SUPERVALU INC
Form 10-Q
October 21, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period (12 weeks) ended September 12, 2009.

OR

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

For the transition period from ____ to ____.

Commission File Number: 1-5418
SUPERVALU INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**41-0617000**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11840 VALLEY VIEW ROAD EDEN PRAIRIE, MINNESOTA	**55344**
(Address of principal executive offices)	**(Zip Code)**

(952) 828-4000
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of October 16, 2009, there were 212,005,107 shares of the issuer s common stock outstanding.

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

ITEM 1. FINANCIAL STATEMENTS

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

	Second Quarter Ended		Year-to-Date Ended	
	September 12, 2009	September 6, 2008	September 12, 2009	September 6, 2008
Net sales				
Retail food	$ 7,411	$ 7,961	$ 17,311	$ 18,307
% of total	78.3%	77.9%	78.1%	77.7%
Supply chain services	2,050	2,265	4,865	5,266
% of total	21.7%	22.1%	21.9%	22.3%
Total net sales	$ 9,461	$ 10,226	$ 22,176	$ 23,573
	100.0%	100.0%	100.0%	100.0%
Operating earnings				
Retail food	$ 188	$ 284	$ 499	$ 683
% of sales	2.5%	3.6%	2.9%	3.7%
Supply chain services	63	77	145	163
% of sales	3.0%	3.4%	3.0%	3.1%
Corporate	(6)	(19)	(37)	(48)
Total operating earnings	245	342	607	798
% of sales	2.6%	3.3%	2.7%	3.4%
Interest expense, net	131	141	308	331
Earnings before income taxes	114	201	299	467
Income tax provision	40	73	112	177
Net earnings	$ 74	$ 128	$ 187	$ 290

The Company s business is classified by management into two reportable segments: Retail food and Supply chain services. These reportable segments are two distinct businesses, one retail and one wholesale, each with a different customer base, marketing strategy and management structure. The Retail food reportable segment is an aggregation of the Company s retail operating segments, which are primarily organized based on geography. The Retail food reportable segment derives revenues from the sale of groceries at retail locations operated by the Company (both the Company s own stores and stores licensed by the Company). The Supply chain services reportable segment derives revenues from wholesale distribution to independently-owned retail food stores, mass merchants and other customers (collectively referred to as independent retail customers) and logistics support services. Substantially all of the Company s operations are domestic.

See Notes to Condensed Consolidated Financial Statements.

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

	Second Quarter Ended			
	September 12, 2009	% of Net sales	September 6, 2008	% of Net sales
Net sales	$ 9,461	100.0%	$ 10,226	100.0%
Cost of sales	7,372	77.9	7,937	77.6
Gross profit	2,089	22.1	2,289	22.4
Selling and administrative expenses	1,844	19.5	1,947	19.0
Operating earnings	245	2.6	342	3.3
Interest expense, net	131	1.4	141	1.4
Earnings before income taxes	114	1.2	201	2.0
Income tax provision	40	0.4	73	0.7
Net earnings	$ 74	0.8%	$ 128	1.3%
Net earnings per share basic	$ 0.35		$ 0.60	
Net earnings per share diluted	$ 0.35		$ 0.60	
Dividends declared per share	$ 0.1750		$ 0.1725	
Weighted average number of shares outstanding:				
Basic	212		211	
Diluted	213		213	

See Notes to Condensed Consolidated Financial Statements.

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

	Year-to-Date Ended			
	September 12, 2009	% of Net sales	September 6, 2008	% of Net sales
Net sales	$ 22,176	100.0%	$ 23,573	100.0%
Cost of sales	17,240	77.7	18,219	77.3
Gross profit	4,936	22.3	5,354	22.7
Selling and administrative expenses	4,329	19.5	4,556	19.3
Operating earnings	607	2.7	798	3.4
Interest expense, net	308	1.4	331	1.4
Earnings before income taxes	299	1.3	467	2.0
Income tax provision	112	0.5	177	0.8
Net earnings	$ 187	0.8%	$ 290	1.2%
Net earnings per share basic	$ 0.88		$ 1.37	
Net earnings per share diluted	$ 0.88		$ 1.36	
Dividends declared per share	$ 0.3475		$ 0.3425	
Weighted average number of shares outstanding:				
Basic	212		211	
Diluted	213		213	

See Notes to Condensed Consolidated Financial Statements.

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

	September 12, 2009 (Unaudited)	February 28, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 269	$ 240
Receivables, net	862	874
Inventories	2,655	2,709
Other current assets	399	282
Total current assets	4,185	4,105
Property, plant and equipment, net	7,305	7,528
Goodwill	3,733	3,748
Intangible assets, net	1,535	1,584
Other assets	562	639
Total assets	$ 17,320	$ 17,604
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,134	$ 3,067
Current maturities of long-term debt and capital lease obligations	244	516
Other current liabilities	837	889
Total current liabilities	4,215	4,472
Long-term debt and capital lease obligations	7,900	7,968
Other liabilities	2,494	2,583
Commitments and contingencies		
Stockholders equity		
Common stock, $1.00 par value: 400 shares authorized; 230 shares issued	230	230
Capital in excess of par value	2,852	2,853
Accumulated other comprehensive loss	(496)	(503)
Retained earnings	655	542
Treasury stock, at cost, 18 and 18 shares, respectively	(530)	(541)
Total stockholders equity	2,711	2,581
Total liabilities and stockholders equity	$ 17,320	$ 17,604

See Notes to Condensed Consolidated Financial Statements.

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

	Year-to-Date Ended September 12, 2009	Year-to-Date Ended September 6, 2008
Cash flows from operating activities		
Net earnings	$ 187	$ 290
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	515	569
LIFO charge	21	37
Gain on sale of assets	(21)	(11)
Asset impairment and other charges	20	1
Deferred income taxes	120	59
Stock-based compensation	20	28
Other	14	(10)
Changes in operating assets and liabilities	(36)	(218)
Net cash provided by operating activities	840	745
Cash flows from investing activities		
Proceeds from sale of assets	22	65
Purchases of property, plant and equipment	(396)	(665)
Other	5	15
Net cash used in investing activities	(369)	(585)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	943	276
Payment of long-term debt and capital lease obligations	(1,306)	(318)
Dividends paid	(73)	(73)
Payment for purchase of treasury shares		(23)
Other	(6)	8
Net cash used in financing activities	(442)	(130)
Net increase in cash and cash equivalents	29	30
Cash and cash equivalents at beginning of year	240	243
Cash and cash equivalents at the end of period	$ 269	$ 273

See Notes to Condensed Consolidated Financial Statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Registrant

The accompanying condensed consolidated financial statements of the Company for the second quarter and year-to-date ended September 12, 2009 and September 6, 2008 are unaudited and, in the opinion of management, contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial condition and results of operations for such periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009. The results of operations for the second quarter and year-to-date ended September 12, 2009 are not necessarily indicative of the results expected for the full year. The Condensed Consolidated Balance Sheet as of February 28, 2009 has been derived from the audited Consolidated Balance Sheet as of that date.

Accounting Policies

The summary of significant accounting policies is included in the Notes to Consolidated Financial Statements set forth in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

Fiscal Year

The Company s fiscal year ends on the last Saturday in February. The Company s first quarter consists of 16 weeks, while the second, third and fourth quarters each consist of 12 weeks, except for the fourth quarter of fiscal 2009 which consisted of 13 weeks. Because of differences in the accounting calendars of the Company and its wholly-owned subsidiary, New Albertson s, Inc., the accompanying September 12, 2009 and February 28, 2009 Condensed Consolidated Balance Sheets include the assets and liabilities related to New Albertson s, Inc. as of September 10, 2009 and February 26, 2009, respectively.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The Company s banking arrangements allow the Company to fund outstanding checks when presented to the financial institution for payment, resulting in book overdrafts. Book overdrafts are recorded in Accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets and are reflected as an operating activity in the Condensed Consolidated Statements of Cash Flows. As of September 12, 2009 and February 28, 2009, the Company had net book overdrafts of $376 and $389, respectively.

Net Earnings Per Share

Basic net earnings per share is calculated using net earnings available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted net earnings per share is similar to basic net earnings per share except that the weighted average number of shares outstanding is after giving effect to the dilutive impacts of stock options, restricted stock awards and other dilutive securities.

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

	Second Quarter Ended		Year-to-Date Ended	
	September 12, 2009	**September 6, 2008**	**September 12, 2009**	**September 6, 2008**
Net earnings per share basic				
Net earnings available to common stockholders	$ 74	$ 128	$ 187	$ 290
Weighted average shares outstanding basic	212	211	212	211
Net earnings per share basic	$ 0.35	$ 0.60	$ 0.88	$ 1.37
Net earnings per share diluted				
Net earnings available to common stockholders	$ 74	$ 128	$ 187	$ 290
Weighted average shares outstanding basic	212	211	212	211
Dilutive impact of options and restricted stock outstanding	1	2	1	2
Weighted average shares outstanding diluted	213	213	213	213
Net earnings per share diluted	$ 0.35	$ 0.60	$ 0.88	$ 1.36

Options to purchase 23 and 22 shares of common stock were outstanding during the second quarter and year-to-date ended September 12, 2009, respectively, but were excluded from the computation of diluted earnings per share because they were antidilutive. Options to purchase 19 and 16 shares of common stock were outstanding during the second quarter and year-to-date ended September 6, 2008, respectively, but were excluded from the computation of diluted earnings per share because they were antidilutive.

Comprehensive Income

Comprehensive income consisted of the following:

	Second Quarter Ended		Year-to-Date Ended	
	September 12, 2009	**September 6, 2008**	**September 12, 2009**	**September 6, 2008**
Net earnings	$ 74	$ 128	$ 187	$ 290
Pension and other postretirement activity, net of tax	2		7	
Comprehensive income	$ 76	$ 128	$ 194	$ 290

Subsequent Events

The Company has evaluated events that have occurred subsequent to September 12, 2009 through October 21, 2009, the date the Company filed this Quarterly Report on Form 10-Q with the Securities and Exchange Commission, and has determined there were no material events requiring recognition or disclosure.

NOTE 2 NEW ACCOUNTING STANDARDS

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. FSP FAS 132(R)-1 provides additional guidance regarding disclosures about plan assets of defined benefit pension or other postretirement plans. FSP FAS

132(R)-1 will be effective for the Company s fiscal year ending February 27, 2010. The adoption of FSP FAS 132(R)-1 will result in enhanced disclosures, but will not otherwise have an impact on the Company s consolidated financial statements.

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NOTE 3 GOODWILL AND INTANGIBLE ASSETS

As of September 12, 2009, the Company had $3,733 of Goodwill; $2,926 related to its Retail food segment and $807 related to its Supply chain services segment.

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

	February 28, 2009	Additions/ Amortization	Impairments	Other net adjustments	September 12, 2009
Goodwill	$ 3,748	$	$	$ (15)	$ 3,733
Intangible assets:					
Trademarks and tradenames indefinite lived	$ 1,069	$	$ (10)	$	$ 1,059
Favorable operating leases, customer lists, customer relationships and other (accumulated amortization of $217 and $197 as of September 12, 2009 and February 28, 2009, respectively)	706	4		(22)	688
Non-compete agreements (accumulated amortization of $5 and $4 as of September 12, 2009 and February 28, 2009, respectively)	10	1		(1)	10
Total intangible assets	1,785	5	(10)	(23)	1,757
Accumulated amortization	(201)	(32)		11	(222)
Total intangible assets, net	$ 1,584				$ 1,535

Amortization expense of intangible assets with a definite life was $32 and $35 for the year-to-date ended September 12, 2009 and September 6, 2008, respectively. Future amortization expense will be approximately $50 per fiscal year for each of the next five fiscal years.

On July 28, 2009, the Company announced that it reached an agreement for the sale of 36 Albertsons stores located in Utah which are part of the Retail food segment. As a result of this agreement, during the second quarter the Company recorded an impairment charge of $10 to its indefinite-lived Albertsons trademark and reclassified $15 of Goodwill and $116 of Property, plant and equipment and other intangible assets to assets held for sale. Assets held for sale is a component of Other current assets in the Condensed Consolidated Balance Sheets.

NOTE 4 RESERVES FOR CLOSED PROPERTIES

The Company maintains reserves for costs associated with closures of retail stores, distribution centers and other properties that are no longer being utilized in current operations. The Company provides for closed property operating lease liabilities using a discount rate to calculate the present value of the remaining noncancellable lease payments after the closing date, reduced by estimated subtenant rentals that could be reasonably obtained for the property. Adjustments to closed property reserves primarily relate to changes in subtenant income or actual exit costs differing from original estimates. Adjustments are made for changes in estimates in the period in which the changes become known.

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

		September 12, 2009
Balance at beginning of year	$	167
Additions		1
Payments		(30)
Adjustments		1
Balance at end of quarter	$	139

NOTE 5 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements, as follows:

Level 1 Quoted prices 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, requiring an entity to develop its own assumptions about the assumptions that market participants would use in valuing.

During the second quarter ended September 12, 2009, the Company recorded $15 of asset impairment charges, which were measured at fair value using Level 3 inputs. The impairment charges are a component of Selling and administrative expenses in the Condensed Consolidated Statements of Earnings.

Financial Instruments

For certain of the Company s financial instruments, including cash and cash equivalents, receivables and accounts payable, the fair values approximate book values due to their short maturities.

The estimated fair value of notes receivable was less than the book value by $1 and $8 as of September 12, 2009 and February 28, 2009, respectively. Notes receivable are valued based on a discounted cash flow approach applying a rate that is comparable to publicly traded instruments of similar credit quality.

The estimated fair value of the Company s long-term debt (including current maturities) was less than the book value by $153 and $452 as of September 12, 2009 and February 28, 2009, respectively. The estimated fair value was based on market quotes, where available, or market values for similar instruments.

NOTE 6 LONG-TERM DEBT

The Company s long-term debt and capital lease obligations consisted of the following:

	September 12, 2009	February 28, 2009
1.14% to 3.25% Revolving Credit Facility and Variable Rate Notes due June 2011 June 2012	$ 1,825	$ 1,920
8.00% Notes due May 2016	1,000	
7.50% Notes due February 2011	700	700
7.45% Debentures due August 2029	650	650
7.50% Notes due November 2014	500	500
6.34% to 7.15% Medium Term Notes due July 2009 June 2028	440	512
8.00% Debentures due May 2031	400	400
7.50% Notes due May 2012	300	300
8.00% Debentures due June 2026	272	272
8.70% Debentures due May 2030	225	225
7.75% Debentures due June 2026	200	200
7.25% Notes due May 2013	200	200
8.35% Notes due May 2010	165	275
7.90% Debentures due May 2017	96	96
6.95% Notes due August 2009		350
7.875% Notes due August 2009		350
7.50% Debentures due May 2037		191
Accounts Receivable Securitization Facility, currently 1.28%	35	120
Other	89	97
Net discount on debt, using an effective interest rate of 6.28% to 8.97%	(239)	(208)
Capital lease obligations	1,286	1,334
Total debt and capital lease obligations	8,144	8,484
Less current maturities of long-term debt and capital lease obligations	(244)	(516)
Long-term debt and capital lease obligations	$ 7,900	$ 7,968

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

In May 2009, the Company issued $1,000 in senior notes, which rank equally with all of the Company s other senior unsecured indebtedness. In conjunction with the debt issuance, the Company paid off $191 of 7.50% Debentures due May 2037 that contained put options exercised in May 2009, early redeemed $60 of 6.77% Medium Term Notes due July 2009 and purchased pursuant to a tender offer $232 of 7.875% Notes due August 2009, $177 of 6.95% Notes due August 2009 and $110 of 8.35% Notes due May 2010 for an aggregate payment of $777 in cash. The remainder of the debt issuance proceeds was used to reduce the Revolving Credit Facility.

In May 2009, the Company amended and extended its 364-day accounts receivable securitization program. The Company can borrow up to $200 on a revolving basis, with borrowings secured by eligible accounts receivable, which remain under the Company s control. Facility fees under this program range from 0.75 percent to 2.50 percent, based on the Company s credit ratings. The facility fee in effect on September 12, 2009, based on the Company s current credit ratings, was 1.00 percent. As of September 12, 2009, there were $332 of accounts receivable pledged as collateral, classified in Receivables in the Condensed Consolidated Balance Sheet. Due to the Company s intent to renew the facility or refinance it with the Revolving Credit Facility, the facility is classified in Long-term debt in the Condensed Consolidated Balance Sheets.

As of September 12, 2009, the Company had $165 of debt, excluding the Accounts Receivable Securitization Facility, with current maturities that are classified in Long-term debt in the Condensed Consolidated Balance Sheets due to the Company s intent to refinance such obligations with the Revolving Credit Facility or other long-term debt.

NOTE 7 INCOME TAXES

During the year-to-date ended September 12, 2009, the Company settled tax audits in the amount of $125 utilizing a deposit of $86 as partial payment, which was placed with the Internal Revenue Service by Albertson s, Inc. prior to its acquisition by the Company.

NOTE 8 STOCK-BASED AWARDS

The Company recognized pre-tax stock-based compensation expense (included primarily in Selling and administrative expenses in the Condensed Consolidated Statements of Earnings) related to stock-based awards of $6 and $20 for the second quarter and year-to-date ended September 12, 2009, respectively, compared to $4 and $28 for the second quarter and year-to-date ended September 6, 2008, respectively.

During the year-to-date ended September 12, 2009 and September 6, 2008, the Company granted 3 and 4 stock options, respectively. To calculate the fair value of stock options, the Company uses the Black-Scholes option pricing model. The significant weighted average assumptions relating to the valuation of the Company s stock options consisted of the following:

	September 12, 2009	September 6, 2008
Dividend yield	2.0%	2.0%
Volatility rate	38.4 42.2%	28.1 36.4%
Risk-free interest rate	1.9 2.8%	2.0 3.6%
Expected option life	4.0 5.4 years	1.0 5.4 years

The weighted average grant date fair value of the stock options granted during the year-to-date ended September 12, 2009 and September 6, 2008 was $4.93 and $7.92, respectively.

NOTE 9 TREASURY STOCK PURCHASE PROGRAM

On May 28, 2009, the Board of Directors of the Company adopted and announced a new annual share repurchase program authorizing the Company to purchase up to $70 of the Company s common stock. Stock purchases will be made primarily from the cash generated from the settlement of stock options. This annual authorization program replaced the previously existing share repurchase program and continues through June 2010. The Company did not repurchase any shares during the second quarter and year-to-date ended September 12, 2009. As of September 12, 2009, there remained $70 available to repurchase the Company s common stock.

The Company did not repurchase any shares during the second quarter and year-to-date ended September 12, 2009 under previously existing share repurchase programs. During the second quarter and year-to-date ended September 6, 2008, the Company purchased 0.6 shares and 0.8 shares, respectively, under previously existing programs at an average cost of $25.88 and $26.92 per share, respectively.

NOTE 10 BENEFIT PLANS

Substantially all employees of the Company are covered by various contributory and non-contributory pension, profit sharing or 401(k) plans. Union employees participate in multi-employer retirement plans under collective bargaining agreements, unless the collective bargaining agreement provides for participation in plans sponsored by the Company. In addition to sponsoring both defined benefit and defined contribution pension plans, the Company provides healthcare and life insurance benefits for eligible retired employees under postretirement benefit plans and short-term and long-term disability benefits to former and inactive employees prior to retirement under post-employment benefit plans. The terms of the postretirement benefit plans vary based on employment history, age and date of retirement. For most retirees, the Company provides a fixed dollar contribution and retirees pay contributions to fund the remaining cost.

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

	Second Quarter Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 12, 2009	September 6, 2008	September 12, 2009	September 6, 2008
Service cost	$ 1	$ 2	$	$ 1
Interest cost	32	29	2	2
Expected return on assets	(29)	(32)		
Amortization of prior service benefit			(1)	(1)
Amortization of net actuarial loss	2			1
Net periodic benefit expense (income)	$ 6	$ (1)	$ 1	$ 3

	Year-to-Date Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 12, 2009	September 6, 2008	September 12, 2009	September 6, 2008
Service cost	$ 3	$ 4	$ 1	$ 1
Interest cost	74	69	4	5
Expected return on assets	(68)	(75)		
Amortization of prior service benefit			(3)	(1)
Amortization of net actuarial loss	5		1	2
Net periodic benefit expense (income)	$ 14	$ (2)	$ 3	$ 7

During the year-to-date ended September 12, 2009, the Company made contributions of $42 to its pension plans and $5 to its other postretirement benefit plans.

NOTE 11 COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company has guaranteed certain leases, fixture financing loans and other debt obligations of various retailers as of September 12, 2009. These guarantees were generally made to support the business growth of independent retail customers. The guarantees are generally for the entire terms of the leases or other debt obligations with remaining terms that range from less than one year to 21 years, with a weighted average remaining term of approximately 10 years. For each guarantee issued, if the independent retail customer defaults on a payment, the Company would be required to make payments under its guarantee. Generally, the guarantees are secured by indemnification agreements or personal guarantees of the independent retail customer. The Company reviews performance risk related to its guarantees of independent retail customers based on internal measures of credit performance. As of September 12, 2009, the maximum amount of undiscounted payments the Company would be required to make in the event of default of all of these guarantees was $156 and represented $107 on a discounted basis. Based on the indemnification agreements, personal guarantees and results of the reviews of performance risk, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote. Accordingly, no amount has been recorded in the Condensed Consolidated Balance Sheets for these contingent obligations under the Company s guarantee arrangements.

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

In the ordinary course of business, the Company enters into supply contracts to purchase products for resale. These contracts typically include either volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations. As of September 12, 2009, the Company had $1,405 of non-cancelable future purchase obligations primarily related to supply contracts.

The Company is a party to a variety of contractual agreements under which the Company may be obligated to indemnify the other party for certain matters, which indemnities may be secured by operation of law or otherwise, in the ordinary course of business.

These contracts primarily relate to the Company s commercial contracts, operating leases and other real estate contracts, financial agreements, agreements to provide services to the Company and agreements to indemnify officers, directors and employees in the performance of their work. While the Company s aggregate indemnification obligation could result in a material liability, the Company is aware of no current matter that it expects to result in a material liability.

Legal Proceedings

The Company is subject to various lawsuits, claims and other legal matters that arise in the ordinary course of conducting business, none of which, in management s opinion, is expected to have a material adverse impact on the Company s financial condition, results of operations or cash flows.

In April 2000, a class action complaint was filed against Albertsons, as well as American Stores Company, American Drug Stores, Inc., Sav-on Drug Stores, Inc. (Sav-on Drug Stores) and Lucky Stores, Inc. (Lucky Stores), wholly-owned subsidiaries of Albertsons, in the Superior Court for the County of Los Angeles, California (Gardner, et al. v. American Stores Company, et al.) by assistant managers seeking recovery of overtime based on the plaintiffs allegation that they were improperly classified as exempt under California law. In May 2001, the Court certified a class with respect to Sav-on Drug Stores assistant managers. A case with very similar claims, involving the Sav-on Drug Stores assistant managers and operating managers, was also filed in April 2000 against Sav-on Drug Stores in the Superior Court for the County of Los Angeles, California (Rocher, Dahlin, et al. v. Sav-on Drug Stores, Inc.), and was certified as a class action in June 2001 with respect to assistant managers and operating managers. The two cases were consolidated in December 2001. New Albertsons was added as a named defendant in November 2006. Plaintiffs seek overtime wages, meal and rest break penalties, other statutory penalties, punitive damages, interest, injunctive relief and the attorneys fees and costs. In February 2009, the parties entered into a memorandum of understanding regarding settlement of this matter and agreed to a settlement. The settlement received final Court approval on October 14, 2009. Based on the terms of the settlement, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In September 2008, a class action complaint was filed against the Company, as well as International Outsourcing Services, LLC (IOS), Inmar, Inc., Carolina Manufacturer s Services, Inc., Carolina Coupon Clearing, Inc. and Carolina Services, in the United States District Court in the Eastern District of Wisconsin. The plaintiffs in the case are a consumer goods manufacturer, a grocery co-operative and a retailer marketing services company who allege on behalf of a purported class that the Company and the other defendants (i) conspired to restrict the markets for coupon processing services under the Sherman Act and (ii) were part of an illegal enterprise to defraud the plaintiffs under the Federal Racketeer Influenced and Corrupt Organizations Act. The plaintiffs seek monetary damages, attorneys fees and injunctive relief. The Company intends to vigorously defend this lawsuit, however all proceedings have been stayed in the case pending the result of the criminal prosecution of certain former officers of IOS. Although this lawsuit is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In December 2008, a class action complaint was filed in the United States District Court for the Western District of Wisconsin against the Company alleging that a 2003 transaction between the Company and C&S Wholesale Grocers, Inc. (C&S) was a conspiracy to restrain trade and allocate markets. In the 2003 transaction, the Company purchased certain assets of the Fleming Corporation as part of Fleming Corporation s bankruptcy proceedings and sold certain assets of the Company to C&S which were located in New England. Since December 2008, two other retailers have filed similar complaints in other jurisdictions. Consolidation of the cases is currently pending before the United States Judicial Panel on Multidistrict Litigation. The complaints allege that the conspiracy was concealed and continued through the use of non-compete and non-solicitation agreements and the closing down of the distribution facilities that the Company and C&S purchased from the other. Plaintiffs are seeking monetary damages, injunctive relief and attorneys fees. The Company is vigorously defending these lawsuits. On September 14, 2009, the United States Federal Trade Commission (FTC) issued a subpoena to the Company requesting documents related to the C&S transaction as part of the FTC s investigation into whether the Company and C&S engaged in unfair methods of competition. The Company is cooperating with the FTC. Although this matter is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit or the FTC investigation will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In July 2009, a putative class action complaint was filed in the United States District Court for the Southern District of New York against the Company, an officer and the Executive Chairman of the Board alleging fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Rule 10b-5 under the Exchange Act. In October 2009, the lawsuit was transferred to the United States District Court for the District of Minnesota. The complaint alleges that the Company withheld negative information from the market by inflating its fiscal 2010 guidance in order to complete the Company s note offering which closed on May 7, 2009. The purported class period runs between April 23, 2009 and June 23, 2009. Plaintiff is seeking class certification, monetary damages and attorneys fees and costs. All discovery is currently stayed. The Company intends to vigorously defend this lawsuit. Although this lawsuit is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

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The Company is also involved in routine legal proceedings incidental to its operations. Some of these routine proceedings involve class allegations, many of which are ultimately dismissed. Management does not expect that the ultimate resolution of these legal proceedings will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The statements above reflect management s current expectations based on the information presently available to the Company, however, predicting the outcomes of claims and litigation and estimating related costs and exposures involves substantial uncertainties that could cause actual outcomes, costs and exposures to vary materially from current expectations. In addition, the Company regularly monitors its exposure to the loss contingencies associated with these matters and may from time to time change its predictions with respect to outcomes and its estimates with respect to related costs and exposures and believes recorded reserves are adequate. It is possible, although management believes it is remote, that material differences in actual outcomes, costs and exposures relative to current predictions and estimates, or material changes in such predictions or estimates, could have a material adverse effect on the Company s financial condition, results of operations or cash flows.

Pension Plan / Health and Welfare Plan Contingencies

The Company contributes to various multi-employer pension plans under collective bargaining agreements, primarily defined benefit pension plans. These plans generally provide retirement benefits to participants based on their service to contributing employers. Based on available information, the Company believes that some of the multi-employer plans to which it contributes are underfunded. Company contributions to these plans could increase in the near term. However, the amount of any increase or decrease in contributions will depend on a variety of factors, including the results of the Company s collective bargaining efforts, investment returns on the assets held in the plans, actions taken by the trustees who manage the plans and requirements under the Pension Protection Act and Section 412(e) of the Internal Revenue Code. Furthermore, if the Company were to significantly reduce contributions, exit certain markets or otherwise cease making contributions to these plans, it could trigger a partial or complete withdrawal that would require the Company to fund its proportionate share of a plan s unfunded vested benefits.

The Company also makes contributions to multi-employer health and welfare plans in amounts set forth in the related collective bargaining agreements. The majority of the Company s collective bargaining agreements fix or limit the Company s contributions to multi-employer health and welfare plans. The remaining agreements contain requirements that could result in additional contributions, increasing the Company s Selling and administrative expenses in the future.

NOTE 12 SEGMENT INFORMATION

Refer to page 2 for the Company s segment information.

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

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

RESULTS OF OPERATIONS

In the second quarter of fiscal 2010, Net sales were $9,461 and Net earnings were $74, or $0.35 per basic and diluted share. In the second quarter of fiscal 2009, Net sales were $10,226 and Net earnings were $128, or $0.60 per basic and diluted share. Results for the second quarter of fiscal 2009 included acquisition-related costs (defined as one-time transaction costs associated with the acquisition of New Albertsons, Inc., which primarily include supply chain consolidation costs, employee-related benefit costs and consultant fees) of $2 after tax, or $0.01 per diluted share.

Weakness in the economy continued to negatively impact consumer confidence in the first half of fiscal 2010. As a result, consumers are spending less, trading down to a less expensive mix of products and trading down to discounters for grocery items, all of which impacted the Company s sales. In addition, low levels of inflation in the first half of fiscal 2010 pressured sales growth. If these consumer spending and inflationary trends continue, they could further impact the Company s sales and financial results for the remainder of fiscal 2010.

SECOND QUARTER RESULTS

Net Sales

Net sales for the second quarter of fiscal 2010 were $9,461 compared with $10,226 last year, reflecting decreased sales in both the Retail food and Supply chain services segments. Retail food sales were 78.3 percent of Net sales and Supply chain services sales were 21.7 percent of Net sales for the second quarter of fiscal 2010, compared with 77.9 percent and 22.1 percent, respectively, last year.

Retail food net sales for the second quarter of fiscal 2010 were $7,411 compared with $7,961 last year. Identical store retail sales growth (defined as stores operating for four full quarters, including store expansions and excluding fuel and planned store closures) for the second quarter of fiscal 2010 compared to last year was negative 4.8 percent primarily as a result of a challenging economic environment, heightened competitive activity, deflationary pressures and investments in price and promotions. New store sales growth was more than offset by the impact of store closures and negative identical store retail sales.

Total retail square footage at the end of the second quarter of fiscal 2010, excluding Albertsons stores located in Utah planned for disposal, was 67 million, a decrease of 3.1 percent from the second quarter of fiscal 2009. Total retail square footage, excluding store closures, increased 0.9 percent over the second quarter of fiscal 2009.

Supply chain services net sales for the second quarter of fiscal 2010 were $2,050 compared with $2,265 last year, primarily reflecting the on-going transition of a national retail customer s volume to self-distribution.

Gross Profit

Gross profit, as a percent of Net sales, decreased 30 basis points to 22.1 percent in the second quarter of fiscal 2010 compared to 22.4 percent last year, primarily reflecting a higher promotional sales mix and increased investments in price, partially offset by a lower LIFO charge.

Selling and Administrative Expenses

Selling and administrative expenses, as a percent of Net sales, were 19.5 percent in the second quarter of fiscal 2010 compared with 19.0 percent last year, primarily reflecting reduced sales leverage that more than offset the savings achieved from ongoing cost reduction initiatives.

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Operating Earnings

Operating earnings for the second quarter of fiscal 2010 were $245 compared with $342 last year. Retail food operating earnings for the second quarter of fiscal 2010 were $188, or 2.5 percent of Retail food net sales, compared with $284, or 3.6 percent of Retail food net sales last year. The decrease in Retail food operating earnings as a percent of Retail food net sales primarily reflects the impact of a challenging economic environment, heightened competitive activity, the impact of a higher promotional sales mix, increased investments in price and reduced sales leverage.

Supply chain services operating earnings for the second quarter of fiscal 2010 were $63, or 3.0 percent of Supply chain services net sales, compared with $77, or 3.4 percent of Supply chain services net sales last year. The decrease in Supply chain services operating earnings as a percent of Supply chain services net sales primarily reflects the impact of reduced sales leverage from the on-going transition of a national retail customer s volume to self-distribution.

Net Interest Expense

Net interest expense was $131 in the second quarter of fiscal 2010 compared with $141 last year, primarily reflecting lower interest rates and debt levels in the second quarter of fiscal 2010 compared to last year.

Income Tax Provision

Income tax expense for the second quarter of fiscal 2010 was $40, or 35.1 percent of earnings before income taxes, compared with income tax expense of $73, or 36.4 percent of earnings before income taxes, last year. The tax rate for the second quarter of fiscal 2010 reflects the impact of a lower effective state tax rate whereas the tax rate for the second quarter of fiscal 2009 reflects the impact of non-taxable life insurance proceeds.

Net Earnings

Net earnings were $74, or $0.35 per basic and diluted share, in the second quarter of fiscal 2010 compared with net earnings of $128, or $0.60 per basic and diluted share, last year.

YEAR-TO-DATE RESULTS

Net Sales

Net sales for fiscal 2010 year-to-date decreased to $22,176 compared with $23,573 last year, reflecting decreased sales in both the Retail food and Supply chain services segments. Retail food sales were 78.1 percent of Net sales and Supply chain services sales were 21.9 percent of Net sales for fiscal 2010 year-to-date, compared with 77.7 percent and 22.3 percent, respectively, last year.

Retail food net sales for fiscal 2010 year-to-date were $17,311 compared with $18,307 last year. Identical store retail sales growth for fiscal 2010 year-to-date compared to last year was negative 3.8 percent, primarily as a result of a challenging economic environment, heightened competitive activity and investments in price and promotions.

Supply chain services net sales for fiscal 2010 year-to-date were $4,865 compared with $5,266 last year, primarily reflecting the on-going transition of a national retail customer s volume to self-distribution.

Gross Profit

Gross profit, as a percent of Net sales, decreased 40 basis points to 22.3 percent for fiscal 2010 year-to-date compared to 22.7 percent last year, primarily reflecting a higher promotional sales mix and increased investments in price.

Selling and Administrative Expenses

Selling and administrative expenses, as a percent of Net sales, increased 20 basis points to 19.5 percent for fiscal 2010 year-to-date compared to 19.3 percent last year, primarily reflecting reduced sales leverage that more than offset the savings achieved from ongoing cost reduction initiatives.

Operating Earnings

Operating earnings for fiscal 2010 year-to-date decreased to $607 compared with $798 last year. Retail food operating earnings for fiscal 2010 year-to-date were $499, or 2.9 percent of Retail food net sales, compared with $683, or 3.7 percent of Retail food net sales last year. The decrease in Retail food operating earnings as a percent of Retail food net sales primarily reflects the impact of a challenging economic environment, heightened competitive activity, the impact of a higher promotional sales mix, increased investments in price and reduced sales leverage. Supply chain services operating earnings for fiscal 2010 year-to-date were $145, or 3.0 percent of Supply chain services net sales, compared with $163, or 3.1 percent of Supply chain services net sales last year. The decrease in Supply chain services operating earnings as a percent of Supply chain services net sales primarily reflects the impact of reduced sales leverage from the on-going transition of a national retail customer s volume to self-distribution.

Net Interest Expense

Net interest expense was $308 for fiscal 2010 year-to-date compared with $331 last year, primarily reflecting lower interest rates and debt levels in fiscal 2010 compared to last year.

Income Tax Provision

Income tax expense was $112, or 37.3 percent of earnings before income taxes, for fiscal 2010 year-to-date compared with income tax expense of $177, or 37.9 percent of earnings before income taxes, last year.

Net Earnings

Net earnings were $187, or $0.88 per basic and diluted share, for fiscal 2010 year-to-date compared with Net earnings of $290, or $1.37 per basic share and $1.36 per diluted share, last year.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $840 for fiscal 2010 year-to-date compared with $745 last year. The increase is primarily attributable to improvements in working capital partially offset by decreased Net earnings.

Net cash used in investing activities was $369 for fiscal 2010 year-to-date compared with $585 last year. The decrease is primarily attributable to lower capital spending in fiscal 2010 year-to-date compared to last year.

Net cash used in financing activities was $442 for fiscal 2010 year-to-date compared with $130 last year. The increase is primarily attributable to higher levels of debt reduction compared to last year.

Management expects that the Company will continue to replenish operating assets with internally generated funds. There can be no assurance, however, that the Company s business will continue to generate cash flow at current levels. The Company will continue to obtain short-term or long-term financing from its credit facilities. Long-term financing will be maintained through existing and new debt issuances. The Company s short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund capital expenditures and acquisitions as opportunities arise. Maturities of debt issued will depend on management s views with respect to the relative attractiveness of interest rates at the time of issuance and other debt maturities.

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

In May 2009, the Company issued $1,000 in senior notes, which rank equally with all of the Company s other senior unsecured indebtedness. In conjunction with the debt issuance, the Company paid off $191 of 7.50% Debentures due May 2037 that contained put options exercised in May 2009, early redeemed $60 of 6.77% Medium Term Notes due July 2009 and purchased pursuant to a tender offer $232 of 7.875% Notes due August 2009, $177 of 6.95% Notes due August 2009 and $110 of 8.35% Notes due May 2010 for an aggregate payment of $777 in cash. The remainder of the debt issuance proceeds was used to reduce the Revolving Credit Facility.

The Company has senior secured credit facilities in the amount of $4,000. These facilities were provided by a group of lenders and consist of a $2,000 five-year revolving credit facility (the Revolving Credit Facility), a $750 five-year term loan (Term Loan A) and a $1,250 six-year term loan (Term Loan B). The rates in effect under the facilities as of September 12, 2009, based on the Company s current credit ratings, were 0.20 percent for the facility fees, LIBOR plus 0.875 percent for Term Loan A, LIBOR plus 1.25 percent for Term Loan B, LIBOR plus 1.00 percent for revolving advances and Prime Rate for base rate advances.

All obligations under the senior secured credit facilities are guaranteed by each material subsidiary of the Company. The obligations are also secured by a pledge of the equity interests in those same material subsidiaries, limited as required by the existing public indentures of the Company, such that the respective debt issued need not be equally and ratably secured.

The senior secured credit facilities also contain various financial covenants, including a minimum interest expense coverage ratio and a maximum debt leverage ratio. The interest expense coverage ratio shall not be less than 2.25 to 1 for each of the fiscal quarters ending up through December 30, 2009, and moves to a ratio of not less than 2.30 to 1 for the fiscal quarters ending after December 30, 2009. The debt leverage ratio shall not exceed 4.00 to 1 for each of the fiscal quarters ending up through December 30, 2009 and moves to a ratio not to exceed 3.75 to 1 for each of the fiscal quarters ending after December 30, 2009.

Borrowings under Term Loan A and Term Loan B may be repaid, in full or in part, at any time without penalty. Term Loan A has required repayments, payable quarterly, equal to 2.50 percent of the initial drawn balance for the first four quarterly payments (year one) and 3.75 percent of the initial drawn balance for each quarterly payment in years two through five, with the entire remaining balance due at the five year anniversary of the inception date, June 1, 2006. Term Loan B has required repayments, payable quarterly, equal to 0.25 percent of the initial drawn balance, with the entire remaining balance due at the six year anniversary of the inception date. Prepayments shall be applied pro rata to the remaining amortization payments.

As of September 12, 2009, there were $264 of outstanding borrowings under the Revolving Credit Facility. Term Loan A had a remaining principal balance of $450, of which $113 was classified as current, and Term Loan B had a remaining principal balance of $1,111, of which $11 was classified as current. Letters of credit outstanding under the Revolving Credit Facility were $330 and the unused available credit under the Revolving Credit Facility was $1,406. The Company also had $3 of outstanding letters of credit issued under separate agreements with financial institutions. Letters of credit primarily support workers compensation, merchandise import programs and payment obligations. The Company pays fees, which vary by instrument, of up to 1.125 percent on the outstanding balance of the letters of credit.

In May 2009, the Company amended and extended its 364-day accounts receivable securitization program. As of September 12, 2009, there were $35 of outstanding borrowings under the program. The Company can borrow up to $200 on a revolving basis, with borrowings secured by eligible accounts receivable, which remain under the Company s control. Facility fees under this program range from 0.75 percent to 2.50 percent, based on the Company s credit ratings. The facility fee in effect on September 12, 2009, based on the Company s current credit ratings, was 1.00 percent. As of September 12, 2009, there were $332 of accounts receivable pledged as collateral, classified in Receivables in the Condensed Consolidated Balance Sheet. Due to the Company s intent to renew the facility or refinance it with the Revolving Credit Facility, the facility is classified in Long-term debt in the Condensed Consolidated Balance Sheets.

As of September 12, 2009, the Company had $165 of debt, excluding the Accounts Receivable Securitization Facility, with current maturities that are classified in Long-term debt in the Condensed Consolidated Balance Sheets due to the Company s intent to refinance such obligations with the Revolving Credit Facility or other long-term debt.

Capital spending during the second quarter of fiscal 2010 was $158. Capital spending year-to-date for fiscal 2010 was $396. Capital spending primarily included store remodeling activity and technology expenditures. The Company s capital spending for fiscal 2010 is projected to be approximately $700, including capital leases.

Fiscal 2010 debt reduction is projected to be approximately $700, including approximately $150 in after tax net proceeds from the sale of 36 Albertsons stores located in Utah.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company has guaranteed certain leases, fixture financing loans and other debt obligations of various retailers as of September 12, 2009. These guarantees were generally made to support the business growth of independent retail customers. The guarantees are generally for the entire terms of the leases or other debt obligations with remaining terms that range from less than one year to 21 years, with a weighted average remaining term of approximately 10 years. For each guarantee issued, if the independent retail customer defaults on a payment, the Company would be required to make payments under its guarantee. Generally, the guarantees are secured by indemnification agreements or personal guarantees of the independent retail customer. The Company reviews performance risk related to its guarantees of independent retail customers based on internal measures of credit performance. As of September 12, 2009, the maximum amount of undiscounted payments the Company would be required to make in the event of default of all of these guarantees was $156 and represented $107 on a discounted basis. Based on the indemnification agreements, personal guarantees and results of the reviews of performance risk, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote. Accordingly, no amount has been recorded in the Condensed Consolidated Balance Sheets for these contingent obligations under the Company s guarantee arrangements.

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

In the ordinary course of business, the Company enters into supply contracts to purchase products for resale. These contracts typically include either volume commitments or fixed expiration dates, termination provisions and other standard contractual considerations. As of September 12, 2009, the Company had $1,405 of non-cancelable future purchase obligations primarily related to supply contracts.

The Company is a party to a variety of contractual agreements under which the Company may be obligated to indemnify the other party for certain matters, which indemnities may be secured by operation of law or otherwise, in the ordinary course of business. These contracts primarily relate to the Company s commercial contracts, operating leases and other real estate contracts, financial agreements, agreements to provide services to the Company and agreements to indemnify officers, directors and employees in the performance of their work. While the Company s aggregate indemnification obligation could result in a material liability, the Company is aware of no current matter that it expects to result in a material liability.

The Company is a party to various legal proceedings arising from the normal course of business as described in Part II Other Information, Item 1, under the caption Legal Proceedings and in Note 11 Commitments, Contingencies and Off-Balance Sheet Arrangements, none of which, in management s opinion, is expected to have a material adverse impact on the Company s financial condition, results of operations or cash flows.

Pension Plan / Health and Welfare Plan Contingencies

The Company contributes to various multi-employer pension plans under collective bargaining agreements, primarily defined benefit pension plans. These plans generally provide retirement benefits to participants based on their service to contributing employers. Based on available information, the Company believes that some of the multi-employer plans to which it contributes are underfunded. Company contributions to these plans could increase in the near term. However, the amount of any increase or decrease in contributions will depend on a variety of factors, including the results of the Company s collective bargaining efforts, investment returns on the assets held in the plans, actions taken by the trustees who manage the plans and requirements under the Pension Protection Act and Section 412(e) of the Internal Revenue Code. Furthermore, if the Company were to significantly reduce contributions, exit certain markets or otherwise cease making contributions to these plans, it could trigger a partial or complete withdrawal that would require the Company to fund its proportionate share of a plan s unfunded vested benefits.

The Company also makes contributions to multi-employer health and welfare plans in amounts set forth in the related collective bargaining agreements. The majority of the Company s collective bargaining agreements fix or limit the Company s contributions to multi-employer health and welfare plans. The remaining agreements contain requirements that could result in additional contributions, increasing the Company s Selling and administrative expenses in the future.

Contractual Obligations

There have been no material changes in the Company s contractual obligations since the end of fiscal 2009. Refer to Item 7 of the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009 for additional information regarding the Company s contractual obligations.

CRITICAL ACCOUNTING POLICIES

The description of critical accounting policies is included in Item 7 of the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

NEW ACCOUNTING STANDARDS

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. FSP FAS 132(R)-1 provides additional guidance regarding disclosures about plan assets of defined benefit pension or other postretirement plans. FSP FAS 132(R)-1 will be effective for the Company s fiscal year ending February 27, 2010. The adoption of FSP FAS 132(R)-1 will result in enhanced disclosures, but will not otherwise have an impact on the Company s consolidated financial statements.

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

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

Certain factors could cause our future results to differ materially from those expressed or implied in any forward-looking statements contained in this report. These factors include the factors discussed in Part II, Item 1A of the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 20, 2009 under the heading Risk Factors, the factors discussed below and any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statements. Since it is not possible to foresee all such factors, these factors should not be considered as complete or exhaustive.

Economic and Industry Conditions

Adverse changes in economic conditions that affect consumer spending or buying habits

Food and drug price inflation or deflation

Increases in energy costs and commodity prices, which could impact consumer spending and buying habits and the cost of doing business

The availability of favorable credit and trade terms

Changes in interest rates

The outcome of negotiations with partners, governments, suppliers, unions or customers

Narrow profit margins in the grocery industry

Competitive Practices

Our ability to attract and retain customers

Our ability to hire, train or retain employees

Competition from other food or drug retail chains, supercenters, non-traditional competitors and emerging alternative formats in our retail markets

Declines in the retail sales activity of our Supply chain services customers due to competition or increased self-distribution

Changes in demographics or consumer preferences that affect consumer spending habits

The impact of consolidation in the retail food and supply chain services industries

The success of our promotional and sales programs and our ability to respond to the promotional practices of competitors

The ability to successfully improve buying practices and shrink

The increase in the penetration of our Own Brands private label program could impact identical store retail sales growth

Food Safety

Events that give rise to actual or potential food contamination, drug contamination or food-borne illness or any adverse publicity relating to these types of concern, whether or not valid

Integration of Acquired Businesses

Our ability to successfully combine our operations with any businesses we have acquired or may acquire, to achieve expected synergies and to minimize the diversion of management s attention and resources

Store Expansion and Remodeling

Potential delays in the development, construction or start-up of planned projects

Our ability to locate suitable store or distribution center sites, negotiate acceptable purchase or lease terms and build or expand facilities in a manner that achieves appropriate returns on our capital investment

The adequacy of our capital resources for future acquisitions, the expansion of existing operations or improvements to facilities

Our ability to make acquisitions at acceptable rates of return, assimilate acquired operations and integrate the personnel of the acquired business

Liquidity

Additional funding requirements to meet anticipated debt payments and capital needs

The impact of acquisitions on our level of indebtedness, debt ratings, costs and future financial flexibility

The impact of the recent turmoil in the financial markets on the availability and cost of credit

Labor Relations

Potential work disruptions resulting from labor disputes

Employee Benefit Costs

Increased operating costs resulting from rising employee benefit costs or pension funding obligations

Regulatory Matters

The ability to timely obtain permits, comply with government regulations or make capital expenditures required to maintain compliance with government regulations

Changes in applicable laws and regulations that impose additional requirements or restrictions on the operation of our businesses

Self-Insurance

- Variability in actuarial projection regarding workers compensation and general and automobile liability
- Potential increase in the number or severity of claims for which we are self-insured
- Significant volatility in the amount and timing of payments

Legal and Administrative Proceedings

- Unfavorable outcomes in litigation, governmental or administrative proceedings or other disputes
- Adverse publicity related to such unfavorable outcomes

Information Technology

- Difficulties in developing, maintaining or upgrading information technology systems

Security

- Business disruptions or losses resulting from wartime activities, acts or threats of terror, data theft, information espionage, or other criminal activity directed at the food and drug industry, the transportation industry or computer or communications systems

Severe Weather, Natural Disasters and Adverse Climate Changes

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

Accounting Matters

- Changes in accounting standards that impact our financial statements

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in market risk for the Company in the period covered by this report. See the discussion of market risk in Item 7A of the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of September 12, 2009. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

In connection with the evaluation described above, there were no changes in the Company s internal control over financial reporting that occurred during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various lawsuits, claims and other legal matters that arise in the ordinary course of conducting business, none of which, in management s opinion, is expected to have a material adverse impact on the Company s financial condition, results of operations or cash flows. Each of the legal proceedings discussed below has been previously discussed in the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 20, 2009.

In April 2000, a class action complaint was filed against Albertsons, as well as American Stores Company, American Drug Stores, Inc., Sav-on Drug Stores, Inc. (Sav-on Drug Stores) and Lucky Stores, Inc. (Lucky Stores), wholly-owned subsidiaries of Albertsons, in the Superior Court for the County of Los Angeles, California (Gardner, et al. v. American Stores Company, et al.) by assistant managers seeking recovery of overtime based on the plaintiffs allegation that they were improperly classified as exempt under California law. In May 2001, the Court certified a class with respect to Sav-on Drug Stores assistant managers. A case with very similar claims, involving the Sav-on Drug Stores assistant managers and operating managers, was also filed in April 2000 against Sav-on Drug Stores in the Superior Court for the County of Los Angeles, California (Rocher, Dahlin, et al. v. Sav-on Drug Stores, Inc.), and was certified as a class action in June 2001 with respect to assistant managers and operating managers. The two cases were consolidated in December 2001. New Albertsons was added as a named defendant in November 2006. Plaintiffs seek overtime wages, meal and rest break penalties, other statutory penalties, punitive damages, interest, injunctive relief and the attorneys fees and costs. In February 2009, the parties entered into a memorandum of understanding regarding settlement of this matter and agreed to a settlement. The settlement received final Court approval on October 14, 2009. Based on the terms of the settlement, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In September 2008, a class action complaint was filed against the Company, as well as International Outsourcing Services, LLC (IOS), Inmar, Inc., Carolina Manufacturer s Services, Inc., Carolina Coupon Clearing, Inc. and Carolina Services, in the United States District Court in the Eastern District of Wisconsin. The plaintiffs in the case are a consumer goods manufacturer, a grocery co-operative and a retailer marketing services company who allege on behalf of a purported class that the Company and the other defendants (i) conspired to restrict the markets for coupon processing services under the Sherman Act and (ii) were part of an illegal enterprise to defraud the plaintiffs under the Federal Racketeer Influenced and Corrupt Organizations Act. The plaintiffs seek monetary damages, attorneys fees and injunctive relief. The Company intends to vigorously defend this lawsuit, however all proceedings have been stayed in the case pending the result of the criminal prosecution of certain former officers of IOS. Although this lawsuit is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In December 2008, a class action complaint was filed in the United States District Court for the Western District of Wisconsin against the Company alleging that a 2003 transaction between the Company and C&S Wholesale Grocers, Inc. (C&S) was a conspiracy to restrain trade and allocate markets. In the 2003 transaction, the Company purchased certain assets of the Fleming Corporation as part of Fleming Corporation s bankruptcy proceedings and sold certain assets of the Company to C&S which were located in New England. Since December 2008, two other retailers have filed similar complaints in other jurisdictions. Consolidation of the cases is currently pending before the United States Judicial Panel on Multidistrict Litigation. The complaints allege that the conspiracy was concealed and continued through the use of non-compete and non-solicitation agreements and the closing down of the distribution facilities that the Company and C&S purchased from the other. Plaintiffs are seeking monetary damages, injunctive relief and attorneys fees. The Company is vigorously defending these lawsuits. On September 14, 2009, the United States Federal Trade Commission (FTC) issued a subpoena to the Company requesting documents related to the C&S transaction as part of the FTC s investigation into whether the Company and C&S engaged in unfair methods of competition. The Company is cooperating with the FTC. Although this matter is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit or the FTC investigation will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

In July 2009, a putative class action complaint was filed in the United States District Court for the Southern District of New York against the Company, an officer and the Executive Chairman of the Board alleging fraud under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) and Rule 10b-5 under the Exchange Act. In October 2009, the lawsuit was transferred to the United States District Court for the District of Minnesota. The complaint alleges that the Company withheld negative information from the market by inflating its fiscal 2010 guidance in order to complete the Company s note offering which closed on May 7, 2009. The purported class period runs between April 23, 2009 and June 23, 2009. Plaintiff is seeking class certification, monetary damages and attorneys fees and costs. All discovery is currently stayed. The Company intends to vigorously defend this lawsuit. Although this lawsuit is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of this lawsuit will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

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The Company is also involved in routine legal proceedings incidental to its operations. Some of these routine proceedings involve class allegations, many of which are ultimately dismissed. Management does not expect that the ultimate resolution of these legal proceedings will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The statements above reflect management s current expectations based on the information presently available to the Company, however, predicting the outcomes of claims and litigation and estimating related costs and exposures involves substantial uncertainties that could cause actual outcomes, costs and exposures to vary materially from current expectations. In addition, the Company regularly monitors its exposure to the loss contingencies associated with these matters and may from time to time change its predictions with respect to outcomes and its estimates with respect to related costs and exposures and believes recorded reserves are adequate. It is possible, although management believes it is remote, that material differences in actual outcomes, costs and exposures relative to current predictions and estimates, or material changes in such predictions or estimates, could have a material adverse effect on the Company s financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There were no material changes in risk factors for the Company in the period covered by this report. See the discussion of risk factors in Part II, Item 1A of the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 20, 2009, which describe various risks and uncertainties to which the Company is or may become subject. These risks and uncertainties could have a material impact on the Company s business, financial condition or results of operations.

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

(in millions, except shares and per share amounts) Period (1)	**Total Number of Shares Purchased (2)**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Treasury Stock Purchase Program (3)**	**Approximate Dollar Value of Shares that May Yet be Purchased Under the Treasury Stock Purchase Program (3)**
First four weeks June 21, 2009 to July 18, 2009	1,308	$ 12.75		$ 70
Second four weeks July 19, 2009 to August 15, 2009	2,997	$ 14.79		$ 70
Third four weeks August 16, 2009 to September 12, 2009		$		$ 70
Totals	4,305	$ 14.17		$ 70

(1) The reported periods conform to the

Company s fiscal calendar composed of thirteen 28-day periods. The second quarter of fiscal 2010 contains three 28-day periods.

(2) These amounts include the deemed surrender by participants in the Company s compensatory stock plans of 4,305 shares of previously issued common stock. These are in payment of the purchase price for shares acquired pursuant to the exercise of stock options and satisfaction of tax obligations arising from such exercises, as well as from the vesting of restricted stock awards granted under such plans.

(3) On May 28, 2009, the Board of Directors of the Company adopted and announced a new annual share repurchase program authorizing the

Company to purchase up to $70 of the Company s common stock. Stock purchases will be made primarily from the cash generated from the settlement of stock options. This annual authorization program replaced the previously existing share repurchase program and continues through June 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information contained in Part II, Item 4 of the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 20, 2009 is incorporated herein by reference.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Restated Bylaws, as amended October 7, 2009, is incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Company filed with the SEC on October 9, 2009.
10.1	Executive & Officer Severance Pay Plan*
10.2	Summary of Non-Employee Director Compensation *
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from the SUPERVALU INC. Quarterly Report on Form 10-Q for the fiscal quarter ended September 12, 2009, filed with the SEC on October 21, 2009, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Segment Financial Information, (ii) the Condensed Consolidated Statements of Earnings, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

* Indicates management contracts, compensatory plans or arrangements required to be filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

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SIGNATURES

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

SUPERVALU INC. (Registrant)

Dated: October 21, 2009

/s/ SHERRY SMITH
Sherry Smith
Senior Vice President, Finance
(principal accounting officer)

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EXHIBIT INDEX

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