without limitation the value of the Casa Ley Interest and/or PDC. Please refer to our most recent Annual Report on Form 10-K, as amended, Item 1A of this report and subsequent Current Reports on Form 8-K for more information regarding these risks and uncertainties. These reports are not intended to be a discussion of all potential risks or uncertainties, as it is not possible to predict or identify all risk factors.

SAFEWAY INC. AND SUBSIDIARIES
MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The disclosures in this Management's Discussion and Analysis focus on continuing operations, unless otherwise noted.

MANAGEMENT OVERVIEW The Company’s results of operations can be affected by economic conditions such as macroeconomic conditions, credit market conditions and the level of consumer confidence. The Company believes that recently consumer confidence has improved modestly, but remains cautious. The Company is responding to this challenging environment with marketing programs, such as **just for U™**, and a continuing focus on cost control.

RECENT DEVELOPMENTS

Definitive Merger Agreement

On March 6, 2014, Safeway and Albertsons announced the Merger Agreement. The Merger Agreement was unanimously approved by the Board of Directors of Safeway. At the Company's 2014 Annual Meeting of Stockholders held on July 25, 2014, Safeway stockholders approved the proposal to adopt and approve the Merger Agreement. See Note A to the condensed consolidated financial statements set forth in Part I, Item 1 of this report.

Distribution of Blackhawk Shares

On April 14, 2014, Safeway distributed the remaining 37.8 million shares of Blackhawk stock that it owned to its stockholders. See Note B to the condensed consolidated financial statements set forth in Part I, Item 1 of this report.

DISCONTINUED OPERATIONS Historical financial information for Blackhawk, Canada Safeway Limited ("CSL") and Dominick's presented in the consolidated income statements has been reclassified to discontinued operations to conform to current-year presentation. The financial results of discontinued operations for the 12 and 36 weeks ended September 6, 2014 and September 7, 2013 were as follows (in millions):

	12 Weeks Ended		36 Weeks Ended	
	September 6, 2014	September 7, 2013	September 6, 2014	September 7, 2013
Sales and other revenue:				
Blackhawk	$ —	$ 194.4	$ 305.6	$ 582.8
CSL	—	1,454.1	—	4,469.6
Dominick's	—	328.4	7.3	991.9
Total	$ —	$ 1,976.9	$ 312.9	$ 6,044.3
(Loss) income from discontinued operations, before income taxes:				
Blackhawk	$ —	$ 3.8	$ (4.4)	$ 9.6
CSL	—	74.5	—	238.2
Dominick's	(2.9)	(13.4)	(65.7)	(34.4)
Total	(2.9)	64.9	(70.1)	213.4
Gain (loss) on sale or disposal of operations, net of lease exit costs and transaction costs, before income taxes:				
Blackhawk	0.3	—	(5.2)	—
CSL	(1.2)	—	(6.4)	—
Dominick's	26.0	—	81.5	—
Total	25.1	—	69.9	—
Total income (loss) from discontinued operations before income taxes	$ 22.2	$ 64.9	$ (0.2)	$ 213.4
Income tax benefit (expense) on discontinued operations	8.5	(21.9)	31.1	(164.9)
Income from discontinued operations, net of tax	$ 30.7	$ 43.0	$ 30.9	$ 48.5

As previously reported, Safeway participated in certain multiemployer pension plans on which withdrawal liability is expected to be incurred due to the Dominick's closure. For more information on the withdrawal liability, see Note B to the condensed consolidated financial statements set forth in Part I, Item 1 of this report.

INCOME/LOSS BEFORE INCOME TAXES Safeway's loss before income taxes was $32.3 million in the third quarter of 2014 and included a loss on the extinguishment of debt of $84.4 million ($0.22 per diluted share), merger-related expenses of $11.2 million ($0.03 per diluted share) and a loss on foreign currency translation of $3.8 million ($0.01 per diluted share). This compared to income before income taxes of $29.8 million in the third quarter of 2013. The third quarter of 2013 included an impairment of a warehouse information software project for $9.9 million ($0.03 per diluted share).

For the first 36 weeks of 2014, the Company had a loss before income taxes of $36.6 million in 2014 which included a loss on foreign currency translation of $111.6 million ($0.30 per diluted share), a loss on the extinguishment of debt of $84.4 million ($0.22 per diluted share) and merger-related expenses of $22.0 million ($0.06 per diluted share). This compared to income of $178.0 million in the first 36 weeks of 2013, which included an impairment of a warehouse information software project for $9.9 million ($0.03 per diluted share), increased legal reserves of $17.0 million related to multiple matters ($0.04 per diluted share) and a gain on the sale of investments of $8.5 million ($0.02 per diluted share).

SALES AND OTHER REVENUE Total sales increased to $8.3 billion in the third quarter of 2014 from $8.1 billion in the third quarter of 2013 due primarily to $216 million of higher identical-store sales, partially offset by $10 million of lower fuel sales. Fuel sales decreased primarily because the gallons sold decreased 3.7%, which was partially offset by an increase in the average retail price per gallon of fuel of 2.8%. Average transaction size and transaction counts increased during the quarter.

Sales and other revenue increased to $24.7 billion in the first 36 weeks of 2014 from $24.3 billion in the first 36 weeks of 2013 primarily from $518 million of higher identical-store sales, partially offset by $106 million of lower fuel sales. Fuel sales decreased primarily because the gallons sold decreased 3.8%, and the average retail price per gallon of fuel increased 0.2%. Average transaction size and transaction counts increased during the quarter.

Identical-Store Sales*

	12 Weeks Ended		36 Weeks Ended	
	September 6, 2014	September 7, 2013	September 6, 2014	September 7, 2013
As reported	2.6%	0.8%	1.7%	0.3%
Excluding fuel sales	3.1%	2.0%	2.5%	1.7%

* Identical-store sales (ID Sales) are defined as stores operating in the same period in both the current year and the prior year, comparing sales on a daily basis. Stores that are open during remodeling are included in ID Sales. Internet sales are included in ID Sales if the store fulfilling the orders is included in the ID Sales calculation. Excludes replacement stores and discontinued operations.

GROSS PROFIT Gross profit represents the portion of sales revenue remaining after deducting the cost of goods sold during the period, including purchase and distribution costs. These costs include inbound freight charges, purchasing and receiving costs, warehouse inspection costs, warehousing costs and other costs of Safeway's distribution network. Advertising and promotional expenses and vendor allowances are also components of cost of goods sold.

Gross profit increased 32 basis points to 26.18% of sales in the third quarter of 2014 compared to 25.86% of sales in the third quarter of 2013 due primarily to a 38 basis-point increase from lower fuel sales. During the third quarter of 2014, the Company has made significant progress passing on cost inflation in produce, dairy and pharmacy through successful price increases.

Gross profit decreased 19 basis points to 26.06% of sales in the first 36 weeks of 2014 compared to 26.25% of sales in the first 36 weeks of 2013. Gross profit increased 29 basis points due to lower fuel sales. The offsetting 48 basis-point decline was largely due to strong cost inflation in produce, dairy, meat and pharmacy that had not been fully reflected in price increases.

Vendor allowances totaled $554.4 million in the third quarter of 2014 and $530.8 million in the third quarter of 2013. Year-to-date, vendor allowances totaled $1.7 billion through the third quarter of 2014 and $1.6 billion through the third quarter of 2013. Vendor allowances can be grouped into the following broad categories: promotional allowances, slotting allowances and contract allowances.

Promotional allowances make up nearly 95% of all allowances. With promotional allowances, vendors pay Safeway to promote their product. The promotion may be any combination of a temporary price reduction, a feature in print ads, a feature in a Safeway circular or a preferred location in the store. The promotions are typically one to two weeks long.

Slotting allowances are a small portion of total allowances (approximately 3% of all allowances). With slotting allowances, the vendor reimburses Safeway for the cost of placing new product on the shelf. Safeway has no obligation or commitment to keep the product on the shelf for a minimum period.

Contract allowances make up the remainder of all allowances. Under the typical contract allowance, a vendor pays Safeway to keep product on the shelf for a minimum period of time or when volume thresholds are achieved.

Slotting and promotional allowances are accounted for as a reduction in the cost of purchased inventory and recognized when the related inventory is sold. Contract allowances are recognized as a reduction in the cost of goods sold as volume thresholds are achieved or through the passage of time.

OPERATING AND ADMINISTRATIVE EXPENSE Operating and administrative expense increased 26 basis points to 25.04% of sales in the third quarter of 2014 from 24.78% of sales in the third quarter of 2013. On a year-to-date basis, operating and administrative expense increased 10 basis points to 24.94% in the first 36 weeks of 2014 compared to 24.84% in the first 36 weeks of 2013. Basis-point changes for both the third quarter and year-to-date are shown below:

SAFEWAY INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Basis-point increase	
	Third Quarter	**YTD**
Labor costs	25	(6)
Merger-related expenses	15	10
Legal reserves	14	—
Impact of fuel sales	7	16
Lower other store expenses (excluding labor)	(19)	(7)
Higher gains on property retirements, net of impairments	(22)	(8)
Reversal of share-based compensation expense for performance shares (See Note C)	—	(13)
Higher administrative expenses (excluding labor)	—	11
Other individually immaterial items	6	7
	26	10

INTEREST EXPENSE Interest expense declined to $45.0 million in the third quarter of 2014 from $63.3 million in the third quarter of 2013 because of a decline in average borrowings, partly offset by an increase in the average interest rate. Average borrowings declined $2,137 million to $3,495 million in the third quarter of 2014 compared to $5,632 million in the third quarter of 2013. The average interest rate increased 72 basis points to 5.59% in the third quarter of 2014 from 4.87% in the third quarter of 2013.

Year-to-date through the third quarter, interest expense declined to $148.1 million in 2014 from $191.6 million in 2013 because of a decline in average borrowings, partly offset by an increase in the average interest rate.

LOSS ON EXTINGUISHMENT OF DEBT In the third quarter of 2014, the Company incurred a loss on extinguishment of debt of $84.4 million. For more information, see Note G to the condensed consolidated financial statements set forth in Part I, Item 1 of this report.

GAIN / LOSS ON FOREIGN CURRENCY TRANSLATION Loss on foreign currency translation was $3.8 million in the third quarter of 2014 and $111.6 million on a year-to-date basis. This foreign currency translation was primarily the result of translating investments denominated in Canadian currency into U.S. currency for financial reporting purposes. At the end of the first quarter of 2014, Safeway had CAD2,985.4 million (USD2,667.5 million) of cash and equivalents denominated in Canadian dollars which came from the sale of substantially all of the net assets of Canada Safeway Limited in the fourth quarter of 2013. During the second quarter of 2014, Safeway converted most of its Canadian cash and equivalents into U.S. dollars. At the end of the third quarter of 2014, Safeway had only CAD167.2 million (USD152.4 million) of cash and equivalents denominated in Canadian dollars. Safeway does not anticipate material gains or losses from foreign currency translation going forward.

OTHER INCOME Other income was $6.7 million in the third quarter of 2014 compared to $5.2 million in the third quarter of 2013. This increase was primarily due to higher interest income and higher gains on sale of investments in 2014. Other income was $31.3 million for the first 36 weeks of 2014 compared to $28.1 million for the first 36 weeks of 2013 primarily due to higher interest income income, partially offset by lower earnings from Casa Ley and lower gains on sale of investments in 2014.

INCOME TAXES Income taxes on continuing operations were 34.4% of pre-tax loss in the third quarter of 2014 compared to 21.5% of pre-tax income in the third quarter of 2013. The increase in the tax rate is primarily due to the expiration of federal tax credits, the increase in the repatriation accrual for the Company's investment in Casa Ley in 2014 and a $2.5 million reduction in tax expense from individually immaterial items in the third quarter of 2013. Year-to-date, income taxes on continuing operations were 33.3% of pre-tax loss in 2014 and 18.3% of pre-tax income in 2013. The first 36 weeks of 2013 included a $17.2 million reduction of tax expense ($0.07 per diluted share) on COLI policies and a $5.0 million reduction of tax expense ($0.02 per diluted share) due to the resolution of federal income tax matters.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are important to the portrayal of Safeway’s financial condition and results and require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company’s 2013 Annual Report on Form 10-K, as amended, includes a description of certain critical accounting policies, including those with respect to workers’ compensation, store lease exit costs and impairment charges, employee benefit plans and income tax contingencies.

Liquidity and Financial Resources

Net cash flow provided by operating activities was $690.2 million in the first 36 weeks of 2014 compared to $767.7 million in the first 36 weeks of 2013. This change was largely due to higher tax payments in 2014.

Net cash flow used by investing activities increased to $447.0 million in the first 36 weeks of 2014 from $309.9 million in the first 36 weeks of 2013 primarily due to proceeds from COLI policies in the first quarter of 2013, increased capital expenditures in 2014 and increased cash payments on non-operating properties, partly offset by higher proceeds on the sale of property in 2014.

Net cash flow used by financing activities was $1,683.9 million in the first 36 weeks of 2014 compared to $94.4 million in the first 36 weeks of 2013. This change was due primarily to higher debt repayments in 2014, lower additions to debt in 2014 and the payment of debt extinguishment costs in 2014.

Management believes that current levels of cash on hand, net cash flow from operating activities and potential borrowing under Safeway’s Credit Agreement will be adequate to meet anticipated requirements for working capital, capital expenditures, interest payments, dividend payments and scheduled principal payments for the foreseeable future. There can be no assurance, however, that Safeway’s business will continue to generate cash flow at or above current levels or that the Company will maintain its ability to borrow under the Credit Agreement.

FREE CASH FLOW ON CONTINUING OPERATIONS Free cash flow is calculated as shown below:

	36 Weeks Ended	
(in millions)	September 6, 2014	September 7, 2013
Net cash flow provided by operating activities from continuing operations	$ 690.2	$ 767.7
Net cash flow used by investing activities from continuing operations	(447.0)	(309.9)
Free cash flow	$ 243.2	$ 457.8

Free cash flow provides information regarding the cash that the Company’s business generates, which management believes is useful to understanding the Company’s business. Free cash flow is also a useful indicator of Safeway’s ability to service debt and pay dividends that management believes will enhance stockholder value.

This non-U.S. GAAP financial measure should not be considered as an alternative to net cash flow from operating activities or other increases and decreases in cash as shown on our Consolidated Statements of Cash Flows as a measure of liquidity. Non-U.S. GAAP financial measures have limitations as analytical tools, and they should not be considered in isolation or as substitutes for analysis of the Company’s results as reported under U.S. GAAP. Other companies in the Company’s industry may calculate free cash flow differently, limiting its usefulness as a comparative measure.

DISCONTINUED OPERATIONS

Net cash flow used by operating activities was $1,786.1 million in the first 36 weeks of 2014 compared to $458.4 million in the first 36 weeks of 2013. During 2014, Safeway paid income taxes of $1.1 billion, most of which related to the income taxes on the gain on the sale of substantially all of the net assets of Canada Safeway Limited, which closed in the fourth quarter of 2013. Additionally, Blackhawk payables related to third-party gift cards, net of receivables, was a use of cash of $519.7 million in 2014 compared to $588.4 million in 2013.

Net cash flow provided by investing activities was $131.1 million in the first 36 weeks of 2014 compared to net cash flow used by investing activities of $72.6 million in the first 36 weeks of 2013. During 2014, Safeway received net proceeds of $150.7 million from the sale of certain Dominick's stores, paid approximately $6.4 million of expenses related to the sale of substantially all of the net assets of Canada Safeway Limited, and paid approximately $5.2 million in expenses related to the distribution of Blackhawk Class B common stock to Safeway stockholders.

Net cash flow used by financing activities was $57.2 million in the first 36 weeks of 2014. At the date of the distribution of Blackhawk (see Note B), $229.3 million of Blackhawk cash and cash equivalents was removed from Safeway's balance sheet. This decrease was partly offset by additional Blackhawk debt of $175.0 million. Net cash flow provided by financing activities of $235.2 million in the first 36 weeks of 2013 included net proceeds of $237.9 million from the sale of Blackhawk common stock.

CREDIT AGREEMENT At September 6, 2014, the Company had a $1.5 billion credit agreement (the "Credit Agreement") with a syndicate of banks that terminates on June 1, 2015. The Credit Agreement provides to Safeway (i) a four-year revolving domestic credit facility of up to $1,250.0 million for U.S. dollar advances and (ii) a $400.0 million subfacility of the domestic facility for issuance of standby and commercial letters of credit. The Credit Agreement also provides for an increase in the credit facility commitments up to an additional $500.0 million, subject to the satisfaction of certain conditions. On June 30, 2014, the Company terminated a $250.0 million Canadian credit facility. The Credit Agreement contains various covenants that restrict, among other things and subject to certain exceptions, the ability of Safeway and its subsidiaries to incur certain liens, make certain asset sales, enter into certain mergers or amalgamations, engage in certain transactions with stockholders and affiliates and alter the character of its business from that conducted on the closing date. The Credit Agreement also contains two financial maintenance covenants: (i) an interest coverage ratio that requires Safeway not to permit the ratio of consolidated Adjusted EBITDA, as defined in the Credit Agreement, to consolidated interest expense to be less than 2.00:1.00, and (ii) a leverage ratio that requires Safeway not to permit the ratio of consolidated total debt, less unrestricted cash in excess of $75.0 million, to consolidated Adjusted EBITDA, to exceed 3.50:1.00. As of September 6, 2014, the Company was in compliance with these covenant requirements. At September 6, 2014, there were no borrowings outstanding and $35.6 million in letters of credit under the Credit Agreement. Total unused borrowing capacity under the Credit Agreement was $1,464.4 million on September 6, 2014. We expect that the Credit Agreement will be terminated upon closing of the Merger.

COMMERCIAL PAPER PROGRAM Due to the announced Merger, each of the major U.S. rating agencies has placed Safeway on negative watch. If Safeway's credit ratings are downgraded to below the Triple B-minus (or equivalent) level, Safeway does not expect to have the ability to borrow under its commercial paper program. However, Safeway expects to continue to have access to borrowings under the Credit Agreement referred to above.

TERM CREDIT AGREEMENT Previously, Safeway had a $700 million term credit agreement (the "Term Credit Agreement") with a syndicate of banks. During the second quarter of 2014, the Company terminated the Term Credit Agreement after repaying the remaining $400 million of outstanding borrowings.

NOTES DUE AUGUST 2014 Safeway repaid all of its 5.625% Senior Notes due 2014 upon their maturity on August 15, 2014.

EFFECT OF MERGER ON NOTES AND DEBENTURES In August 2014, we redeemed $320 million of our 3.40% Senior Notes due December 2016 ("2016 Notes") and $400 million of our 6.35% Senior Notes due 2017 ("2017 Notes"). We expect that the Merger will constitute a "Change of Control Triggering Event" under the indenture governing the 5.00% Senior Notes due 2019 ("2019 Notes"), 3.95% Senior Notes due 2020 ("2020 Notes") and 4.75% Senior Notes due 2021 ("2021 Notes," and together with the 2019 Notes and 2020 Notes, "Notes"), which will require us to offer to purchase any and all of the Notes for cash at a purchase price equal to 101% of the aggregate principal amount of the Notes repurchased, plus accrued and unpaid interest ("Change of Control Tender Offer"). We expect to commence the Change of Control Tender Offer with respect to the Notes then outstanding prior to the closing of the Merger, and expect such Change of Control Tender Offer to expire on or about the closing date of the Merger. We expect all or substantially all of our other indebtedness (other than capital lease debt) to be repaid on or before the consummation of the Merger.

ADJUSTED EBITDA Management believes that "Adjusted EBITDA from Continuing Operations" and "Adjusted EBITDA from Continuing Operations, as further adjusted" are useful measures of operating performance that facilitate management's evaluation of the Company's ability to service debt and capability to incur more debt to generate the cash needed to grow the business (including at times when interest rates fluctuate). Omitting interest, taxes and the other enumerated items provides a financial measure that is useful to management in assessing operating performance because the cash Safeway's business operations generate enables us to incur debt and thus to grow.

Management believes that “Adjusted EBITDA from Continuing Operations” and "Adjusted EBITDA from Continuing Operations, as further adjusted" also facilitate comparisons of Safeway's results of operations with those of companies having different capital structures. Since the levels of indebtedness, tax structures, discontinued operations, property impairment charges, methodologies in calculating LIFO income and unconsolidated affiliates that other companies have are different from the Company's, we omit these amounts to facilitate investors' ability to make these comparisons. Similarly, we omit depreciation and amortization because other companies may employ a greater or lesser amount of owned property, and because, in management's experience, whether a store is new or one that is fully or mostly depreciated does not necessarily correlate to the contribution such store makes to operating performance.

Management also believes that investors, analysts and other interested parties view our ability to generate “Adjusted EBITDA from Continuing Operations” and "Adjusted EBITDA from Continuing Operations, as further adjusted" as important measures of our operating performance and that of other companies in our industry, and these measures are useful indicators of Safeway's ability to service debt and pay dividends that management believes will enhance stockholder value. These measures are also meaningful indicators of cash available for investing activities.

The computations of Adjusted EBITDA from Continuing Operations and Adjusted EBITDA from Continuing Operations, as further adjusted, are provided below. Adjusted EBITDA from Continuing Operations and Adjusted EBITDA from Continuing Operations, as further adjusted, should not be considered as alternatives to income from continuing operations, net of tax, or cash flow from operating activities (which are determined in accordance with U.S. GAAP). Other companies may define Adjusted EBITDA differently and, as a result, such measures may not be comparable to Safeway’s Adjusted EBITDA from Continuing Operations or Adjusted EBITDA from Continuing Operations, as further adjusted (dollars in millions).

	Rolling Four Quarters Ended September 6, 2014	52 Weeks 2013	36 Weeks Ended September 6, 2014	36 Weeks Ended September 7, 2013
Adjusted EBITDA from Continuing Operations:				
Income (loss) from continuing operations, net of tax	$ 47.2	$ 217.1	$ (24.4)	$ 145.5
Add (subtract):				
Income taxes	(10.2)	34.5	(12.2)	32.5
Interest expense	229.5	273.0	148.1	191.6
Depreciation expense	915.2	922.2	625.8	632.8
LIFO income	(14.3)	(14.3)	—	—
Share-based employee compensation	24.6	50.4	9.1	34.9
Property impairment charges	46.3	35.6	42.9	32.2
Equity in earnings of unconsolidated affiliate	(13.5)	(17.6)	(10.1)	(14.2)
Dividend from unconsolidated affiliate	5.6	3.8	5.6	3.8
Impairment of notes receivable	30.0	30.0	—	—
Total Adjusted EBITDA from Continuing Operations	1,260.4	1,534.7	784.8	1,059.1
Loss on foreign currency translation	169.0	57.4	111.6	—
Loss on extinguishment of debt	84.4	—	84.4	—
Merger-related expenses	22.5	0.5	22.0	—
Charges for legal reserves	—	17.0	—	17.0
Gain on the sale of investments	(3.3)	(8.5)	(3.3)	(8.5)
Total Adjusted EBITDA from Continuing Operations, as further adjusted	$ 1,533.0	$ 1,601.1	$ 999.5	$ 1,067.6

SHELF REGISTRATION The Company has a shelf registration statement (the “Shelf”) with the SEC which permits Safeway to issue an unlimited amount of debt securities and/or common stock that expires on October 24, 2014.

DIVIDENDS ON COMMON STOCK Dividends paid on common stock totaled $53.1 million and $48.2 million for the third quarters of 2014 and 2013, respectively. Year-to-date dividends paid on common stock totaled $145.3 million and $132.3

million for 2014 and 2013, respectively. Note J to the Company's condensed consolidated financial statements in this report provides additional information on dividends declared and dividends paid on Safeway common stock.

The Merger Agreement does not permit us to authorize, declare, set aside or pay any dividend or other distributions other than up to five cash quarterly dividends per share of $0.20, $0.23, $0.23, $0.23 and $0.23 prior to the closing of the Merger, of which we have declared and paid three quarterly dividends, and other than for dividends with respect to the net proceeds from the sales of either PDC or Casa Ley should they occur before the closing of the Merger.

STOCK REPURCHASE PROGRAM Safeway did not repurchase any shares of its common stock during the first 36 weeks of 2014 under its previously announced share repurchase program. The remaining board authorization for stock repurchases at September 6, 2014 was approximately $2.2 billion. The repurchase program has no expiration date but may be terminated by the board of directors. The Merger Agreement does not allow the Company to repurchase its common stock under the Company's stock repurchase program. The Merger Agreement does permit the Company to repurchase its common stock from holders of options, restricted stock or performance shares in payment of the exercise price or any applicable taxes.

Capital Expenditure Program
For the first 36 weeks of 2014, Safeway invested $471.1 million in capital expenditures compared to $412.8 million for the first 36 weeks of 2013.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes regarding the Company's market risk position from the information provided under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of the Company's 2013 Annual Report on Form 10-K, as amended.

Item 4. Controls and Procedures

The Company maintains "disclosure controls and procedures," as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Company's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. The Company also has investments in certain unconsolidated entities, including Casa Ley, S.A. de C. V. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily more limited than those it maintains with respect to its consolidated subsidiaries.

The Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon the foregoing, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's President and Chief Executive Officer, along with the Company's Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. There has been no change during the Company's fiscal quarter ended September 6, 2014 in the Company's internal control over financial reporting that was identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) which 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

Legal Matters
Information about legal proceedings appears under the caption "Legal Matters" in Note I to the condensed consolidated financial statements set forth in Part I, Item 1 of this report.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, in the Company's 2013 Annual Report on Form 10-K, as amended, except as noted below.

On March 6, 2014, Safeway and Albertsons entered into the Merger Agreement, as described under the caption "Recent Developments" in Note A to the condensed consolidated financial statements in this report.

The Merger is subject to a number of conditions to Albertsons' and our obligations, which, if not fulfilled, may result in termination of the Merger Agreement.

The Merger Agreement contains a number of customary conditions to consummation of the Merger, including there not having been a "material adverse effect" on Safeway, each of Safeway's and Albertsons' compliance with covenants and the accuracy of each of Safeway's and Albertsons' representations and warranties, the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the absence of any temporary restraining orders, preliminary or permanent injunctions or other orders by any governmental entity making illegal, restraining or enjoining the Merger. Many of the conditions to consummation of the Merger are not within either Albertsons' or our control, and neither party can predict when or if these conditions will be satisfied. The Merger Agreement provides for the ability of Albertsons or Safeway to terminate the Merger Agreement under certain circumstances, including the right of either party to terminate the Merger Agreement if the Merger is not consummated by March 5, 2015 (the "Initial End Date," unless the Initial End Date is extended by Albertsons (in its sole discretion) in certain circumstances to June 5, 2015).

Before the Merger can be completed, applicable waiting periods must expire or terminate under antitrust laws, and various approvals, consents or clearances must be obtained from certain regulatory entities. In deciding whether to grant antitrust or regulatory clearances, the relevant antitrust authorities will consider the effect of the Merger within their relevant jurisdictions. The terms and conditions of approvals that are granted may impose requirements, limitations, costs or restrictions on us and Albertsons. There can be no assurance that regulators will not impose terms, conditions, requirements, limitations, costs or restrictions that would delay completion of the Merger. In addition, we cannot provide any assurance that any such terms, conditions, requirements, limitations, costs or restrictions will not result in the abandonment of the Merger.

Failure to complete the Merger could have a negative impact on our stock price and our future business and financial results.

If the Merger is not completed, our ongoing business, financial condition and results of operations may be adversely affected, and we will be subject to several risks, including the following:

- we may be required to pay a termination fee to Albertsons of up to $250 million;
- unless and until it is terminated, we will be prohibited by the Merger Agreement from seeking certain strategic alternatives, such as transactions with third parties other than Albertsons, and could therefore miss attractive alternatives to the Merger;
- prior to any termination of the Merger Agreement, our operations will be restricted by the terms of the Merger Agreement, which may cause us to forego otherwise attractive business opportunities;
- we will be required to pay certain costs relating to the Merger, whether or not it is consummated, such as legal, accounting, financial adviser and printing fees, which costs could be substantial; and

- matters relating to the Merger have required and will continue to require our management to devote substantial commitments of time and resources to the Merger instead of on pursuing other opportunities that could have been beneficial to us.

If the Merger is not completed, we cannot assure you that these risks will not materialize and will not materially and adversely affect our business, financial results and stock price.

Additionally, if the Merger is not completed, the market price of Safeway common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Merger will be consummated, and we may experience negative reactions from the financial markets, our customers and/or our employees. Depending on the circumstances, we also could be subject to litigation related to any failure to complete the Merger or to enforcement proceedings commenced against us to attempt to force us to perform our obligations under the Merger Agreement.

The Merger Agreement contains customary restrictions on our ability to seek other strategic alternatives.

The Merger Agreement contains “no shop” provisions that restrict our ability to initiate, solicit, knowingly encourage or facilitate competing third-party proposals for any business combination transaction involving a merger of us with another entity or the acquisition of a significant portion of our stock or assets. These provisions, although customary for these types of transactions, could discourage a potential third-party acquirer that might have an interest in acquiring all or a significant portion of our company from proposing any such acquisition, even if the potential third-party acquirer were prepared to pay consideration with a higher cash or market value than the market value proposed to be received or realized in the Merger.

The pendency of the Merger could materially and adversely affect our operations and the future of our business or result in a loss of employees.

In connection with the pending Merger, it is possible that some customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationship with us, which could negatively impact our revenues, earnings and cash flows, as well as the market price of our common stock, regardless of whether the Merger is completed. Similarly, current and prospective employees may experience uncertainty about their future roles with us following completion of the Merger, which may materially and adversely affect our ability to attract and retain key employees.

The Per Share Merger Consideration will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations, or in the event of any change in our stock price.

The Per Share Merger Consideration (other than the portion relating to any sale of the Casa Ley Interest and PDC) will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations, or changes in the market price of, analyst estimates of, or projections relating to, our common stock. For example, if we experienced an improvement in our business, assets, liabilities, prospects, outlook, financial condition or results of operations prior to the consummation of the Merger, there would be no adjustment to the amount of the Per Share Merger Consideration (other than, potentially, the portion relating to any sale of the Casa Ley Interest and PDC to the extent that such improvement affected Casa Ley or PDC).

Additionally, although the holders of our common stock are entitled to receive any net proceeds received by us from any sale of any portion of PDC or the Casa Ley Interest (whether prior to the closing of the Merger or after the closing of the Merger but during the applicable period under the Casa Ley CVR or the PDC CVR), there is no guarantee that any sale of any portion of the Casa Ley Interest or PDC will occur or that there will be any net proceeds from any such sale, whether prior to the Merger or afterwards during any applicable periods under the Casa Ley CVR or PDC CVR.

Dominick's multiemployer pension withdrawal liabilities may be significantly greater than the recorded amount.

In 2013, we sold or closed all stores in the Dominick’s division. As previously reported, Dominick’s participated in certain multiemployer pension plans on which withdrawal liabilities have been incurred due to the Dominick’s closure. Generally, the Company may pay such withdrawal liabilities in installment payments. Withdrawal liabilities are generally subject to a 20-year payment cap, but may extend into perpetuity if a mass withdrawal from the plan occurs. During the fourth quarter of 2013, Safeway recorded a liability of $310.8 million, which represented the present value of estimated installment payments to be made to the plans based on the best information available at the time, without having yet received demand letters from the multiemployer pension plans. In April 2014 and September 2014, the Company received demand letters from three of the plans.

These demand letters called for installment payments greater than Safeway's original actuarial estimate based on calculations Safeway disputes. The Company has requested a review by the plan trustee of the demands made by the three plans. Pending review of the demand letters received, receipt of a final demand letter, or any negotiated lump sum settlements, the final amount of the withdrawal liability may be greater than or less than the amount recorded and this difference could be significant. The Company currently estimates the range of potential withdrawal liability to be between $355 million and $475 million.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains information for shares repurchased during the third quarter of 2014.

Fiscal period	Total number of shares purchased [1]		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 (in millions) [2]
June 15, 2014 - July 12, 2014	20,791	$	34.16	—	$	2,163.3
July 13, 2014 - August 9, 2014	1,762		34.52	—		2,163.3
August 10, 2014 - September 6, 2014	4,631		34.55	—		2,163.3
TOTAL	27,184	$	34.25	—	$	2,163.3

(1) Shares of stock withheld, at the election of certain holders of stock, by the Company from the vested portion of stock awards with a market value approximating the amount of the withholding taxes due from such stockholders.

(2) The Company's stock repurchase program was initiated in 1999. In October 2013, the Company's board of directors increased the authorized level of the Company's stock repurchase program from $9.0 billion to $11.0 billion. The repurchase program has no expiration date but may be terminated by the board of directors. The Merger Agreement does not allow the Company to repurchase its common stock under the Company's stock repurchase program. The Merger Agreement does permit the Company to repurchase its common stock from holders of options, restricted stock or performance shares in payment of the exercise price or any applicable taxes.

Payment of Dividends

The Merger Agreement does not permit us to authorize, declare, set aside or pay any dividend or other distributions other than up to five cash quarterly dividends per share of $0.20, $0.23, $0.23, $0.23 and $0.23 prior to the closing of the Merger, of which we have declared and paid three quarterly dividends, and other than for dividends with respect to the net proceeds from the sales of either PDC or Casa Ley should they occur before the closing of the Merger.

Item 6. Exhibits

Exhibit 4.1	Supplemental Indenture dated as of October 6, 2014, between Safeway Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, under the Indenture, dated as of September 10, 1997, as amended, and supplemented, with respect to Safeway's 3.40% Notes due 2016 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated October 6, 2014).
Exhibit 4.1	Supplemental Indenture dated as of October 8, 2014, between Safeway Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, under the Indenture, dated as of September 10, 1997, as amended, and supplemented, with respect to Safeway's 6.35% Notes due 2017 (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated October 6, 2014).
Exhibit 31.1	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 31.2	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 32	Section 1350 Certifications.
Exhibit 101	The following materials from the Safeway Inc. Quarterly Report on Form 10-Q for the quarter ended September 6, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows and (v) related notes.

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.

	SAFEWAY INC.
Date: October 14, 2014	/s/ Robert L. Edwards
	Robert L. Edwards President and Chief Executive Officer
Date: October 14, 2014	/s/ Peter J. Bocian
	Peter J. Bocian Executive Vice President and Chief Financial Officer

Exhibit Index

LIST OF EXHIBITS FILED WITH FORM 10-Q FOR THE PERIOD
ENDED SEPTEMBER 6, 2014

Exhibit 31.1	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 31.2	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 32	Section 1350 Certifications.
Exhibit 101	The following materials from the Safeway Inc. Quarterly Report on Form 10-Q for the quarter ended September 6, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows and (v) related notes.

Exhibit 31.1

Certification

I, Robert L. Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Safeway Inc.;

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(s) 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(s) 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: October 14, 2014

/s/ Robert L. Edwards

Robert L. Edwards
President and Chief Executive Officer

Exhibit 31.2

Certification

I, Peter J. Bocian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Safeway Inc.;

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(s) 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(s) 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: October 14, 2014

/s/ Peter J. Bocian

Peter J. Bocian
Executive Vice President and Chief Financial Officer

Exhibit 32

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Safeway Inc. (the "Company") hereby certifies that:

(i) the quarterly report on Form 10-Q of the Company for the quarterly period ended September 6, 2014 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 14, 2014

/s/ Robert L. Edwards

Robert L. Edwards
Chief Executive Officer

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Safeway Inc. (the "Company") hereby certifies that:

(i) the quarterly report on Form 10-Q of the Company for the quarterly period ended September 6, 2014 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 14, 2014

/s/ Peter J. Bocian

Peter J. Bocian
Chief Financial Officer

The foregoing certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement as required by Section 906 has been provided to Safeway Inc., and will be retained by Safeway Inc. and furnished to the Securities and Exchange Commission or its staff upon request.