ANNUAL REPORT

ASSOCIATED WHOLESALE GROCERS, INC.

TWENTY18

RETAILER OWNED. RETAILER LED. RETAILER FOCUSED.

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DEAR SHAREHOLDERS

March 27, 2019

Dear Shareholders,

Your Board of Directors and management are pleased to present the audited results for our fiscal year 2018. Consolidated company sales on continuing operations reached another record of $9.7 billion. Total year-end patronage after retainage was $210.5 million, another record, which was 2.67% of qualifying sales. Total distributions including patronage, allowances, and interest back to members was $558.6 million, or 6.51% of net cooperative sales. Additionally, AWG stock trading value increased by 4.55% to $2,300 per share.

These operating results were achieved despite workforce and transportation shortages and related cost escalations. Additionally, cooperative net sales were $8.59 billion, up 1.3% from the prior year, overcoming intense retail competition and continued price deflation.

Beyond the financial results, we also made significant progress on our strategic initiatives. These enabled us to counteract the employment trends with a variety of improvements to make AWG a great place to work, reducing productive teammate turnover by 25%! From a technology advancement standpoint, we launched AWG StoreFront and our new Retail Pricing System; both have proven to be very positive advancements. We also completed our fresh initiatives, localizing our perishable buying to the Division level and implemented new systems and processes that improved the quality and freshness of our produce throughout the supply chain. We held our first Innovation Showcase, which was both impactful and appreciated by the membership and vendor partners alike. Additionally, we improved our assortment and offerings through AWG and VMC with expansions in high-growth categories of fresh, organic/natural, better-for-you, and free-from products.

In summary, 2018 was a year of good progress. We are so very thankful for the leadership of our board, the support of our great members, and the efforts of our vendor partners and our AWG teammates that made it all happen.

Our focus for 2019 is a more complete fulfillment of our mission "to provide our member-retailers all the tools, products, and services they need to compete favorably in all markets served. This includes top quality supermarket merchandise and support services, all at the lowest possible cost." We will accomplish this by executing initiatives that align with our four core strategies for success: 1) Accelerate profitable member growth, 2) Attract, develop and retain top talent, 3) Strengthen core services and support, and 4) Leverage technology and organizational assets for sustainable member success. Stay tuned to learn more about our efforts in these areas and what it will mean for you.

We appreciate your contributions to this year's success and we will do our very best to continue to fulfill this mission objective for you.

Sincerely,

Barry Queen
Chairman of the Board

David Smith
President and CEO

5 YEAR TREND

Founded in 1926, Associated Wholesale Grocers, Inc. (AWG) was established to provide its family owned retail member stores the essential building blocks needed to establish strategic positions in their unique retail marketplaces. This Annual Report marks 92 years of providing products, support services and financial returns to our member retailers. The collective strength of our cooperative model has provided ongoing opportunities for our members to develop and grow unique and sustainable businesses that have survived, as well as thrived, in an ever-changing retail environment.

Operating ten distribution centers at the end of the 2018 fiscal year, AWG delivered grocery and related products to independent retailers throughout the midwestern, southwestern and southeastern United States. Eight of the ten facilities are full-line divisions, dedicated to providing service to AWG cooperative members in various retail locations.

The remaining two facilities were operated by our wholly-owned subsidiary, Valu Merchandisers Company, which primarily provided wholesale supply and various support services related to health and beauty care, general merchandise, pharmaceutical products, and specialty, natural, organic and international foods to members as well as non-member retailers. Additionally, AWG operates other wholly-owned subsidiaries, including Media Solutions Corporation, a digital marketing services company, and Super Market Developers, Inc., AWG's commercial real estate and development service arm for cooperative members.

Headquartered in Kansas City, Kansas, the AWG corporate support team provides strategic leadership as well as operational and administrative support to all ten distribution centers, located in Springfield, Missouri; Oklahoma City, Oklahoma; Southaven, Mississippi; Memphis, Tennessee; Pearl River, Louisiana; Goodlettsville, Tennessee; Ft. Scott, Kansas; Norfolk, Nebraska; Kenosha, Wisconsin and Kansas City, Kansas.

AWG achieved sales on a consolidated basis, after eliminations, of $9.66 billion. Within the cooperative, net sales were $8.59 billion. Operating income was $214.8 million, with net income of $212.8 million.

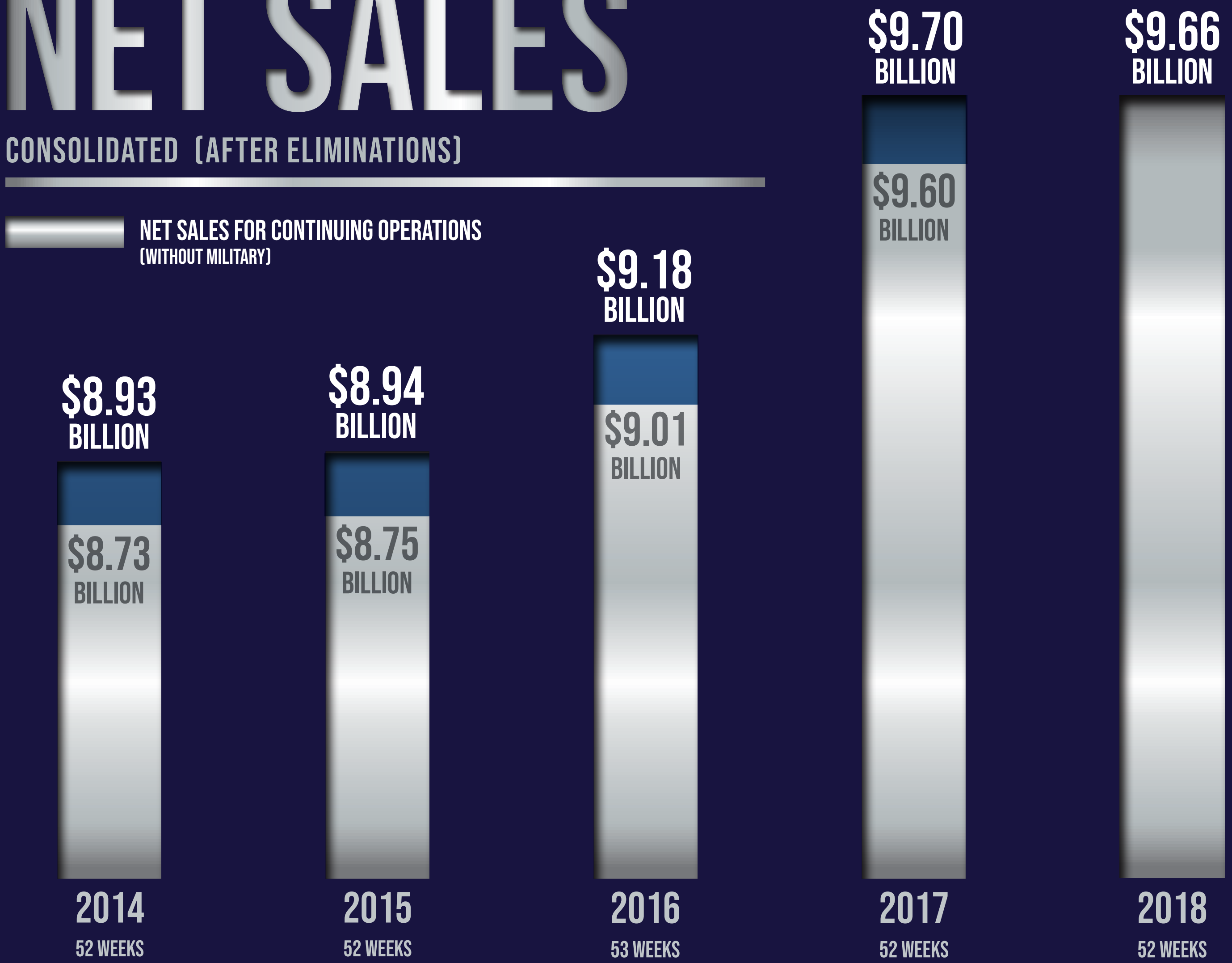
Total patronage returned to shareholders was $210.5 million, distributed on a 60/40 basis (the payout consisting of 60% cash and 40% certificates). As a percent to qualifying sales, the patronage payout was 2.67%, and AWG stock trading value increased by 4.55% to $2,300 per share. Total members' investment and equity ended the year valued at $556.2 million.

CONSOLIDATED RESULTS (thousands)	2014	2015	2016	2017	2018
Net Sales	$ 8,934,239	$ 8,935,915	$ 9,183,802	$ 9,703,821	$ 9,658,307
Operating Income	231,622	202,620	188,709	208,430	214,807
Net Income	226,920	198,919	189,907	199,103	212,845
Weeks	52	52	53	52	52
CONTINUING OPERATIONS (without military)					
Net Sales	$ 8,734,430	$ 8,759,239	$ 9,012,777	$ 9,604,826	$ 9,658,307
COOPERATIVE OPERATIONS (before eliminations)*					
Net Sales	$ 7,685,985	$ 7,579,129	$ 7,671,138	$ 8,475,733	$ 8,585,616
Distribution to Members					
Interest	223	406	553	859	967
Promotional Allowances	351,820	350,155	344,219	372,668	347,154
Year-End Patronage	194,675	193,815	201,731	203,441	210,516
Total Distribution to Members	$ 546,718	$ 544,376	$ 546,503	$ 576,968	$ 558,637
Members' Investments	$ 9,411	$ 22,105	$ 36,162	$ 41,375	$ 38,681
Members' Equity	439,632	455,610	508,172	509,683	517,485
Total Members' Investments & Equity	$ 449,043	$ 477,715	$ 544,334	$ 551,058	$ 556,166

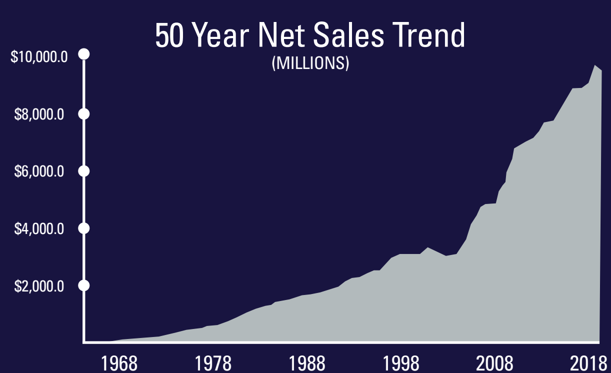
*Includes the accounts of members/subsidiaries.

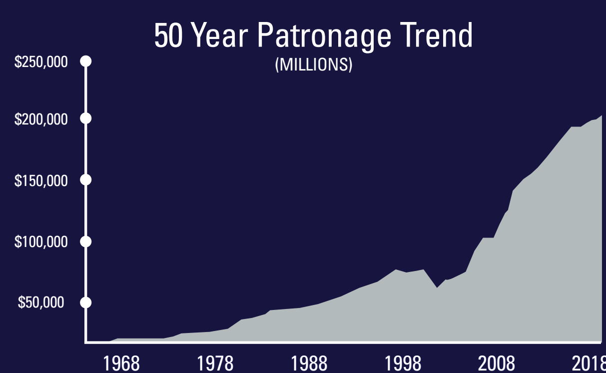
NET SALES

CONSOLIDATED (AFTER ELIMINATIONS)



LONG TERM GROWTH & PROSPERITY





AWG has experienced an incredible 8.52% compounded annual growth rate (CAGR) on net sales and an even more impressive 10.95% CAGR on patronage returned to our member companies. This clearly demonstrates the strength and stability of the cooperative's members and the long term success achieved by our unique business model. Successful retail members created this cooperative and it has withstood the test of time.

AWG STRATEGIC PILLARS

ACCELERATE PROFITABLE MEMBER GROWTH

AWG's success is measured by the collective success of its member stores. We support our members in achieving profitable and sustainable growth from same-store sales gains, well-planned and executed development, market expansions/ acquisitions, as well as innovative product expansions and diversification strategies. AWG's role is providing high-quality, dependable, and low-cost supply, obtaining the best products available at the best possible cost, leveraging over $20 Billion in retail buying power, and providing truly difference-making strategies, tactics and tools from our Retail Sales, Services, Support and Solutions team.

ATTRACT, DEVELOP & RETAIN TOP TALENT

Everything we do is totally dependent on a competent, highly-motivated, and results-driven group of teammates throughout our organization. Our goal is to be a great place to work, where passionate teammates' thoughts, ideas, and creativity are appreciated and encouraged, and where we strive daily for continuous improvement. As we find new and better ways, we make adjustments and constantly change, always focusing on doing things right and doing what's right. All teammates have a voice and their voice matters. We work together to protect and build on a culture that has unity of purpose, where all efforts and decisions are retailer-focused, and where teammate contributions and results are rewarded and celebrated.

STRENGTHEN CORE SERVICES & SUPPORT

Our mission is to provide our member-retailers all the tools, products, and services they need to compete favorably in all markets served. This includes top quality supermarket merchandise and support services, all at the lowest possible cost. As this requires us to provide more than groceries, we've established our Sales, Services, Support and Solutions team. They are an indispensable resource to member retailers and serve as a reliable and proven source for assistance on every line of a respective supermarket's financial statement. They help with top-line sales growth, gross margin opportunities, and challenges with line item level expense control. This team is empowered with the expertise, skills, experience, training, and access to resources to help with virtually every member need.

LEVERAGE TECHNOLOGY & ORGANIZATIONAL ASSETS FOR MEMBER SUCCESS

As a retailer-owned cooperative, we must think retail and provide necessary solutions that are for the mutual benefit of the collective membership. As the needs of our retailer-members are constantly changing, we must evaluate and adjust our offerings to fulfill our "better, faster, cheaper" objective. If a needed product or service is available from the general marketplace and the supply therefore allows our members to compete favorably, we need not engage in that business, product or service. To the contrary, if retail competitors to our member stores have a competitive advantage on a product or service, and as a result of AWG providing it we can fill the role "better, faster, cheaper", then we must look into engaging in that business. These engagements must add incremental value by leveraging our assets and fit into our model.

AWG SALES

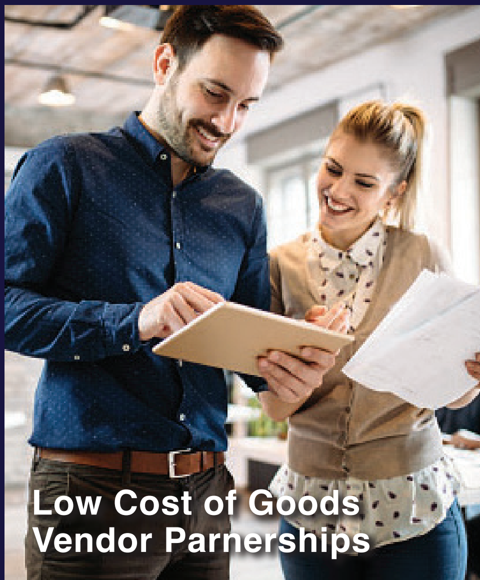
THE AGGREGATION AND TOTALITY OF OUR PROGRAMS ALLOW OUR RETAILERS TO COMPETE AND BE SUCCESSFUL.

At AWG we have a comprehensive menu of products, programs and services all geared towards helping our member-retailers compete in today's highly competitive marketplace. It is not one program that defines AWG nor that provides the "secret sauce" for success, but rather the aggregation and totality of our programs that allows our retailers to compete and be successful.

We constantly strive to improve the design, execution and effectiveness of our programs. Member-retailer feedback from the front lines helps us evolve and curate programs that achieve success. In today's environment, the most notable of our programs are those programs that add value, not only to our member-retailers, but also to the consumer.

To ensure our members remain up to date on all of the programs and services we offer to help them remain successful and competitive, we started a quarterly publication called COMPETE. This magazine provides our members with current industry trends, best practices from within our membership and continual updates on the services, support and solutions provided by AWG. Our two most recent issues were titled "Under Attack, The Independent Grocer: Caught in the Crosshairs," and "The Operating Cost Issue," containing timely industry benchmarking and cost cutting strategies.

March 2018 witnessed our first-ever Innovation Showcase. This special event brought together over 1,000 of our owner-members, leaders from our top vendor partner companies and industry experts to discuss the now and future of our industry. At this event we showcased more than 200 innovative solutions and over 50 concurrent educational opportunities.



COMPETE focuses on some of the issues facing retailers and guides you to the myriad of services and programs available to AWG retailers to help keep costs under control, keep sales performing well and keep your business progressing.

AWG HAS OVER 130 DISTRICT SALES MANAGERS AND FRESH DEPARTMENT SPECIALISTS IN THE FIELD SUPPORTING OUR SALES PROGRAMS AND INITIATIVES.

MEMBERSUPPORT

SALES • SERVICES • SUPPORT • SOLUTIONS

SALES SUPPORT

OUR SUPPORT TEAM IS ALIGNED AND ENABLED TO DEVELOP, DELIVER AND MAINTAIN A COMPETITIVE ADVANTAGE FOR OUR MEMBERS SO THEY CAN COMPETE FAVORABLY IN THEIR MARKETS.

Our AWG Sales Support team is a centrally-managed group of functional areas and departments that are focused on delivering sales support to division teams and our member-retailers. These support functions range from advertising and marketing support, creative marketing services, digital, in-store marketing and social media services, customer loyalty programs, shelf space optimization strategies and plan-o-gram support, and much more. Our support team is aligned and enabled to develop, deliver and maintain a competitive advantage for our members so they can compete favorably in their markets.

To assist with the transforming industry, we have developed a number of robust programs to help our members compete in the digital arena and omni-channel environment. AWG's Sales and Support department offers solutions like our Shopper Engagement Platform (SEP), and our customer relationship management (CRM) program. SEP is an engine that allows our retailers to promote digital offers, collect customer data, utilize a unique identifier to allow customers to load digital offers and allow our retailers to track shopping behavior and performance. This allows retailers to target shoppers with personalized offers, manage variable promotions and rewards programs.

We continue to invest heavily in technology as we roll out StoreFront, our user-friendly web portal giving our members and their teams easy access to the information they need to operate their businesses. With technology as a focus whether our wholly-owned subsidiary Media Solutions Corporation, or partnering with cutting-edge third party technology providers, AWG is also able to offer (and just as importantly, support) its members programs. These programs include email, text, mobile apps, new mover programs, in-store audio, graphic design, nutrition programs, online shopping, photography services, digital signage, vendor rebate programs, gift cards, textiles, website design and support, print and traditional media.

Online Shopping

SEP
SHOPPER ENGAGEMENT PLATFORM

\$30.99	Basket size of Rewards shopper
\$22.42	Basket Size of Non-Rewards shopper
\$8.57	Avg. basket size difference between Rewards and Non-Rewards shopper
\$58.57	Basket size of customer who clipped digital coupon
128%	Percentage increase in basket size of digital coupon shopper basket vs. average basket
322	Total stores on AWG's in-house single loyalty platform

AWG ADVERTISING AND MARKETING FEATURES MORE THAN 70 SKILLED EXPERTS ACROSS ALL DIVISIONS.


We provide over 30 different marketing programs to engage the consumer

AWG SERVICES

OUR SERVICES TEAM IS COMPRISED OF AWARD WINNING DEPARTMENTS TO PROVIDE YOU WITH THE SAME QUALITY EXPERTISE AT THE LOWEST POSSIBLE COST.

Our innovative lighting team will assist in choosing products that are designed to save energy, improve the quality of light in your store, as well as meet sustainability goals.

The AWG Services team combines the functions of our award-winning departments of Store Engineering, Store Design, Store Décor, Décor Manufacturing, Lighting and Design, and the management and administration of third-party services that serve our members with facility design, construction, maintenance, remodeling, and other related needs. The Services team provides our members the same level of quality and innovative design, engineering and construction expertise as the leading national chains, at the lowest possible cost.

AWG provides other support services for our members that the chains have at their disposal. These programs include our real estate department services for market research, lease negotiations, site selection and financial analysis. Our Store Engineering program assists with everything from store planning to equipment and fixture acquisition; our Design and Décor Source Group (DSG) provides market specific interior design and production by award-winning interior designers, produced in-house at low costs. Additionally our new store development program, which is operated by our Super Market Developers subsidiary, develops over 1 million square feet of new retail space annually for the benefit of our members and manages new construction projects, eliminating the added cost of middlemen in the process.

LED LAMP RETROFITS HAVE AN AVERAGE 2.5-YEAR PAYBACK AND WILL REDUCE THE LIGHTING PORTION OF THE ELECTRIC BILL MORE THAN 50%, ON AVERAGE

MORE THAN 20 PROFESSIONALS SERVE MEMBER RETAILERS' DESIGN AND LIGHTING NEEDS EVERY DAY IN EVERY DIVISION

DESIGN DSG DECOR

AWG SOLUTIONS

A GO-TO TEAM PROVIDING AWG'S TECH SOLUTIONS.

The AWG Solutions team encompasses retail technology, business solutions and retail pricing, and is our go-to team for various member needs which are best fulfilled by AWG or in some cases by third-party providers, especially in the areas of technology. New technology is evaluated by assessing member needs, its impact on the membership and how urgent it needs to get to market. Priorities are screened against internal resource capabilities and third-party providers to find best-in-class solutions at the best available cost. The team also expands on existing offerings, such as retail pricing, to provide value added enhancements beyond the base program currently provided.

Laser-focused on helping members drive same-store sales gains, the AWG Solutions team has recently partnered with dunnhumby, one of the world's leading data analytics companies to help our members analyze advertising and merchandising activities to create more effective promotions to drive profitable sales.

In 2018 AWG launched a new retail digital experience platform called StoreFront. This portal is an advanced technology that is flexible, scalable and cost efficient. More features and functionality are being added this year with the end result to replace all points of retail interface with this unified tool. One of the most exciting features is called MyAisle. This is a completely personalized area that allows users to decide what is the most important and valuable content to them. StoreFront is hosted in a highly secure virtual private cloud, using the latest cloud tools and infrastructure. This allows us to dynamically scale the application based on demands and provides our members access to the data and information they need - when, where and how they want it.

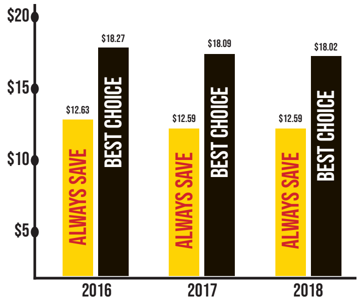
Data Analytics

Just like the name suggests, Scan-n-Go lets you scan items that you pull off the shelf using either a handheld device provided by the supermarket or an app, and then quickly checkout at either a Kiosk or Self Checkout system. AWG has multiple Scan-n-Go vendor partners to get members started in this new technology.

OUR SOLUTIONS TEAM HAS MORE THAN 20 TECHNICIANS AND STAFF IN THE FIELD SERVING OUR MEMBERS

AWG's user-friendly StoreFront portal is a one-stop shop for AWG Communication & Content. Future plans are to integrate eCommerce for Members to place orders.

AVERAGE CASE COST



The AWG Brands team is working consistently to insure our members have the cost of goods they need to compete in the marketplace. Despite 2018's inflationary environment, AWG Brands was still able to drive down average case costs shipped to our members.

AWG BRANDS

THE AWG BRANDS PROGRAM HAS ONCE AGAIN SET THE STANDARD IN THE INDUSTRY FOR SUCCESS.

AWG Brands eclipsed over $1.2 billion in wholesale dollars sold in 2018. AWG maintains a competitive advantage for its members by providing over 5,500 items to help enhance profit and sales. AWG Brands continues to rank amongst the top in the industry for success of Own Brands sales, variety, and penetration.

Best Choice®

The AWG Brands program is built on a pillar of quality that supports the program. In 2018 AWG Brands performed over 3,000 quality control audits and tests in the laboratory. Over 2,000 items were pulled from retailers shelves for testing in combination with lot testing from our suppliers. In addition, the AWG Brands team conducted over 20 full manufacturing plant audits. These audits ensure suppliers are following our stringent safety and sanitation specifications.

AWG Brands works with suppliers to continuously examine costs, many times down to the component level of the packaging and raw materials that make up the final product. This attention to detail ensures the lowest cost of goods for our members in a competitive industry.

As we look to the future, changing consumer preferences across demographics will drive many new opportunities. In 2018 AWG Brands launched over 300 new items to meet our member's needs to service their consumers. AWG Brands is moving to the forefront of setting price and quality image for retailers with their customers. AWG Brands will continue to give our members the ability to compete in this new world through constant new item development, scrutinizing costs, and developing efficient and modern packaging.

MORE THAN 50 SALES ASSOCIATES ARE AN ESSENTIAL PART OF AWG BRANDS COMMITMENT TO OUR RETAILERS

IN 2018, AWG BRANDS CONDUCTED MORE THAN 3,000 QUALITY CONTROL AUDITS AND LABORATORY TESTS

VALU MERCHANDISERS COMPANY

VMC INTRODUCED A NUMBER OF INNOVATIVE AND ON-TREND BRANDS AND PROGRAMS, ALL TARGETED TOWARDS THE NEEDS OF TODAY'S CONSUMER.

Valu Merchandisers Company (VMC) held on to sales throughout 2018 in a very challenging wholesale and retail environment. Despite a number of external disruptors impacting sales, VMC introduced a number of innovative and on-trend brands and programs such as Blue Buffalo, the fastest growing Super Premium Pet Food brand, CBD, Keto, and Cauliflower (Caulipower) based products along with an expanded Sparkling Water assortment, all targeted towards the needs of today's consumer.

As we look to 2019, VMC's key focus areas include:

- *Private Label penetration in all key categories*
- *Continuing to capitalize on the healthy-lifestyle trends*
- *"Back to Basics" retail execution initiative*
- *Aggressive promotional plans and spend*
- *Lowering cost of goods*
- *Introduction of an exciting Wellness initiative*

Given the dynamic nature of the grocery business, VMC remains on the forefront of being trend-forward, retail-solutions oriented, and will continue to leverage all available resources to help our members grow same store sales and profits. We truly appreciate our members' support and look forward to a successful 2019.

SALES HIGHLIGHTS

NATURAL ORGANIC & SPECIALTY FOODS	+7.1%
VMC SHOW SALES	+11.3%
POWER BUY SALES	+17.2%
CUSTOMER SERVICE SALES & SUPPORT CALLS	81,000
DEDICATED SALES TEAM DRIVING SAME STORE SALES	65+

MERCHANDISING HIGHLIGHTS

NUMBER OF PLANOGRAM UPDATES	140
NEW ITEMS IN 2018	7,100
INCREMENTAL PROMOTIONAL SALES	+1.1M
HEALTHY SNACKING CATEGORY GROWTH	+34%

2018 AWG BRANDS EXCELLENCE IN MERCHANDISING

PHIL'S CASH SAVER - OMAHA, NEBRASKA

Best Choice IS the right choice! Phil's Cash Saver relies heavily on the AWG Brands program to highlight the concept that you can Always Save at Phil's Cash Saver.

As customers enter the store, they are greeted with a wall of values featuring Always Save and Best Choice. Ceiling signs and pallet displays in prominent locations continue to drive the cost savings message.

AWG Brands are promoted in all departments, including Meat and Produce. The low price concept is reinforced with merchandising throughout the store. Located at prime eye level positions, items are flagged with channel strips, TPR signs and Compare and Save signs highlighting savings over national brand equivalents.

Phil's Cash Saver is heavily involved with the local community and promotes the Sav-A-Label program at every opportunity. Their commitment to AWG Brands resulted in a 32% penetration which is among the highest in all of AWG!

DIVISION WINNERS

STORE # 6623 - BUDGET SAVER MARRERO, LA
STORE # 3484 - FOODWISE PINE BLUFF, AR
STORE # 4663 - REHKOPF'S CASH SAVER NASHVILLE, AR
STORE # 8853 - BENDER'S FOODS BELLEVUE, IA
STORE # 2851 - ALLEN'S GROCERY SUMMIT, AR
STORE # 5597 - CASH SAVER EASTMAN, GA
STORE # 1307 - INGERSOLL PRICE CHOPPER DES MOINES, IA

2018 SEAFOOD EXCELLENCE IN MERCHANDISING

HARPS MARKETPLACE - BENTONVILLE, ARKANSAS

The seafood department inside Harps Marketplace is always a busy place. Challenged to increase sales, the seafood team began exploring options to attract new customers. They executed their first Massive Seafood Sale introducing new items at low prices.

During the two-day event, permanent coffin cases were loaded with product purchased for the sale. Massive Seafood Sale signs were placed next to every promoted item. A portable ice display counter and cases filled with mountains of whole crawfish, tuna steaks, tilapia, salmon fillets and jumbo shrimp were showcased in the department. Display bins with heaping piles of king crab legs, mussels, and oysters in the shell completed the display. Trained team members and industry experts were on hand to engage shoppers and provide cooking tips and meal ideas.

Same day sales exceeded prior year by over 140%, and customer count was up 30%! Many shoppers who purchased items during the sale are now repeat seafood customers.

DIVISION WINNERS

STORE # 6780 - ROUSES MARKET METAIRIE, LA
STORE # 4820 - REASOR'S JENKS, OK
STORE # 1967 - STRACK & VAN TIL HIGHLAND, IN
STORE # 9251 - HENDERSON'S IGA VALENTINE, NE
STORE # 5417 - COOKE'S FOOD STORE CLEVELAND, TN
STORE # 433 - HEN HOUSE OVERLAND PARK, KS

2018 CENTER STORE EXCELLENCE IN MERCHANDISING
FAIRPLAY FOODS - OAK LAWN, ILLINOIS

2018 was a hyper competitive year to sell groceries in the city of Chicago. Even with these pressures, center store sales at Fairplay Foods grew over 20% versus prior year, with the entire company enjoying double digit growth!

Fairplay Foods was quick to learn how to execute the power AWG brought to their business. Using aggressive Web Blast ads, highlighting AWG Brands, Event Sales, and offering the lowest cost of goods from SOLO purchases, Fairplay converted competitive programming into increased sales across the center store.

With a new strategy to "Market and Merchandise to the Masses," complete store resets positioned the center store for increased sales. Fairplay Foods 'fixed the mix' utilizing AWG category optimization tools and also updating adjacencies within store sets. Fairplay focused on trading customers up with larger packs, multiple sale combinations and higher quality merchandise. They focused on selling more and improving assortment. Fairplay's strategic direction positively created sustainable center store sales growth!

DIVISION WINNERS

- STORE # 6727 - MARKET BASKET MOSS BLUFF, LA
- STORE # 3138 - GROCER'S PRIDE HOUSTON, MS
- STORE # 4008 - CREST FOODS OKLAHOMA CITY, OK
- STORE # 9661 - SUPER SAVER LINCOLN, NE
- STORE # 2753 - G & W FOODS IOLA, KS
- STORE # 5852 - FOOD GIANT PARSONS, TN
- STORE # 711 - BROTHER'S MARKET TONGANOXIE, KS

2018 DELI EXCELLENCE IN MERCHANDISING
RALPH'S MARKET - GONZALES, LOUISIANA

Ralph's Market recognized the need and developed a plan to meet the increasing demand for high quality, unique prepared foods.

Ralph's deli features fresh baked pizza, corn and crab bisque, duck and Andouille gumbo and crawfish boil soup. The salad section is always absolutely fresh and impeccably maintained. They also offer a selection of smoked items like ribs, chickens, and pork butts.

Ralph's has developed a large clientele for its self service hot bar which includes fried frog legs, crawfish bow tie pasta, pastalaya, and southern fried chicken. A signature item, fried catfish, is a customer favorite!
The grab-n-go case is stocked with Kajun Krab dip, southern style potato salad, chicken salad and fruit cobblers. Sandwich trays are available for pick up and Ralph's caters large parties for any special occasion.

Fresh, high quality signature deli items served in a clean friendly store have resulted in a 20%+ increase in deli sales.

DIVISION WINNERS

- STORE # 3752 - GREENWOOD MARKET PLACE GREENWOOD, MS
- STORE # 4825 - REASOR'S TULSA, OK
- STORE # 8148 - RICHTER'S MARKETPLACE BURLINGTON, WI
- STORE # 9029 - SUNSHINE FOODS MADISON, SD
- STORE # 2704 - COUNTRY MART ST. CLAIR, MO
- STORE # 5176 - PRUETT'S MARKET SIGNAL MOUNTAIN, TN
- STORE # 171 - COSENTINO'S PRICE CHOPPER LEE'S SUMMIT, MO

2018 FLORAL EXCELLENCE IN MERCHANDISING
REASOR'S - BROKEN ARROW, OKLAHOMA

The Floral department at Reasor's is uniquely designed to WOW customers. Colorful flowers line the entry and set the tone of freshness for the entire store. Large displays of designer grab-n-go bouquets compliment the seasons and stimulating impulse sales.

Reasor's makes any occasion special from handcrafted special orders for the bride, anniversary bouquets, memorial service arrangements, Thanksgiving and Christmas centerpieces and special arrangement requests.

Fresh cut flowers and beautiful plants for inside the home are on display and available throughout the year. The ever popular outside Spring Plant Sale is an occasion customers anticipate and sales continue to grow year over year.

Holidays were especially strong for this store. The team shifted into high gear showcasing their talents with beautifully designed displays with the season's theme. The floral team has earned widespread customer satisfaction with their expertise and service, resulting in increased referrals and repeat customers.

DIVISION WINNERS

STORE # 6789 - ROUSES MARKET METAIRIE, LA
STORE # 9655 - SUPER SAVER OMAHA, NE
STORE # 2489 - WOODS SUPERMARKET WARRENSBURG, MO
STORE # 5727 - PRICE LESS FOODS KINGSPORT, TN
STORE # 432 - HEN HOUSE MARKET OLATHE, KS

2018 MEAT EXCELLENCE IN MERCHANDISING
LOU'S THRIFTWAY - NORFOLK, NEBRASKA

Michael & Nancy Brtek's family-owned operation takes advantage of the flexibility to do things larger stores cannot. They take pride in the fact that they are the only full-service grocery store in Norfolk featuring carry-out service and home delivery.

The experienced meat team makes customer service their top priority. They know their customers by name and utilize well merchandised cases. Lou's offers a wide variety of top quality meats. Freshness and a fair price are what keep customers coming back from miles around.

Lou's 46th Anniversary sale introduced his consumers to the Certified Angus Beef brand. The Meat department experienced over 11% increase in sales and an almost 4% increase in distribution. The store celebrated nearly a 10% increase in overall sales over prior year and over 6% increase in customer count. In May 2018, the store ranked #2 for single store operators for tonnage of Certified Angus Beef and in June climbed to the #1 position!

DIVISION WINNERS

STORE # 6028 - SHAWN'S CAJUN MEATS DELCAMBRE, LA
STORE # 3442 - CASH SAVER NORTH LITTLE ROCK, AR
STORE # 4267 - HOMELAND OKLAHOMA CITY, OK
STORE # 8784 - TONY'S FINER FOODS PROSPECT HEIGHTS, IL
STORE # 2348 - 10 BOX COST PLUS CONWAY, AR
STORE # 5699 - SIDNEY FOODTOWN SIDNEY, OH

2018 PRODUCE EXCELLENCE IN MERCHANDISING

PRUETT'S FOOD - DURANT, OKLAHOMA

Pruett's Food is known for its extensive variety of fresh produce, customer service, merchandising skills and event selling. Owner Ray Pruett's vision is to bring a "Big City" feel to small town USA. He has accomplished that in an elegant shopping atmosphere with well-placed lighting and décor that presents Produce as the star of the show.

In 2018, Pruett's Food also added the 'theatre' of customer service to the sales floor. Customers select their produce and Pruett's Produce experts clean, slice, dice, julienne or core product right before the customer's eyes. With knowledge gained from extensive training, Pruett's experts also offer culinary advice to customers on cooking, serving and storing their fresh produce.

The store features an extensive line of organic produce, cut fruit, hispanic produce and specialty items such as jackfruit, dragon fruit, buddha hand and passion fruit everyday. They offer product sampling which stimulated impulse sales on new and exciting items. They also are very promotion oriented and conduct Three Day Sales, Farm to Fork Sales, Awe Shucks Corn Sales, "Meet the Farmer" and outdoor Spring Break and Summer Sales.

DIVISION WINNERS

- STORE # 6076 - PIGGLY WIGGLY CHURCH POINT, LA
- STORE # 3565 - BILL'S COST PLUS JONESBORO, AR
- STORE # 8448 - FAIRPLAY FOODS OAK LAWN, IL
- STORE # 9261 - MASON'S SUPERMARKET MINDEN, NE
- STORE # 2141 - ROZIER'S PERRYVILLE, MO
- STORE # 5501 - HOUCHENS MARKET GLASGOW, KY
- STORE # 195 - CHECKERS FOODS LAWRENCE, KS

2018 BAKERY EXCELLENCE IN MERCHANDISING

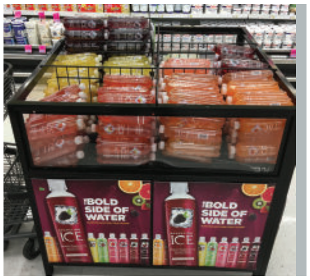
LIPARI'S SUN FRESH - KANSAS CITY, MISSOURI

John and Pam Lipari designed their new Sun Fresh in Kansas City with a special emphasis on the perishable departments bringing "Fresh" to a neighborhood in need. Customers have embraced the full service store and are excited to have full bakery, deli, floral, and meat departments to meet their shopping needs.

Everyday, a well stocked bakery greets customers with fresh baked breads and rolls. Customer favorite signature items such as sweet potato loaf cake, sweet potato birthday cake, and at the holidays Christmas sweater cookies and the popular melting snowman cookies are always in demand.

DIVISION WINNERS

- STORE # 6881 - RAMEY'S BRANDON, MS
- STORE # 3527 - SUPERLO FOODS SOUTHAVEN, MS
- STORE # 4454 - UPTOWN GROCERY EDMOND, OK
- STORE # 9606 - HANSEN'S IGA WASHBURN, WI
- STORE # 9011 - THE GROCERY KART BROKEN BOW, NE
- STORE # 2117 - HARPS FOOD STORE ROGERS, AR
- STORE # 5446 - VALU MARKET MT. WASHINGTON, KY



2018 VMC EXCELLENCE IN MERCHANDISING

DOC'S COUNTRY MART - BIXBY, OKLAHOMA

Jim Brown and his son, Courtney's dedication to Health, Beauty and Wellness, General Merchandise and Natural, Organic and Specialty Foods is evident when you walk into any of their 18 Oklahoma stores. Their execution in these categories is one of the main reasons they enjoy sales increases year after year.

With their leadership and store manager Mike Griffith's dedication, the store in Bixby, Oklahoma has become a true gem in the community. Displays are always full and in top selling condition. Out Posts, Cross Merchandising, TPRs, Power Buy End-caps and a wide variety of Specialty Foods and Natural Organic products are incorporated throughout the store. They also carry a full offering of Health, Beauty and Wellness products as well as General Merchandise categories throughout the store.

From the time you enter the store you can easily see the main focus is the customer. With shelves and displays merchandised to appeal to shoppers, they generate impulse sales with competitive prices. A wide variety of shippers, spinner racks and end caps highlight the special deals and compliment the offering.

DIVISION WINNERS

STORE # 8820 - TONY'S FRESH MARKET BERWYN, IL
STORE # 4338 - PRUETT'S FOOD ADA, OK
STORE # 3422 - REED'S MARKET NEW ALBANY, MS
STORE # 2922 - PRICE CUTTER NIXA, MO
STORE # 4267 - HOMELAND OKLAHOMA CITY, OK
STORE # 9648 - RUSS'S MARKET PHARMACY LINCOLN, NE

2018 OUTSTANDING MARKETING EVENT

KENYAN'S PIGGLY WIGGLY - SPRINGHILL, LOUISIANA

For the last 12 years, Kenyan's Piggly Wiggly has hosted the Annual Piggly Wiggly Springhill Steak Cook-Off benefitting St. Jude Children's Research Hospital.

This may be just a one day event, but months of planning are involved. The store is constantly thinking of creative ways to raise money for this worthwhile charity. The store heavily markets the event in store, in ads, and posts all the details on their Facebook page. Events throughout the year add to the total donations.

'Fun'draisers include a "Pie Face" contest and raffle to win a giant locally grown watermelon with the most successful 'fun'draiser of the year being the "Shave Your Head" Challenge. Three of Kenyan's leadership team shaved their heads when $20,000 was raised!

Over 1500 people attend this community wide event with 60 sponsors, hundreds of volunteers and 75 "Cook Off" contestants. Bouncy houses, water slides, giant balloons, and snow cones make for a fun filled family day!

DIVISION WINNERS - OUTSTANDING MARKETING EVENT & CAMPAIGN

STORE # 6596 - B & G FRESH MARKET CHALMETTE, LA
STORE # 8155 - PTACEK'S PRESCOTT, WI
STORE # 2704 - COUNTRY MART ST. CLAIR, MO
STORE # 5649 - BAKER'S IGA NEWCOMERSTOWN, OH
STORE # 285 - COSENTINO'S PRICE CHOPPER RAYMORE, MO
PRUETT'S FOOD ALL LOCATIONS

2018 OUTSTANDING MARKETING CAMPAIGN

DOC'S COUNTRY MART & APPLE MARKET

BIXBY, COWETA, GLENPOOL, OOLOGAH, WATONGA, FAIRVIEW AND NEWKIRK, OKLAHOMA

The leadership team of Doc's Country Mart and Apple Market devised a plan to broaden services to their current customers and build NEW business by expanding into online shopping. Partnering with Freshop and the AWG Marketing team, they devised a marketing campaign using "Curbside' as the tag line.

Teaser promos let customers know about online shopping with "Curbside" pickup is on the way! At roll out, front page advertisements, bag stuffers, street banners and social media outlets reinforced the message. "Curbside" banners at store entries, posters in high traffic areas and signage down each aisle told the story. A "Refer a friend" reward offered $10 off both customers' purchases.

Prior to the launch of "Curbside," 40% of current on-line customers were shopping the competition or were secondary shoppers. Since the launch, both groups of shopper segments are now primary customers averaging over $100 per basket.

2018 STORE MANAGER OF THE YEAR

CARY ROBINSON ROUSES MARKET - COVINGTON, LOUISIANA

Cary Robinson exemplifies all the characteristics of a successful store manager. His attitude toward his customers, community, his passion for sales and the relationship he builds with his team is the foundation for his excellent results.

Cary knows he can't do it alone and focuses on hiring employees who are H.H.S., in his words hungry, humble and smart. His partnerships with local schools and the community ensure a steady stream of applicants. Cary ensures employees are trained, understand their roles, and focus on creating a great place to shop. He speaks to every associate to make them feel important and a part of the bigger picture. He is an inspiration with his glass half full positive attitude.

Cary leads by example which begins with MBWA, 'management by walking around'. His motto is "100 times a day" meaning, he walks the store 100 times a day and focuses on the fundamentals of full and fresh. He examines every detail and develops a plan to communicate to the team. At weekly meetings, goals are set and reviewed, cross merchandising tips are shared and events planned. He leads the team in a department cheer and imparts his attitude that "adversity is nothing but a change in the wind direction" (adjust your sails and hold your course). He keeps associates motivated as there is a never ending parade of exciting events: weekend outside cookouts and crawfish boils, King Cake festivals, New Orleans Saints events, Mardi Gras events and cooking demonstrations at Rouses in Covington.

Cary strives to create strong customer loyalty and build the Rouses brand. When walking the store, he greets customers with a smile and an open attitude for suggestions, special requests and constructive comments. He says, "If it's wrong, we will make it right!"

In the community, Cary develops relationships by supporting the police and fire departments, church groups and Project Graduation at the high schools. When assigned to his current store, he went door-to-door to introduce himself as the manager of the new Rouses and personally invited customers to the Grand Opening events. He is a fixture at local civic clubs where he contributes his time and talents.

Cary's leadership and attention to customer needs translate to operational excellence in store conditions and financial results. His store routinely is among the top performers in comparable sales, labor control and profit. Steve Black, President/COO of Rouses says "Mr. Cary taught me his motto-100 times a day. It's what he does to maintain the best conditions. He walks 6-8 miles a day looking for ways to maintain the best conditions for our customers."

LOU FOX AWARD

DON & JOAN WOODS

The Lou Fox Community Service Award is given in honor of Lou Fox, president of Associated Wholesale Grocers from 1955 through 1983. Throughout his life, Lou Fox was known as a philanthropist and civic supporter. This award is presented at the Annual Shareholders Meeting each year to an AWG retailer who follows in the Lou Fox tradition of giving back to the community that helped make them successful. The spirit of Lou Fox lives in each of the recipients.

This year's Lou Fox Community Service Award is presented to Don and Joan Woods, owners of Woods Super Markets located throughout south-central Missouri. Don and Joan are each known for their humility, compassion, and service to others.

Don graduated from the University of Missouri with an MBA and was drafted into the US Army. He met Joan at college and they were married in 1971. They joined the family business and began their grocery careers. While Don and Joan's three children have chosen different careers, their childhood was spent growing up in the stores teaching them valuable lessons about business and public interaction.

Don has served on the AWG Board of Directors for 33 years, is Vice Chairman, and on the Finance Committee. He is a strong advocate for AWG, meeting with potential new retailers throughout the country.

For 30 years, Don has been a member of the Missouri Grocers Association Board, on the Ozark Empire Grocers Association Board since 1974, and was on the NGA Board. Don is passionate about relationships between the grocery industry and state and national governments, lobbying in Washington, DC and Jefferson City. Because of this dedication he received NGA's Spirit of America Award. Don and Joan are major financial supporters of local politics, pushing an agenda for social justice as well as business common sense. Don has been a member of The Asparagus Club, which provides scholarships to students desiring a career in the supermarket industry.

Joan's life of service began when the children were young. She volunteered as a Brownie and Cub Scout leader, Sunday school teacher, was a perennial PTA president and home room volunteer. Joan served as a parish council member for her church and has had an active role in the Council of Catholic Women.

Joan has served on the Chamber of Commerce Board, and both Don and Joan have been major financial donors to the YMCA in Bolivar and Buffalo, Missouri. Joan's passion for helping children led her to serve on the Springfield Child Advocacy Center Board, and to support the needs of children, whether nationally with St. Jude's Hospital or on the local level at schools, pregnancy crises centers and women's shelters. She also belongs to local service organizations serving as president for numerous years.

Joan has served on the Women Grocers of America Board. She received the Missouri Grocers Woman of the Year award because of her support of the industry. Joan says of everything she has done, she is the most proud of being able to coach employees in personal life skills, business and career development, and to help employees facing financial crises in their personal lives.

Don and Joan are major supporters of education. They have given generously to the University of Missouri Tiger Scholarship Fund, Central Missouri State University and Southwest Baptist University. In 2018, they established an ongoing paid internship providing SBU students an opportunity to enhance their training in business. They have established an endowed scholarship fund for students within the College of Business and Computer Science. Through the Woods Charitable Foundation, Don and Joan are supporters of several philanthropic organizations including local food banks, the Lake of the Ozarks Children's Charities and Shootout.

Whether it's stepping up to assist tornado victims with daily free hot meals, water in a town where people lost everything, or helping others get through difficult times, Don and Joan are there to help.

The Lou Fox Award is presented to a couple who has followed the tradition of giving back to their community throughout their entire married life. Don and Joan have each brought much to their many employees, customers, organizations and communities and share the spirit of this award by continually trying to do the most good.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 29, 2018 and December 30, 2017
(dollars in thousands)

ASSETS	2018	2017
Current Assets:		
Cash and cash equivalents	$ 154,101	$ 166,129
Receivables, net of allowance for doubtful accounts of $4,012 in 2018 and $4,795 in 2017	313,702	297,241
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2018 and $0 in 2017	8,281	16,885
Inventories	587,504	517,755
Prepaid and other current assets	32,018	44,403
Total current assets	1,095,606	1,042,413
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $3,225 in 2018 and $2,770 in 2017	45,284	45,050
Property and equipment, net (note 6)	436,914	439,983
Intangible assets, including goodwill, net of accumulated amortization of $23,148 in 2018 and $23,642 in 2017 (note 3)	3,375	4,620
Deferred income taxes (note 10)	31,180	15,740
Prepaid and other assets	52,299	75,240
Total assets	$ 1,664,658	$ 1,623,046

LIABILITIES AND EQUITY	2018	2017
Current Liabilities:		
Accounts payable	$ 597,688	$ 618,649
Cash portion of current year patronage	121,348	117,179
Member deposits	38,303	41,476
Accrued expenses and other current liabilities	122,032	109,661
Total current liabilities	879,371	886,965
Long-term debt maturing after one year (notes 5 and 7)	230,223	171,008
Deferred income and other liabilities	42,560	59,907
Total liabilities	1,152,154	1,117,880
Commitments and contingent liabilities (note 12)		
Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 17,055 and 17,910 shares issued in 2018 and 2017	1,706	1,791
Class B, nonvoting; 150,000 shares authorized; 11,199 and 11,744 shares issued in 2018 and 2017	1,120	1,174
Additional paid-in capital	28,075	29,298
Retained earnings	484,595	468,727
Accumulated other comprehensive loss (notes 9 and 11)	(35,041)	(22,030)
Total members' equity	480,455	478,960
Noncontrolling interest	32,049	26,206
Total equity	512,504	505,166
Total liabilities and equity	$ 1,664,658	$ 1,623,046

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016
(dollars in thousands)

	2018	2017	2016
Net sales	$ 9,658,307	$ 9,703,821	$ 9,183,802
Cost of goods sold	8,896,295	8,953,310	8,480,375
Gross profit	762,012	750,511	703,427
General and administrative expenses	547,205	542,081	514,718
Operating income	214,807	208,430	188,709
Other income (expenses):			
Interest income (note 1)	3,824	3,105	3,986
Interest expense (note 7)	(6,769)	(5,937)	(3,222)
Other, net	1,744	3,891	3,255
Income before income taxes	213,606	209,489	192,728
Income taxes (note 10)	761	10,386	2,821
Net income	212,845	199,103	189,907
Other comprehensive income (loss)			
Change in funded status of pension plan, net of taxes (note 9)	(13,011)	(2,495)	2,210
Comprehensive income	$ 199,834	$ 196,608	$ 192,117
Amounts attributable to noncontrolling interest			
Comprehensive income	$ 199,834	$ 196,608	$ 192,117
Comprehensive (income) loss attributable to noncontrolling interest	(5,843)	(4,288)	2,464
Comprehensive income attributable to AWG, Inc. and subsidiaries	$ 193,991	$ 192,320	$ 194,581
Net income	$ 212,845	$ 199,103	$ 189,907
Net (income) loss attributable to noncontrolling interest	(5,843)	(4,288)	2,464
Net income attributable to AWG, Inc. and subsidiaries	$ 207,002	$ 194,815	$ 192,371

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 29, 2018 and December 30, 2017
(dollars in thousands)

	2018	2017
Allocated		
Balances at beginning of year	$ 366,509	$ 351,818
Patronage certificates (note 8):		
Issued	78,899	76,215
Redeemed	(68,286)	(63,428)
Class B certificates:		
Issued	2,004	1,904
Redeemed	(60)	—
Balances at end of year	$ 379,066	$ 366,509
Unallocated		
Balances at beginning of year	$ 102,218	$ 106,046
Net income.	212,844	199,103
Net income attributable to noncontrolling interest (note 9)	(5,843)	(4,288)
Less allocated earnings (note 8):		
Patronage certificates	(78,899)	(76,215)
Class B certificates	(2,004)	(1,904)
Less cash portion of current year patronage	(121,348)	(117,179)
Redemption and retirement of common stock	(1,439)	(3,345)
Balances at end of year	$ 105,529	$ 102,218
Total retained earnings	$ 484,595	$ 468,727

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016
(dollars in thousands)

	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 212,844	$ 199,103	$ 189,907
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	48,839	49,568	47,791
Impairment of assets and liabilities	—	2,378	571
Deferred income taxes	(15,440)	8,226	5,022
Gain on disposition of property and equipment	(147)	(41,210)	(4,657)
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(16,461)	(894)	(988)
Inventories	(69,749)	46,605	(40,281)
Prepaid and other assets	35,340	(34,111)	(15,230)
Accounts payable, accrued expenses and other liabilities	(38,949)	(78,732)	64,545
Net cash provided by operating activities	156,277	150,933	246,680
Cash flows from investing activities:			
Reductions in restricted cash	—	—	729
Loans to members	(31,803)	(38,252)	(1,432)
Repayment of loans by members	40,172	18,435	35,084
Purchase of property and equipment	(54,668)	(30,660)	(54,686)
Proceeds from sale of property and equipment	10,592	79,372	26,323
Acquisition of assets, net of cash acquired (note 4)	—	—	(103,697)
Net cash (used in) provided by investing activities	(35,707)	28,895	(97,679)
Cash flows from financing activities:			
Year-end patronage distributions	(117,179)	(115,262)	(110,423)
Redemption of prior year's patronage refund certificates	(68,345)	(63,429)	(62,680)
Issuance of common stock	2,003	5,713	1,251
Redemption and retirement of common stock	(4,804)	(6,552)	(3,065)
Net advances under credit facilities	58,900	200	25,150
Net (repayments) proceeds of member deposits	(3,173)	5,259	(5,083)
Net cash used in financing activities	(132,598)	(174,071)	(154,850)
Net (decrease) increase in cash and cash equivalents	(12,028)	5,757	(5,849)
Cash and cash equivalents at beginning of year	166,129	160,372	166,221
Cash and cash equivalents at end of year	$ 154,101	$ 166,129	$ 160,372
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 6,080	$ 5,250	$ 3,186
Cash paid for income taxes	$ 1,360	$ 1,733	$ 9,177

See accompanying notes to these consolidated financial statements.

(dollars in thousands unless otherwise indicated)

(1) Summary of Significant Accounting Policies

General

Associated Wholesale Grocers, Inc. predominately operates on a cooperative basis (see Patronage) procuring grocery merchandise for distribution to its retailer/shareholders ("Members") throughout the midwestern, southwestern and southeastern United States. Non-Cooperative businesses include nonfood distribution centers, and retail supermarkets that operate under the banners of Homeland, United Supermarkets, Cash Saver and Price Chopper. The cooperative represents approximately 86% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG, its subsidiaries and variable interest entities where the Company is considered the primary beneficiary. All significant intercompany transactions have been eliminated. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year ends on the last Saturday in December. Fiscal 2018 and 2017 includes 52 weeks of operations. Fiscal 2016 includes 53 weeks of operations.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity ("VIE") in which the Company has a controlling financial interest and, therefore, is the VIE's primary beneficiary. ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company has determined that HAC, Inc. Employee Stock Ownership Plan and Trust ("ESOP") is a VIE pursuant to certain financing provided by the Company in the sale of its retail grocery operation (see note 4) and has included HAC, Inc. ("HAC") in the Company's consolidated financial statements for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016.

Business and Credit Concentrations

The vast majority of the Company's sales are to Members located in Missouri, Oklahoma, Louisiana, Arkansas, Kansas, Illinois, Tennessee, Mississippi, Nebraska, Kentucky, Indiana and Alabama. No single customer accounted for more than 10% of sales in any year presented. Inventory and equipment financing is available to qualified retailers for acquisitions/expansion, improvements and opening inventory purchases. Loans to Members are generally collateralized by the Member's inventory, property and equipment, and the Members' AWG equity. The Company's lending rate is generally one percent over the prime rate with borrowing terms up to 7 years. For the fiscal years 2018, 2017, and 2016, the Company earned interest income on loans of $3.2 million, $2.5 million and $2.5 million, respectively. Interest is recorded when earned.

Accounts receivable primarily consist of trade receivables from Members and are stated at the amount the Company expects to collect, net of allowance. Trade receivables are generally secured by patronage certificates (see note 5).

The Company establishes an allowance for doubtful accounts based on collectability, which reflects management's best estimate of probable losses determined principally on the basis of historical experience, financial analysis of the retail customer and loan guarantors, and evaluation of the loan collateral.

Changes in accounts receivable allowance for doubtful accounts are as follows:

	2018	2017
Beginning balance	$ 4,795	$ 4,363
Provision for doubtful accounts	617	1,051
Write-offs / Recoveries	(1,400)	(619)
Ending balance	$ 4,012	$ 4,795

Changes in notes receivable allowance for doubtful accounts are as follows:

	2018	2017
Beginning balance	$ 2,770	$ 10,141
Provision for doubtful accounts	782	(50)
Write-offs / Recoveries	(327)	(7,321)
Ending balance	$ 3,225	$ 2,770

(1) Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Proceeds due from credit and debit card transactions with settlement terms of less than five days are also included. The Company maintains cash balances at major financial institutions. At times such cash balances may be in excess of the Federal Deposit Insurance Corporation coverage limit. Management believes the financial institutions are financially sound and risk of loss is minimal. The Company does not fund its disbursement accounts for checks it has written until the checks are presented to the bank for payment. The amount of outstanding checks is recorded in accounts payable. The change in outstanding checks is included in the change in accounts payable, accrued expenses, and other liabilities on the consolidated statement of cash flows.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 77% and 74% of inventories in 2018 and 2017, respectively, is determined using the last-in, first-out (LIFO) method. Cost for perishables, general merchandise, health care and retail store inventories is determined using the first-in, first-out (FIFO) method. Had all products been valued at FIFO, inventories would have increased by $120.6 million at December 29, 2018, and $117.5 million at December 30, 2017.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements, which significantly increase property lives, are capitalized. Interest costs incurred during the construction of facilities are included in the cost of such properties. Depreciation and amortization are calculated using the straight-line method over the assets estimated useful lives, which range from 15 to 50 years for buildings; 3 to 10 years for equipment; and 3 to 5 years for vehicles. Leasehold improvements are amortized over the shorter of the respective lease terms or life of the asset.

Patronage

Income from cooperative operations, less a nominal amount authorized by the Board of Directors to be retained, is returned to the Members in the form of year-end patronage. At each year-end, a percentage of net income to be distributed is paid in cash (60%) with the remainder paid in the form of patronage certificates (see notes 5 and 8). Such amounts are apportioned to the Members based on qualifying warehouse purchases. Patronage source income derived from an extraordinary event of significant magnitude may be distributed to Members separately based on the quantity of the business done proportionately with a Member, which may span multiple years or a combination of years, as provided in the bylaws, as amended.

Sales and Cost of Goods Sold

The Company recognizes sales of merchandise when products are shipped and promotional allowances related to selling products to customers are recorded as a reduction in sales. Any volume rebate paid in advance of purchases is reported as a prepaid asset. Fees and upfront monies received from vendors are recorded as a reduction of the cost of goods sold in the period in which they are earned, based on contractual commitments to achieve certain milestones in purchases or prorated over the duration of the agreement.

Shipping and Handling Costs

Shipping and handling costs incurred to deliver products to our customers are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Shipping and handling costs for the fiscal years 2018, 2017, and 2016 were $206.4 million, $202.7 million and $158.4 million, respectively.

Advertising Expense

Advertising costs are expensed as incurred and are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Advertising expense for the fiscal years 2018, 2017, and 2016 were $4.8 million, $5.9 million and $7.3 million, respectively.

Self Insurance

In states which have approved the Company as a qualified self-insurer, the Company covers the workers' compensation claims utilizing a combination of self-insurance and excess workers' compensation insurance ($0.8 million retention), subject to the policy limitations, if any. The Company uses actuarial estimates to record the liability for future periods. If the number of claims or the costs associated with the claims were to increase significantly over the estimates, additional charges to earnings could be necessary to cover required payments.

Income Taxes

AWG files a consolidated federal income tax return. Deferred income taxes are accounted for under the asset and liability method. Patronage distributions from cooperative operations are deductible for income tax purposes. Deferred income taxes result primarily from differences in financial reporting basis for net receivables, depreciation, insurance, deferred compensation and the deferred gain on the sale of HAC not yet recognized in the financial statements. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During 2018, 2017 and 2016, the Company did not recognize any interest or penalties.

(1) Summary of Significant Accounting Policies (continued)

Recently Adopted and Recently Issued Authoritative Accounting Standards

In February 2016, the FASB issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842). which was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. Topic 842, as amended, requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for almost all lease contracts with terms longer than 12 months. New guidelines for identifying and classifying a lease are also provided, with classification affecting the pattern and categorization of expense recognition in the income statement. The Company continues to assess the impacts of adopting this standard, which will be effective for the fiscal year beginning after December 15, 2019.

In April 2015, the FASB issued ASU No. 2015-03, "Interest- Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs," which resulted in the reclassification of debt issuance costs from "Other Current Assets" and "Other Long Term Assets" to inclusion as a reduction of the Company's reportable "Accrued Expenses and Other Current Liabilities" and "Long Term Debt" balance on the consolidated balance sheets. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying value of the related debt liability. The Company has adopted ASU No. 2015-03 with full retrospective application as is required by the guidance. This standard did not have a material impact on the Company's consolidated balance sheets.

In May 2014, the FASB issued ASU No. 2014-09, Revenue.from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new revenue recognition standard also requires disclosures that sufficiently describe the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The collective guidance is effective for private beginning after December 15, 2018. The new standard will be effective for the Company in the first quarter of fiscal year 2019. ASU No. 2014-09 is effective retrospectively for fiscal years beginning after December 15, 2018. The new standard permits two implementation approaches, one requiring full retrospective application of the new standard with restatement of prior years, and one requiring modified retrospective application of the new standard with disclosure of results under old standards. The Company has selected the modified retrospective method. The Company has completed an inventory of its revenue streams and the Company's impact assessment of the standard is ongoing, however, the new revenue standard is not expected to have any material impacts on the amount and timing of revenue recognized in the Company's consolidated financial statements. Once adopted, the Company will provide expanded disclosures regarding the characteristics of its revenue.

(2) 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 valuation.

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

Since there is no market for long term notes receivables, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable. Recoverability of assets held and used is assessed based on the undiscounted future cash flows. Assets to be disposed of are presented at the lower of cost or fair value less costs of disposal. During the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016, the Company recorded (in millions) $0.0, $2.4, and $0.6 respectively, for impairment charges on real property and ongoing lease liabilities, which were measured at fair value using Level 3 inputs. The impairment charges are a component of the general and administrative expenses in the consolidated statements of operations.

The carrying amounts of the Company's long-term debt reported on the consolidated balance sheets approximate fair value since their interest rates are periodically adjusted to reflect market conditions.

(3) Intangible Assets

The Company has intangible assets subject to amortization that include wholesale volume agreements and non-compete agreements of $20.7 million for both 2018 and 2017, respectively, which are being amortized over 15 years and have accumulated amortization of $20.5 million and $19.6 million for 2018 and 2017, respectively. The Company's VIE has recorded goodwill of $5.6 million for both 2018 and 2017, respectively, which is being amortized over a useful life of 10 years and has accumulated amortization of $2.7 million and $2.1 million, respectively. Amortization expense for intangible assets was $1.4 million in 2018, $1.9 million in 2017 and $2.4 million in 2016. Amortization expense for the next five fiscal years is estimated to be as follows (in millions): 2019 - $0.7; 2020 - $0.7, 2021 - $0.6, 2022 - $0.6 and 2023 - $0.4.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In December 2011, the Company sold its subsidiary retail grocery operation, Associated Retail Grocers, Inc. ("ARG"), whose only asset consisted of an investment in HAC, Inc. The operation is commonly referred to as Homeland Stores, which operated grocery stores situated in Oklahoma (72), Texas (4) and Kansas (1) at the time of the transaction. The purchaser, ESOP (see Variable Interest Entity in note 1), bought 100% of the controlling stock of ARG in a transaction valued at $145 million subject to a working capital adjustment of $10.1 million. The Company provided financing in a series of loan tranches collateralized by HAC, Inc. assets, with maturity dates of 5 to 11 years. On December 31, 2016, the Company entered into a new loan agreement with HAC (Tranche A1) replacing, refinancing and restating Tranches A, B, C, E, E2, E3 and E4 Term notes in their entirety.

Tranche A1 – $117.7 million, to be reduced by future AWG patronage certificates and quarterly principal payments beginning on March 31, 2017. Weekly interest-only payments began on January 6, 2017 (subject to floating rate adjustments based on the Monthly LIBOR Rate + 3% margin). The loan balance outstanding at December 29, 2018 under the restated and consolidated Tranche A1 note was $82.5 million, with the interest rate ranging from 4.56% to 5.38%. $11.0 million of principal payments were made during the fiscal year ending December 29, 2018. The aggregate loan balance outstanding at December 31, 2016 under consolidated notes (Tranche A, B, C, E, E2, E3, and E4) was $121.1 million for Tranches A, B and C with the interest rate ranging from 3.25% to 7.00%. Tranches E, E2, E3, and E4 were non-interest bearing and had an outstanding balance of $4.3 million as of December 31, 2016.

Beneficial terms of the transaction require HAC to maintain its purchase concentration of current and future stores for a stated period beyond the final repayment of all the outstanding obligations. The Company provides HAC access to a line of credit up to $15.0 million to manage its seasonal borrowing needs at a borrowing rate of Prime (5.25% and 4.50% for 2018 and 2017, respectively), which was drawn at $0.0 million at December 29, 2018 and $0.0 million at December 30, 2017. On December 17, 2015, the Company provided a guaranty to Bank of America Merrill Lynch ("BAML") up to $2.5 million, for Letters of Credit issued by BAML for the benefit of HAC. The guaranty provided to BAML by the Company was $15.0 million and $7.5 million on September 15, 2017 and October 28, 2016, respectively. The amount available under the line of credit is reduced by the amount guaranteed to BAML. The guaranteed balance at December 29, 2018 and December 30, 2017 was (in millions) $0.0 and $0.0, respectively.

HAC is considered a VIE, requiring its continuing operation to be combined with the Company's consolidated financial statements. Therefore, the Company will not reflect the gain on the sale of the subsidiary until such time as the Company determines it is no longer the primary beneficiary of HAC.

In October 2016, the Company purchased certain assets and liabilities of Affiliated Foods Midwest Cooperative, Inc. ("AFM") for $139.7 million to expand the distribution area into several adjoining states and add over 800 new member stores. The following table summarizes the allocation of the purchase price to the assets acquired and the liabilities assumed at the date of acquisition:

	in millions
Inventory	$ 71.4
Personal property & equipment	24.3
Real property	85.1
Notes receivable	20.3
Accrued liabilities	(27.3)
Member deposit liability	(19.2)
Equity	(14.9)
Total	$ 139.7

In connection with the acquisition of AFM, the Company agreed to pay additional consideration in future periods of up to an aggregate of $33.8 million (undiscounted). In 2018, the total amount owed of $9.2 million was paid to the Members based upon their annual purchases, which included a portion that was paid to AFM as breakage. The amount of all future payments that the Company could be required to make under the contingent consideration arrangement at December 29, 2018 and December 30, 2017 was estimated to be (in millions) $8.8 and $21.1, respectively. Key assumptions included (a) a discount rate range of 1.0%-1.9% and (b) a payout probability factor of 77% as of December 29, 2018 and 80% as of December 30, 2017. The contingent consideration liabilities are considered Level 3 measurements and are included in short-term. 521 Members were issued 15 shares of class A stock with 336 Member Deposit Certificates issued to collateralize open accounts receivables.

(4) Acquisitions, Divestitures and Certain Transactions with Members (continued)

The Company incurred expenses of approximately $4.9 million in conjunction with the acquisition. The Company has expensed all acquisition related costs, which are recorded as a component of general and administrative expenses.

In August 2017, Always Fresh, Inc. a wholly owned subsidiary of the Company, sold substantially all of its assets for a total of $5.0 million. In conjunction with this transaction, the Company sold approximately $7.2 million of its military distribution channel related inventory to the same purchaser. In addition, the Company entered into a non-compete agreement with the same party, which resulted in annual installment payments over a seven year term totaling over $2.9 million with the short term portion recorded in receivables and the remaining recorded in non current other assets.

In August 2017, the Company sold its warehouse located in Ft. Worth, Texas, along with all fixtures and improvements, building equipment, and warehouse supplies for $55.0 million. At closing, a short term lease was executed with the purchaser that allowed the Company to conduct the necessary process of selling or transferring inventory and equipment out of the facility, which was completed in October 2017.

In October 2017, the Company sold 100% of the stock of Retail Accounting Solutions, Inc. ("RAS") and entered into a non-compete agreement with the purchaser for five years. A purchase price of $0.3 million was received at closing. In conjunction with this transaction, real estate, which included the building that housed the RAS employees, was also sold for $0.3 million to an affiliated entity of the purchaser.

In November 2017, the Company sold a vacant warehouse and adjacent land located in Elwood, Kansas for $14.3 million, which had been obtained as part of the AFM transaction in October of 2016, but never used for grocery distribution.

(5) Patronage Refunds and Deposits

Patronage Refund Certificates are issued to Members as part of annual distributions of net income from cooperative operations.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on member deposits and member savings in 2018, 2017 and 2016 was $1.0 million, $0.9 million and $0.6 million, respectively. Since there is no market for Patronage Refund Certificates and Member Deposits, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

(6) Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Land	$ 55,361	$ 56,351
Buildings and leasehold improvements	418,958	434,440
Equipment	414,590	361,556
Construction in progress and other	7,543	7,869
	$ 896,452	$ 860,216
Less accumulated depreciation	(459,538)	(420,233)
Property and equipment, net	$ 436,914	$ 439,983

Depreciation expense incurred in 2018, 2017, and 2016 was (in millions) $47.1, $47.3 and $45.0, respectively. In 2018, 2017 and 2016, the Company capitalized an aggregate total of (in millions) $0.0, $0.0 and $0.1, respectively, of capitalized construction period interest.

(7) Long-term Debt

In May 2015, the Company entered into a five year revolving Credit Agreement, which provided a $302.9 million revolving credit facility and a $72.1 million tax-exempt bond facility. Total borrowings and outstanding letters of credit, including a $72.1 million tax-exempt bond loan, were $249.4 million and $190.5 million at December 29, 2018 and December 30, 2017, respectively. Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 2.18% to 3.14% during 2018 and 1.43% to 2.19% during 2017 (which included a base rate mark-up charged by the lenders). Daily borrowings averaged $88.3 million and $119.3 million in 2018 and 2017, respectively, and overall annual borrowings and repayments were approximately $7.1 billion and $7.6 billion in 2018 and 2017, respectively. The Company had an additional $125.6 million and $184.5 million available for borrowing under this agreement at December 29, 2018 and December 30, 2017, respectively.

The Company's credit facility contains certain financial covenants related to cash flow leverage and minimum tangible net worth. The Company is in compliance with all covenants as of December 29, 2018.

(dollars in thousands unless otherwise indicated)

(8) Allocated Earnings

At December 29, 2018 and December 30, 2017, $78.9 and $76.2 million of the current year non-maturing patronage has been allocated within retained earnings. The pertinent provisions of these patronage certificates are as follows: (a) the certificates are not transferable; (b) AWG has the right to offset, but the certificate holder does not; (c) no interest is accrued on outstanding certificates; (d) the certificates have no stated maturity date, and (e) the certificates are subordinate to the claims of all creditors of AWG.

In July 2005, the Board of Directors created another form of patronage certificate ("Class B Certificates") for Members who are delinquent with their obligations owed to the Company. The Class B Certificates are non-interest bearing and have no maturity date. These certificates are only redeemed upon the dissolution of the Company and the redemption of all other patronage certificates. The Board of Directors may in its sole and absolute discretion cause a Class B Certificate to be converted into a Patronage Refund Certificate if a member who was deemed as delinquent ceases to be deemed as a delinquent Member. The Class B Certificates are included in retained earnings and amounted to $4.0 million and $2.0 million as of December 29, 2018 and December 30, 2017, respectively.

(9) Equity

All Members of the cooperative are required to hold 15 shares of Class A Common Stock. The bylaws of AWG contain restrictions concerning the transfer of common stock, which serves as collateral to secure Members' indebtedness. Each Member holding Class A Common Stock is entitled to one vote in shareholder matters. All issuances and redemptions since March 28, 2018 have been made at $2,200 per share. Issuances and redemptions between March 22, 2017 and March 27, 2018 were made at $2,000 per share. Issuances and redemptions between March 20, 2016 and March 21, 2017 were made at $1,915 per share.

The following table describes the number of authorized and outstanding shares of AWG Class A and Class B stock at December 29, 2018 and December 30, 2017:

		OUTSTANDING AT	
CLASS	AUTHORIZED	2018	2017
Class A Stock, $100 par value	35,000	17,055	17,910
Class B Stock, $100 par value	150,000	11,199	11,744

The changes in common stock for the fiscal years ended December 29, 2018 and December 30, 2017 were as follows:

	Class A	Class B	Total Common Stock	Members
Balances at December 31, 2016				
Shares	16,905	13,429	30,334	1,129
Dollar Value	$ 1,691	$ 1,341	$ 3,032	
Issued				
Shares	2,475	—	2,475	162
Dollar Value	$ 247	$ —	$ 247	
Redeemed				
Shares	(1,470)	(1,685)	(3,155)	(95)
Dollar Value	$ (147)	$ (167)	$ (314)	
Balances at December 30, 2017				
Shares	17,910	11,744	29,654	1,196
Dollar Value	$ 1,791	$ 1,174	$ 2,965	
Issued				
Shares	960	15	975	64
Dollar Value	$ 96	$ 2	$ 98	
Redeemed				
Shares	(1,815)	(560)	(2,375)	(121)
Dollar Value	$ (181)	$ (56)	$ (237)	
Balances at December 29, 2018				
Shares	17,055	11,199	28,254	1,139
Dollar Value	$ 1,706	$ 1,120	$ 2,826	

(dollars in thousands unless otherwise indicated)

(9) Equity (continued)

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss attributable to the Company for the fiscal years ended December 29, 2018 and December 30, 2017 were as follows:

	2018	2017
Balances, beginning of year	$ (22,030)	$ (19,535)
Change in funded status of pension plan, net of $4,418 in tax in 2018 and ($3,922) in tax credits in 2017	(13,011)	(2,495)
Balances, end of year	$ (35,041)	$ (22,030)

Additional Paid in Capital

Changes in additional paid in capital attributable to the Company for the fiscal years ended December 29, 2018 and December 30, 2017, were as follows:

	2018	2017
Balances, beginning of year	$ 29,298	$ 26,725
Stock purchase or redemption surplus value paid in/(out)	(1,223)	2,573
Balances, end of year	$ 28,075	$ 29,298

Noncontrolling Interest

Changes in noncontrolling interest for the years ended December 29, 2018 and December 30, 2017, were as follows:

	2018	2017
Balances, beginning of year	$ 26,206	$ 21,918
Income attributable to noncontrolling interest	5,843	4,288
Balances, end of year	$ 32,049	$ 26,206

(10) Income Taxes

The significant components of income tax expense are summarized as follows:

	2018	2017
Federal:		
Current	$ 9,610	$ 1,700
Deferred	(8,294)	7,738
Total federal	$ 1,316	$ 9,438
State:		
Current	$ 2,173	$ 928
Deferred	(2,728)	20
Deferred	(555)	948
Total income tax	$ 761	$ 10,386

(dollars in thousands unless otherwise indicated)

(10) Income Taxes (continued)

The effects of temporary differences and other items that give rise to deferred income tax assets and liabilities are presented below:

	2018	2017
Deferred income tax assets:		
Gain on sale of subsidiary	$ 16,573	$ 6,242
Pension	5,988	3,088
Insurance	3,727	3,243
Compensation	4,348	5,430
Accounts receivable	1,694	1,848
Inventory	2,519	2,345
State credit carryover	4,845	4,845
Other	1,811	1,343
Deferred income tax assets	41,505	28,384
Valuation allowance	(3,806)	(4,283)
Total deferred income tax assets	$ 37,699	$ 24,101
Deferred income tax liabilities:		
Fixed assets	$ 5,591	$ 7,041
Prepaid expenses	928	1,320
Total deferred income tax liabilities	$ 6,519	$ 8,361
Net deferred income tax assets	$ 31,180	$ 15,740

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction, and various states and municipalities. The IRS examination covering tax years 2013-2015 was completed in 2018 with no significant adverse outcome.

As of December 29, 2018 and December 30, 2017, respectively, a valuation allowance of $3.8 million and $4.3 million was recorded to reduce deferred income tax assets to a level, which more likely than not, will be realized as future benefits.

On December 22, 2017, the United States enacted tax reform legislation known as the H.R.1, commonly referred to as the "Tax Cuts and Jobs Act" (the "Act"), resulting in significant modifications to existing law. The Company financial statements for both comparative years reflect certain effects of the Act which includes a reduction in the corporate tax rate from 35% to 21%, as well as other changes. As a result of the changes to tax laws and tax rates under the Act, the Company incurred incremental income tax expense of $7.3 million during the year ended December 30, 2017, which consisted primarily of the remeasurement of deferred tax assets and liabilities from 35% to 21%.

(11) Employee Benefit Plans

Substantially all employees of the Company are covered by various contributory and non-contributory pension or profit sharing 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. The Company sponsors a defined benefit pension plan, both qualified and non-qualified ("the DB Plan"), and several defined contribution pension plans. The DB Plan covers 1,065 and 1,173 participants for the fiscal years ended December 29, 2018 and December 30, 2017, respectively, which is comprised mainly of non-union warehouse, clerical and managerial employees. Beginning November 1, 2012, the Company's DB Plan was closed to new employees and replaced with an enhanced contribution to the existing defined contribution plan. At present, the Company continues to accrue service costs for eligible participants of the DB Plan. The Company provides no health care, life insurance, nor disability plans to former and inactive employees after retirement under post-employment benefit plans.

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

The benefit obligation (which is the projected benefit obligation "PBO"), fair value of plan assets, and funded status of the Company's DB Plan is as follows:

	2018	2017
Change in benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 160,024	$ 146,914
Service cost	10,215	9,723
Interest cost	6,391	6,335
Benefits paid	(26,644)	(16,383)
Actuarial loss	11,541	13,435
Benefit obligation at end of year	$ 161,527	$ 160,024
Change in plan assets		
Fair value of plan assets at beginning of year	$ 147,824	$ 132,306
Actual return (loss) on plan assets	(8,269)	16,961
Employer contributions	25,010	14,940
Benefits paid	(26,644)	(16,383)
Fair value of plan assets at end of year	$ 137,921	$ 147,824
Funded status, end of year	$ (23,606)	$ (12,200)

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participants' highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $134,139 and $135,136 at December 29, 2018 and December 30, 2017, respectively.

The amounts recognized for the DB Plan in the Company's accumulated other comprehensive income/loss consisted of the following:

	2018	2017
Total recognized in AOCI, before tax	$ (46,896)	$ (29,468)
Total recognized in AOCI, net of tax	$ (35,041)	$ (22,030)

Fiscal Year	DB Plan Benefits
2019	$ 23,572
2020	18,352
2021	18,828
2022	18,083
2023	21,447
Years 2024-2028	89,239

	2018	2017	2016
Net periodic benefit expense for the DB Plan consisted of the following:			
Service cost – benefits earned during the period	$ 10,215	$ 9,723	$ 9,758
Interest cost on projected benefit obligations	6,391	6,335	6,177
Expected return on plan assets	(10,138)	(9,249)	(9,053)
Amortization of prior service cost	—	129	201
Amortization of net actuarial loss	4,697	5,793	8,123
Settlement loss	7,822	1,228	7,086
Net periodic benefit expense	$ 18,987	$ 13,959	$ 22,292

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

The estimated prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income/loss into net periodic benefit cost for the DB Plan over the next fiscal year are $0 and $5,842, respectively. The majority of the unfunded non-qualified portion of the plan has been expensed.

Weighted average assumptions used for the DB Plan are as follows:	2018	2017	2016
Weighted-average assumptions used to determine benefit obligations:			
Discount rate	4.45%	3.80%	4.50%
Rate of compensation increase	2.58%	2.56%	2.50%, 3.00%
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	3.80%	4.50%	4.65%
Rate of compensation increase	2.56%	2.56%	2.50%, 3.00%
Expected return on plan assets	6.75%	7.25%	7.25%

The fair value of the Company's DB Plan assets at the end of the 2018 calendar year, by asset category, are as follows:

Asset Category	Total	Level 1	Level 2	Level 3
Money Market Funds	$ 1,854	$ 1,854	$ —	$ —
Mutual Funds	131,759	131,759	—	—
Limited Partnerships	4,308	—	—	4,308
Totals	$ 137,921	$ 133,613	$ —	$ 4,308

The fair value of the Company's DB Plan assets at the end of the 2017 calendar year, by asset category, are as follows:

Asset Category	Total	Level 1	Level 2	Level 3
Money Market Funds	$ 3,117	$ 3,117	$ —	$ —
Mutual Funds	138,971	138,971	—	—
Limited Partnerships	5,736	—	—	5,736
Totals	$ 147,824	$ 142,088	$ —	$ 5,736

The following is a description of the valuation methodologies used for assets measured at fair value at December 29, 2018 and December 30, 2017:

Money Market Funds, Mutual Funds and Common Stocks are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds are valued at the closing price reported on the active market on which the individual securities are traded. If no active market is available, they are valued by Interactive Data Corporation based on quoted prices for similar assets or liabilities in an active market.

Limited Partnerships that are hedge funds are valued based on estimates for the fair value of investment funds held by the partnership that have calculated net asset value per share as a practical expedient in accordance with the specialized accounting guidance for investment companies. Another limited partnership is valued based on the contributions paid into the fund through year end, which approximates fair value. The majority of Limited Partnerships held as investments are subject to redemption restrictions of a quarterly frequency with 95 day notice periods and a minimum investment period of one year.

(11) Employee Benefit Plans (continued)

A reconciliation of the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal year ended December 29, 2018 and December 30, 2017 is as follows:

	2018	2017
Fair value, beginning balance	$ 5,736	$ 7,873
Unrealized gains/(losses)	(400)	(56)
Purchases	475	687
Distributions	(1,503)	(2,768)
Fair value, ending balance	$ 4,308	$ 5,736

The Company's investment policy reflects the nature of the DB Plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for the portfolio. The expected rate of return on DB Plan assets was determined based on expectations of future returns for the DB Plan's investments based on the target asset allocation of the DB Plan's investments. The Company expects to contribute approximately $23.6 million to the DB Plan during 2019.

The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $9.6, $9.2 and $8.5 in 2018, 2017 and 2016, respectively.

The 2005 Non Qualified Deferred Compensation Plan is available for officers of the Company to elect, by the required deadlines in the preceding year, to have a designated portion of their wages set aside for their own personal tax planning purposes, in a trust held by Wells Fargo. At the time of election, the date for future distribution of wages to the participant is established, according to allowable parameters within the plan documents. The asset is reported as a noncurrent asset with the offsetting liability as a noncurrent liability on the consolidated balance sheet and were $10.3 million and $19.5 million for December 29, 2018 and December 30, 2017, respectively.

The fair value of the Company's Deferred Compensation plan assets at the end of 2018 and 2017 calendar year, by asset category are as follows:

	2018	Level 1	Level 2	Level 3
Money Market Funds	$ 4,111	$ 4,111	$ —	$ —
Corporate Bonds	363	—	363	—
Common Stocks	2,208	2,208	—	—
Mutual Funds	3,607	3,607	—	—
Totals	$ 10,289	$ 9,926	363	$ —

	2017	Level 1	Level 2	Level 3
Money Market Funds	$ 7,845	$ 7,845	$ —	$ —
Corporate Bonds	1,179	—	1,179	—
Common Stocks	6,561	6,561	—	—
Mutual Funds	3,910	3,910	—	—
Totals	$ 19,495	$ 18,316	$ 1,179	$ —

(12) Commitments and Contingent Liabilities

The Company is obligated as lessee under various noncancelable long-term supermarket property leases with minimum annual rentals of approximately $35.8 million. These leases have an average remaining life of 5 years. It is expected in the ordinary course of business that these leases will be renewed or replaced. The Company has subleased the majority of its supermarket properties to Members (except for properties operated by the Company's subsidiaries) for substantially the same lease terms and rental amounts. Rental expense related to these properties were (in millions) $32.8, $33.4, and $34.2 in 2018, 2017, and 2016, respectively. Rental income received was (in millions) $33.9, $35.8 and $35.3 in 2018, 2017 and 2016, respectively. Future minimum lease payments expected to be incurred over the next five fiscal years and thereafter is estimated as follows (in millions): 2019 - $32.0; 2020 - $28.1; 2021 - $24.1; 2022 - $19.4; 2023 - $16.9; and $91.6 thereafter. Offsetting rental income expected to be received over the next five fiscal years and thereafter is estimated as follows (in millions): 2019 - $33.1; 2020 - $29.1; 2021 - $25.1; 2022 - $20.1; 2023 - $17.5; and $95.9 thereafter. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $2.6, $6.4 and $3.4 in 2018, 2017 and 2016, respectively. Operating lease rent expense expected to be incurred over the next five fiscal years is estimated as follows (in millions): 2019 - $5.0; 2020 - $5.1; 2021 - $5.2; 2022 - $5.3; 2023 - $5.4.

The Company is a guarantor of loans issued to members in the amount of $20.0 million and $40.0 million for December 29, 2018 and December 30, 2017, respectively.

In December 2015, the Company entered into a limited guaranty with BAML a on behalf of HAC, Inc. Amended in 2017, this limited guaranty allows HAC, Inc. to issue standby letters of credit in amounts up to $15.0 million without requiring HAC to maintain a cash collateral account with BAML. The Company is able to revoke the limited guaranty at any time in respect to future transactions. The Company will, however, be at risk for existing indebtedness at the time of revocation.

In September 2016, the Company entered into a limited guaranty with Bank of Oklahoma on behalf of one of its Members. This guaranty of payment is limited to $25.0 million of outstanding debt of the Member with Bank of Oklahoma. This guaranty ended in October 2018.

In April 2018, the Company entered into a limited guaranty with Great Southern Bank on behalf of one of its Members. This guaranty of payment is limited to $5.0 million of outstanding debt of the Member with Great Southern Bank.

The Company has entered into surety bond agreements with government entities which bind the Company to repay the government entity if the Company is unable to successfully perform on is contractual obligations to the government entity. As of December 29, 2018 and December 30, 2017, the Company had $6.8 million and $6.0 million, respectively, of outstanding surety bonds.

The Company is involved in various claims and litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of these actions will not have a material adverse effect on the Company's consolidated financial statements.

(13) Multi-employer Plans

The Company contributes to a single multi-employer defined benefit pension plan under the terms of the collective-bargaining agreements that cover its union-represented employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer are used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

c. If the Company chooses to stop participating in its multi-employer plan, then it is required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

(dollars in thousands unless otherwise indicated)

(13) Multi-employer Plans (continued)

The Company's participation in this plan for the fiscal year ended December 29, 2018, is outlined in the table below. The "EIN and Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2018 and 2017 is for the plan's fiscal year end at December 30, 2017 and December 31, 2016, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are more than 65, but less than 80 percent funded and plans in the green zone are at least 80 percent funded. Based on its projected insolvency, the plan has been deemed to be in "critical and declining" status for 2017 and 2016. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements to which the plan is subject. Finally, there have been no significant changes that affect the comparability of 2018, 2017 and 2016 contributions.

Pension Fund	EIN and Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Implemented	Company Contributions			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
		2017	2016		2018	2017	2016		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$14,563	$14,193	$14,001	No	April 4, 2020

The Company was not listed in the plan's Form 5500 as providing more than 5% of the total contributions for the plan years ending in 2017 and 2016. At the date the Company's consolidated financial statements were issued, the plan's Form 5500 was not available for the plan year ending in 2018.

(14) Subsequent Events

Subsequent events have been evaluated through March 4, 2019, which is the date the financial statements were available to be issued. There were no material events requiring recognition or disclosure.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas Corporation) and subsidiaries, which comprise the consolidated balance sheets and statements of retained earnings as of December 29, 2018 and December 30, 2017, and the related consolidated statements of operations and comprehensive income and cash flows for each of the three years in the period ended December 29, 2018, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Wholesale Grocers, Inc. and subsidiaries as of December 29, 2018 and December 30, 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Kansas City, Missouri
March 4, 2019

2019 AWG OFFICERS


Tye Anthony
Vice President,
AWG Brands &
Merchandising


Stephanie Becker
Sr. Vice President,
General Counsel & Chief
Legal Officer


Randy Berry
Sr. Vice President,
Chief Information Officer


Stacy Bowen
Vice President,
Sales & Solutions


David Carl
Sr. Vice President,
Finance & Treasurer


Jim DeStefano
Vice President,
Corporate Distribution


Bob Durand
Vice President,
Division Manager
Nebraska


Jerry Edney
Vice President,
Division Manager
Kansas City


Dan Funk
Chief Supply Chain &
Merchandising Officer


David Gates
Sr. Vice President,
Regional Manager -
Northern


Bo Hawkins
Vice President,
Meat


Robert Henry
Vice President,
Controller


Richard Kearns
Executive Vice President,
Distribution & Logistics


Dan Koch
Vice President,
Bakery & Deli


Gary Koch
Executive Vice President,
Chief Financial Officer


Danny Lane
Sr. Vice President,
Regional Manager -
Southern


Linda Lawson
Vice President,
Division Manager
Oklahoma City


Sonny Leon
Vice President,
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Great Lakes


John Likens
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Anna Mancini
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Merchandising,
Valu Merchandisers
Company


Greg Oldright
Vice President,
Member Services
Gulf Coast


Jeff Olson
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Chief Sales & Support
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Bob Pessel
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Pharmacy, Valu
Merchandisers Company


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Springfield


Terry Roberts
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Frank Schmitt
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Mike Schumacher
Vice President,
Division Manager
Great Lakes


Reade Sievert
Vice President,
Produce


David Smith
President &
Chief Executive Officer


Tony Stafford
Vice President,
Sales, Valu
Merchandisers Company


Louis Stinebaugh
Vice President,
Sales & Support


Dave Sutton
President,
Valu Merchandisers
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James Vaughan
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DGS-Acquisitions, LLC


Jack Wall
Vice President,
Division Manager
Gulf Coast


Scott Welman
Executive Vice President,
Chief Development
Officer


Mark Wilson
Vice President,
Corporate Distribution

ASSOCIATED WHOLESALE GROCERS, INC.

2018 ANNUAL REPORT