

RITE AID CORP
Form 10-Q
January 05, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 26, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 1-5742

RITE AID CORPORATION

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-1614034
(I.R.S. Employer
Identification No.)

30 Hunter Lane,
Camp Hill, Pennsylvania
(Address of principal executive offices)

17011
(Zip Code)

Registrant's telephone number, including area code: **(717) 761-2633**.

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report):

Not Applicable

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The registrant had 1,052,367,228 shares of its \$1.00 par value common stock outstanding as of December 21, 2016.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, as well as our other public filings or public statements, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by terms and phrases such as anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will and similar expressions and include references and relate to our future prospects, developments and business strategies.

Factors that could cause actual results to differ materially from those expressed or implied in such forward-looking statements include, but are not limited to:

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our credit facilities and other debt agreements;
- the continued impact of private and public third party payors reduction in prescription drug reimbursement rates and their ongoing efforts to limit access to payor networks, including mail order;
- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs, and our ability to achieve drug pricing efficiencies;
- the inability to complete the proposed acquisition (the Merger) of us by Walgreens Boots Alliance, Inc., a Delaware corporation (WBA), due to the failure to satisfy the remaining conditions to the completion of the Merger, including receipt of required regulatory approvals;
- the inability to complete the proposed Sale (as defined below) to a wholly owned subsidiary of Fred's, Inc. (Fred's) due to the failure to satisfy the conditions to the completion of the Sale, including receipt of required regulatory approvals;
- the continuing effect of the pending Merger or Sale on our business relationships (including, without limitation, customers and suppliers), operating results and business generally;

- our ability to continue to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to maintain or grow prescription count and realize front-end sales growth;
- our ability to hire and retain qualified personnel;
- competitive pricing pressures, including aggressive promotional activity from our competitors;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities (subject to the limitations in the Merger Agreement), which could result in charges to our operating statement;
- our ability to manage expenses and working capital;
- continued consolidation of the drugstore and the pharmacy benefit management (PBM) industries;
- changes in state or federal legislation or regulations, and the continued impact from the ongoing implementation of the Patient Protection and Affordable Care Act as well as other healthcare reform;
- risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;
- our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration and early price renegotiations prior to contract expirations;

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- the continued impact of declining gross margins in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings;
- our ability to maintain our current Medicare Part D business and obtain new Medicare Part D business, as a result of the annual Medicare Part D competitive bidding process;
- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments and related tax matters;
- the risk that the Merger Agreement may be terminated in certain limited circumstances that require us to pay WBA a termination fee of \$325 million;
- risks that the proposed Merger disrupts our current plans and operations or affects our ability to retain or recruit key employees;
- the amount of the costs, fees, expenses and charges related to the Merger Agreement, the Merger, the Asset Purchase Agreement (as defined below) or the Sale;
- risks related to the Merger or Sale diverting management's or employees' attention from ongoing business operations;
- risks associated with the financing of the Merger transaction;
- the risk that our stock price may decline significantly if the Merger is not completed;
- risks related to obtaining the requisite consents to the Merger or Sale, including, without limitation, the timing (including possible delays) and expiration or termination of the applicable waiting periods under the HSR Act and other applicable antitrust laws, and the risk that such consents might not be received;

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- the risk that the Merger or Sale may not be completed in a timely manner, if at all;
- risks related to other business effects, including the effects of industry, market, economic, political (including as a result of the recent U.S. Presidential election) or regulatory conditions, future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies or competitive development;
- the risk that we could experience deterioration in our current Star rating with the Centers of Medicare and Medicaid Services (CMS) or incur CMS penalties and/or sanctions;
- the nature, cost and outcome of pending and future litigation and other legal proceedings or governmental investigations, including any such proceedings related to the Merger or Sale and instituted against us and others;
- the risk that there may be a material adverse change of the Company or the acquired stores;
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the SEC).

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and in our Annual Report on Form 10-K for the fiscal year ended February 27, 2016 (the Fiscal 2016 10-K), our Quarterly Report on Form 10-Q for the thirteen weeks ended May 28, 2016 (the First Quarter 2017 10-Q) which we filed on July 5, 2016, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 27, 2016 (the Second Quarter 2017 10-Q) which we filed on October 4, 2016, as well as in the Risk Factors section of the Fiscal 2016 10-K, which we filed with the SEC on April 25, 2016. These documents are available on the SEC's website at www.sec.gov.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

(unaudited)

	November 26, 2016	February 27, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 220,028	\$ 124,471
Accounts receivable, net	1,707,648	1,601,008
Inventories, net of LIFO reserve of \$1,047,657 and \$1,006,396	2,947,358	2,697,104
Prepaid expenses and other current assets	142,134	128,144
Total current assets	5,017,168	4,550,727
Property, plant and equipment, net	2,291,459	2,255,398
Goodwill	1,715,479	1,713,475
Other intangibles, net	885,220	1,004,379
Deferred tax assets	1,534,437	1,539,141
Other assets	215,163	213,890
Total assets	\$ 11,658,926	\$ 11,277,010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 22,681	\$ 26,848
Accounts payable	1,792,574	1,542,797
Accrued salaries, wages and other current liabilities	1,256,283	1,427,250
Total current liabilities	3,071,538	2,996,895
Long-term debt, less current maturities	7,208,286	6,914,393
Lease financing obligations, less current maturities	43,943	52,895
Other noncurrent liabilities	689,032	731,399
Total liabilities	11,012,799	10,695,582
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,052,268 and 1,047,754	1,052,268	1,047,754
Additional paid-in capital	4,855,612	4,822,665

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Accumulated deficit	(5,216,015)	(5,241,210)
Accumulated other comprehensive loss	(45,738)	(47,781)
Total stockholders' equity	646,127	581,428
Total liabilities and stockholders' equity	\$ 11,658,926	\$ 11,277,010

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(unaudited)**

	Thirteen Week Period Ended	
	November 26, 2016	November 28, 2015
Revenues	\$ 8,089,726	\$ 8,154,184
Costs and expenses:		
Cost of revenues	6,194,866	6,151,305
Selling, general and administrative expenses	1,773,862	1,777,647
Lease termination and impairment charges	7,265	7,011
Interest expense	106,309	106,879
Loss on sale of assets, net	501	3,331
	8,082,803	8,046,173
Income before income taxes	6,923	108,011
Income tax (benefit) expense	(8,087)	48,468
Net income	\$ 15,010	\$ 59,543
Computation of income attributable to common stockholders:		
Income attributable to common stockholders basic and diluted	\$ 15,010	\$ 59,543
Basic and diluted income per share	\$ 0.01	\$ 0.06

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(unaudited)**

	Thirteen Week Period Ended	
	November 26, 2016	November 28, 2015
Net income	\$ 15,010	\$ 59,543
Other comprehensive income:		
Defined benefit pension plans:		
Amortization of prior service cost, net transition obligation and net actuarial losses included in net periodic pension cost, net of \$451 and \$398 tax expense	681	597
Total other comprehensive income	681	597
Comprehensive income	\$ 15,691	\$ 60,140

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(unaudited)**

	Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015
Revenues	\$ 24,303,712	\$ 22,466,521
Costs and expenses:		
Cost of revenues	18,597,809	16,681,822
Selling, general and administrative expenses	5,345,356	5,203,058
Lease termination and impairment charges	20,279	21,670
Interest expense	316,810	345,895
Loss on debt retirements, net		33,205
Loss on sale of assets, net	1,731	3,651
	24,281,985	22,289,301
Income before income taxes	21,727	177,220
Income tax (benefit) expense	(3,468)	77,372
Net income	\$ 25,195	\$ 99,848
Computation of income attributable to common stockholders:		
Income attributable to common stockholders basic and diluted	\$ 25,195	\$ 99,848
Basic and diluted income per share	\$ 0.02	\$ 0.10

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(unaudited)**

	Thirty-Nine Week Period Ended	
	November	November
	26, 2016	28, 2015
Net income	\$ 25,195	\$ 99,848
Other comprehensive income:		
Defined benefit pension plans:		
Amortization of prior service cost, net transition obligation and net actuarial losses included in net periodic pension cost, net of \$1,353 and \$1,194 tax expense	2,043	1,792
Total other comprehensive income	2,043	1,792
Comprehensive income	\$ 27,238	\$ 101,640

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015
Operating activities:		
Net income	\$ 25,195	\$ 99,848
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	424,084	373,782
Lease termination and impairment charges	20,279	21,670
LIFO charge	41,261	17,959
Loss on sale of assets, net	1,731	3,651
Stock-based compensation expense	36,766	26,529
Loss on debt retirements, net		33,205
Changes in deferred taxes	6,165	50,696
Excess tax benefit on stock options and restricted stock	(3,809)	(21,436)
Changes in operating assets and liabilities:		
Accounts receivable	(110,868)	315,898
Inventories	(291,574)	339
Accounts payable	225,278	89,630
Other assets and liabilities, net	(209,055)	(342,234)
Net cash provided by operating activities	165,453	669,537
Investing activities:		
Payments for property, plant and equipment	(333,788)	(414,338)
Intangible assets acquired	(48,805)	(97,612)
Acquisition of businesses, net of cash acquired		(1,778,377)
Proceeds from dispositions of assets and investments	10,217	8,697
Net cash used in investing activities	(372,376)	(2,281,630)
Financing activities:		
Proceeds from issuance of long-term debt		1,800,000
Net proceeds from revolver	280,000	655,000
Principal payments on long-term debt	(16,426)	(666,967)
Change in zero balance cash accounts	30,685	(35,011)
Net proceeds from issuance of common stock	4,412	8,625
Financing fees paid for early debt redemption		(26,003)
Excess tax benefit on stock options and restricted stock	3,809	21,436
Deferred financing costs paid		(34,634)
Net cash provided by financing activities	302,480	1,722,446
Increase in cash and cash equivalents	95,557	110,353
Cash and cash equivalents, beginning of period	124,471	115,899
Cash and cash equivalents, end of period	\$ 220,028	\$ 226,252

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Supplementary cash flow data:			
Cash paid for interest (net of capitalized amounts of \$147 and \$128, respectively)	\$	273,713	\$ 239,869
Cash payments of income taxes, net of refunds	\$	6,506	\$ 5,808
Equipment financed under capital leases	\$	3,881	\$ 3,499
Equipment received for noncash consideration	\$	746	\$ 2,011
Stock consideration issued in connection with business acquisitions	\$		\$ 240,907
Conversion of the 8.5% convertible notes to common stock	\$		\$ 64,089
Gross borrowings from revolver	\$	2,774,000	\$ 3,983,000
Gross payments to revolver	\$	2,494,000	\$ 3,328,000

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2016 and November 28, 2015

(Dollars and share information in thousands, except per share amounts)

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are of a recurring nature and, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended November 26, 2016 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Rite Aid Corporation (Rite Aid) and Subsidiaries (together with Rite Aid, the Company) Fiscal 2016 10-K.

Recent Accounting Pronouncements

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, an update to ASU 2014-09. This ASU amends ASU 2014-09 to defer the effective date by one year for annual reporting periods beginning after December 15, 2017 (fiscal 2019). Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. This ASU removes inconsistencies, complexities and allows transparency and comparability of revenue transactions across entities, industries, jurisdictions and capital markets by providing a single comprehensive principles-based model with additional disclosures regarding uncertainties. The principles-based revenue recognition model has a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Early adoption is permitted for annual reporting periods beginning after December 15, 2016 (fiscal 2018). In transition, the ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is in the process of assessing the impact and method of the adoption of the standards on its financial position, results of operations and cash flow.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases, (Topic 842)*, which is intended to improve financial reporting around leasing transactions. The ASU affects all companies and other organizations that engage in lease transactions (both lessee and lessor) that lease assets such as real estate and manufacturing equipment. This ASU will require organizations that lease assets referred to as leases to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU No. 2016-02 is effective for fiscal years and interim periods within those years beginning January 1, 2019. The Company is in process of assessing the impact of the adoption of ASU No. 2016-02 on its financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation, (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify aspects of the accounting for share-based payment transactions. The ASU simplifies the accounting of stock compensation, including income tax implications, the balance sheet classification of awards as either equity or liabilities, and the cash flow classification of employee share based payment transactions. ASU No. 2016-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption of all the amendments for ASU 2016-09 is permitted. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement must be applied prospectively. Amendments related to the presentation of excess tax benefits on the statement of cash flows may be applied either prospectively or retrospectively based on the Company's election. Amendments related to the statement of cash flows presentation of employee taxes paid when an employer withholds shares must be applied retrospectively. The Company is in process of assessing the impact of the adoption of ASU No. 2016-09 on its financial position, results of operations and cash flows.

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On June 24, 2015, the Company completed its acquisition of TPG VI Envision BL, LLC and Envision Topco Holdings, LLC (EnvisionRx), pursuant to the terms of an agreement (Agreement) dated February 10, 2015 (the Acquisition). EnvisionRx, which was a portfolio company of TPG Capital L.P. prior to its acquisition by the Company, is a full-service pharmacy services provider. EnvisionRx provides both transparent and traditional pharmacy benefit manager (PBM) service options through its EnvisionRx and MedTrak PBMs, respectively. EnvisionRx also offers fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies; access to the nation's largest cash pay infertility discount drug program via Design Rx; an innovative claims adjudication software platform in Laker Software; and a national Medicare Part D prescription drug plan through Envision Insurance Company's (EIC) EnvisionRx Plus Silver product for the low income auto-assign market and its Clear Choice product for the chooser market. EnvisionRx is headquartered in Twinsburg, Ohio and operates as a 100 percent owned subsidiary of the Company.

Pursuant to the terms of the Agreement, as consideration for the Acquisition, the Company paid \$1,882,211 in cash and issued 27,754 shares of Rite Aid common stock. The Company financed the cash portion of the Acquisition with borrowings under its Amended and Restated Senior Secured Revolving Credit Facility, and the net proceeds from the April 2, 2015 issuance of \$1,800,000 aggregate principal amount of 6.125% senior notes due 2023 (the 6.125% Notes). The consideration associated with the common stock was \$240,907 based on a stock price of \$8.68 per share, representing the closing price of the Company's common stock on the closing date of the Acquisition.

The Company's condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 26, 2016 include EnvisionRx results of operations. The Company's condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 28, 2015 include EnvisionRx results of operations from the Acquisition date of June 24, 2015 through November 28, 2015 (please see Note 14 Segment Reporting for the Pharmacy Services segment results included within the condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015, which reflects the results of EnvisionRx). The Company's condensed consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 Business Combinations, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the Acquisition date.

The following allocation of the purchase price is final:

<i>Final purchase price</i>	
Cash consideration	\$ 1,882,211
Stock consideration	240,907
Total	\$ 2,123,118
<i>Final purchase price allocation</i>	
Cash and cash equivalents	\$ 103,834
Accounts receivable	892,678
Inventories	7,276
Prepaid expenses and other current assets	13,386
Total current assets	1,017,174
Property and equipment	13,196
Intangible assets(1)	646,600
Goodwill	1,639,355
Other assets	7,219
Total assets acquired	3,323,544

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Accounts payable	491,672
Reinsurance funds held	381,225
Other current liabilities(2)	215,770
Total current liabilities	1,088,667
Other long term liabilities(3)	111,759
Total liabilities assumed	1,200,426
<i>Net assets acquired</i>	\$ 2,123,118

(1) Intangible assets are recorded at estimated fair value, as determined by management based on available information which includes a final valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included

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management's estimates of future cash flows, discounted at an appropriate rate of return which are based on the weighted average cost of capital for both the Company and other market participants, projected customer attrition rates, as well as applicable royalty rates for comparable assets. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. The estimated fair value of intangible assets and related useful lives as included in the final purchase price allocation include:

	Estimated Fair Value	Estimated Useful Life (In Years)
Customer relationships	\$ 465,000	17
CMS license	57,500	25
Claims adjudication and other developed software	59,000	7
Trademarks	20,100	10
Backlog	11,500	3
Trademarks	33,500	Indefinite
Total	\$ 646,600	

(2) Other current liabilities includes \$116,057 due to TPG under the terms of the Agreement, representing the amounts due to EnvisionRx from CMS, less corresponding amounts due to various reinsurance providers under certain reinsurance programs, for CMS activities that relate to the year ended December 31, 2014. This liability was satisfied with a payment to TPG on November 5, 2015.

(3) Primarily relates to deferred tax liabilities.

The above goodwill represents future economic benefits expected to be recognized from the Company's expansion into the pharmacy services market, as well as expected future synergies and operating efficiencies from combining operations with EnvisionRx. Goodwill resulting from the Acquisition of \$1,639,355 has been allocated to the Pharmacy Services segment of which \$1,368,657 is deductible for tax purposes.

During the thirteen and thirty-nine week periods ended November 26, 2016, \$0 and \$6, respectively, of costs related to the Acquisition were expensed by the Company as incurred. During the thirteen and thirty-nine week periods ended November 28, 2015, acquisition costs of \$0 and \$27,072, respectively, were expensed as incurred. The following unaudited pro forma combined financial data gives effect to the Acquisition as if it had occurred as of March 1, 2014.

These unaudited pro forma combined results have been prepared by combining the historical results of the Company and historical results of EnvisionRx. The unaudited pro forma condensed combined financial data for all periods presented were adjusted to give effect to pro forma events that 1) are directly attributable to the aforementioned transaction, 2) factually supportable, and 3) expected to have a continuing impact on the consolidated results of operations. Specifically, these adjustments reflect:

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- Incremental interest expense relating to the \$1,800,000 6.125% Notes issued on April 2, 2015, the net proceeds of which were used to finance the cash portion of the Acquisition.
- Incremental amortization resulting from increased fair value of the identifiable intangible assets as noted in the final purchase price allocation.
- Removal of costs incurred in connection with the Acquisition by both the Company and EnvisionRx, including bridge loan commitment fees of \$15,375.
- Removal of interest expense incurred by EnvisionRx as the underlying debt was repaid upon the acquisition date.
- Removal of debt extinguishment charges incurred by EnvisionRx.
- Inclusion of the 27,754 shares of Rite Aid common stock issued to fund the stock portion of the purchase price in the basic and diluted share calculation.

The unaudited pro forma combined information is not necessarily indicative of what the combined company's results actually would have been had the Acquisition been completed as of the beginning of the periods as indicated. In addition, the unaudited pro forma combined information does not purport to project the future results of the combined company.

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	Thirteen week Periods Ended		Thirty-Nine week Periods Ended	
	November 26, 2016 Pro forma	November 28, 2015 Pro forma	November 26, 2016 Pro forma	November 28, 2015 Pro forma
Net revenues as reported	\$ 8,089,726	\$ 8,154,184	\$ 24,303,712	\$ 22,466,521
EnvisionRx revenue, prior to the acquisition				1,735,635
Less pre-acquisition intercompany revenue				(104,731)
Pro forma combined revenues	\$ 8,089,726	\$ 8,154,184	\$ 24,303,712	\$ 24,097,425
Net income as reported	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
EnvisionRx net loss before income taxes, prior to the acquisition				(45,307)
Incremental interest expense on the 6.125% Notes issued on April 2, 2015				(11,097)
Incremental amortization resulting from fair value adjustments of the identifiable intangible assets				(16,509)
Transaction costs incurred by both the Company and EnvisionRx				55,864
Interest expense incurred by EnvisionRx				21,984
Debt extinguishment charges incurred by EnvisionRx				31,601
Income tax expense relating to pro forma adjustments				(15,601)
Pro forma net income	\$ 15,010	\$ 59,543	\$ 25,195	\$ 120,783
Pro forma basic and diluted income per share	\$ 0.01	\$ 0.06	\$ 0.02	\$ 0.12

The unaudited pro forma condensed combined financial information for the thirteen week periods ended November 26, 2016 and November 28, 2015 is identical to the actual results reported by the Company because EnvisionRx results were included in the consolidated operations of the Company for the entire period. The unaudited pro forma condensed combined financial information for the thirty-nine week period ended November 26, 2016 is identical to the actual results reported by the Company because EnvisionRx results were included in the consolidated operations of the Company for the entire period.

3. Pending Merger

On October 27, 2015, Rite Aid entered into an Agreement and Plan of Merger (the "Merger Agreement") with WBA, and Victoria Merger Sub, Inc., a Delaware corporation and a wholly owned direct subsidiary of WBA ("Victoria Merger Sub"). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid (the "Merger"), with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. On February 4, 2016, the proposal to adopt the Merger Agreement was approved by approximately 97% of the votes cast at the special meeting, which represented approximately 72% of the Company's total outstanding shares of common stock entitled to vote as of the record date of the special meeting. A quorum of 74% of the Company's total outstanding shares of common stock as of the record date voted at the special meeting. Completion of the Merger is subject to various closing conditions, including but not limited to (i) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (ii) the absence of any law or order prohibiting the Merger, and (iii) the absence of a material adverse effect on Rite Aid, as defined in the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of Rite Aid's common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time (other than shares owned by (i) WBA, Victoria Merger Sub or Rite Aid (which will be cancelled), (ii) stockholders who have properly exercised and perfected appraisal rights under Delaware law, or (iii) any direct or indirect 100 percent owned subsidiary of Rite Aid or WBA (which will be converted into shares of common stock of the surviving corporation)) will be converted into the right to receive \$9.00 per share in cash, without interest.

Rite Aid and WBA and Victoria Merger Sub have each made customary representations, warranties and covenants in the Merger Agreement, including, among other things, that (i) Rite Aid and its subsidiaries will continue to conduct our business in the ordinary course consistent with past practice between the execution of the Merger Agreement and the closing of the Merger and (ii) Rite Aid will not solicit proposals relating to alternative transactions to the Merger or engage in discussions or negotiations with

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respect thereto, subject to certain exceptions. Additionally, the Merger Agreement limits the Company's ability to incur indebtedness for borrowed money and issue additional capital stock, among other things.

On October 19, 2016, in accordance with the terms of the Merger Agreement, the Company and WBA jointly agreed to extend the End Date (as defined in the Merger Agreement) to January 27, 2017.

On December 19, 2016, the Company entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with AFAE, LLC, a Tennessee limited liability company (Buyer), Fred's (solely for the purposes set forth in the Asset Purchase Agreement) and WBA (solely for the purposes set forth in the Asset Purchase Agreement). Pursuant to the terms and subject to the conditions set forth in the Asset Purchase Agreement, Buyer will purchase from the Company 865 stores (the Acquired Stores) and certain specified assets related thereto for a purchase price of \$950,000 plus Buyer's assumption of certain liabilities of the Company and its affiliates (the Sale).

Completion of the Sale is subject to various closing conditions, including but not limited to (i) the closing of the proposed acquisition of the Company by WBA (the Rite Aid Acquisition), (ii) the Federal Trade Commission (FTC) having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Rite Aid Acquisition identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement, (iii) filings with or receipt of approval from the applicable state boards of pharmacy, and (iv) the absence of a material adverse effect on the stores being acquired in the Sale.

The parties to the Asset Purchase Agreement have each made customary representations and warranties. The Company has agreed to various covenants and agreements, including, among others, the Company's agreement to conduct its business at the Acquired Stores in the ordinary course during the period between the execution of the Asset Purchase Agreement and the closing of the Sale, subject to certain exceptions. Fred's and Buyer have also agreed to various covenants and agreements in the Asset Purchase Agreement, including, among other things, (i) Fred's and Buyer's agreement to use their reasonable best efforts to obtain all authorizations and approvals from governmental authorities and (ii) Fred's and Buyer's agreement to (x) prepare and furnish all necessary information and documents reasonably requested by the FTC, (y) use reasonable best efforts to demonstrate to the FTC that each of Fred's and Buyer is an acceptable purchaser of, and will compete effectively using, the assets purchased in the Sale, and (z) reasonably cooperate with WBA and the Company in obtaining all FTC approvals. In the event that the FTC requests changes to the Asset Purchase Agreement, the parties agreed to negotiate in good faith to make the necessary changes. To the extent the FTC requests that additional stores be sold, and WBA agrees to sell such stores, each of Fred's and Buyer has agreed to buy those stores.

The Asset Purchase Agreement contains specified termination rights for the Company, WBA and Buyer, including a mutual termination right (i) in the event of the issuance of a final, nonappealable governmental order permanently restraining the Sale or (ii) in the event that the Merger Agreement is terminated in accordance with its terms. WBA has additional termination rights, if, among others thing, (i) Buyer or Fred's is not preliminarily approved by the FTC or other necessary governmental authority as purchaser of the assets in the Sale or (ii) the FTC informs WBA or its affiliates in writing that the Director of the Bureau of Competition will not recommend approval of Fred's or Buyer as purchaser of the assets in the Sale.

While WBA is actively engaged in discussions with the FTC regarding the transaction and is working towards a close of the Merger in early calendar 2017, there can be no assurance that the requisite regulatory approvals will be obtained, or that the Merger or the Sale will be completed within the time periods contemplated by the Merger Agreement and Asset Purchase Agreement.

4. Income Per Share

Basic income per share is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company subject to anti-dilution limitations.

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Numerator for income per share:				
Income attributable to common stockholders basic and diluted	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
Denominator:				
Basic weighted average shares	1,045,028	1,039,867	1,043,887	1,018,783
Outstanding options and restricted shares, net	15,735	17,411	17,117	18,765
Diluted weighted average shares	1,060,763	1,057,278	1,061,004	1,037,548
Basic and diluted income per share	\$ 0.01	\$ 0.06	\$ 0.02	\$ 0.10

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Due to their antidilutive effect, 3,320 and 3,534 potential common shares related to stock options have been excluded from the computation of diluted income per share as of November 26, 2016 and November 28, 2015, respectively.

During May 2015, \$64,089 of the Company's 8.5% convertible notes due 2015 were converted into 24,762 shares of common stock, pursuant to their terms.

5. Lease Termination and Impairment Charges

Lease termination and impairment charges consist of amounts as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Impairment charges	\$ 957	\$ 540	\$ 1,654	\$ 818
Lease termination charges	6,308	6,471	18,625	20,852
	\$ 7,265	\$ 7,011	\$ 20,279	\$ 21,670

Impairment Charges

These amounts include the write-down of long-lived assets at locations that were assessed for impairment because of management's intention to relocate or close the location or because of changes in circumstances that indicated the carrying value of an asset may not be recoverable.

Lease Termination Charges

As part of the Company's ongoing business activities, the Company assesses stores and distribution centers for potential closure or relocation. Decisions to close or relocate stores or distribution centers in future periods would result in lease termination charges, lease exit costs and inventory liquidation charges, as well as impairment of assets at these locations. The following table reflects the closed store and distribution center charges that relate to new closures, changes in assumptions and interest accretion:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Balance beginning of period	\$ 190,708	\$ 223,667	\$ 208,421	\$ 241,047
	2,725	438	5,877	6,410

Provision for present value of noncancellable lease payments of closed stores				
Changes in assumptions about future sublease income, terminations and changes in interest rates	137	2,000	2,044	2,434
Interest accretion	3,482	4,033	10,878	12,553
Cash payments, net of sublease income	(17,073)	(15,502)	(47,241)	(47,808)
Balance end of period	\$ 179,979	\$ 214,636	\$ 179,979	\$ 214,636

6. Fair Value Measurements

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.
- Level 3 Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

Table of Contents**Non-Financial Assets Measured on a Non-Recurring Basis**

Long-lived non-financial assets are measured at fair value on a nonrecurring basis for purposes of calculating impairment using Level 2 and Level 3 inputs as defined in the fair value hierarchy. The fair value of long-lived assets using Level 2 inputs is determined by evaluating the current economic conditions in the geographic area for similar use assets. The fair value of long-lived assets using Level 3 inputs is determined by estimating the amount and timing of net future cash flows (which are unobservable inputs) and discounting them using a risk-adjusted rate of interest (which is Level 1). The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located. Significant increases or decreases in actual cash flows may result in valuation changes. During the thirty-nine week period ended November 26, 2016, long-lived assets from continuing operations with a carrying value of \$3,544, primarily store assets, were written down to their fair value of \$1,890, resulting in an impairment charge of \$1,654 of which \$957 relates to the thirteen week period ended November 26, 2016. During the thirty-nine week period ended November 28, 2015, long-lived assets from continuing operations with a carrying value of \$5,125, primarily store assets, were written down to their fair value of \$4,307, resulting in an impairment charge of \$818 of which \$540 relates to the thirteen week period ended November 28, 2015. If our actual future cash flows differ from our projections materially, certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods.

The following table presents fair values for those assets measured at fair value on a non-recurring basis at November 26, 2016 and November 28, 2015:

Fair Value Measurement Using

	Level 1	Level 2	Level 3	Total as of November 26, 2016
Long-lived assets held for use	\$	\$	\$ 867	\$ 867
Long-lived assets held for sale	\$	\$ 1,023	\$	\$ 1,023
Total	\$	\$ 1,023	\$ 867	\$ 1,890

	Level 1	Level 2	Level 3	Total as of November 28, 2015
Long-lived assets held for use	\$	\$	\$ 1,747	\$ 1,747
Long-lived assets held for sale	\$	\$ 2,371	\$ 189	\$ 2,560
Total	\$	\$ 2,371	\$ 1,936	\$ 4,307

As of November 26, 2016 and November 28, 2015, the Company did not have any financial assets measured on a recurring basis.

Other Financial Instruments

Financial instruments other than long-term indebtedness include cash and cash equivalents, accounts receivable and accounts payable. These instruments are recorded at book value, which we believe approximate their fair values due to their short term nature. In addition, the Company

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has \$6,893 of investments, carried at amortized cost as these investments are being held to maturity, which are included as a component of prepaid expenses and other current assets as of November 26, 2016. The Company believes the carrying value of these investments approximates their fair value.

The fair value for LIBOR-based borrowings under the Company's senior secured credit facility and first and second lien term loans are estimated based on the quoted market price of the financial instrument which is considered Level 1 of the fair value hierarchy. The fair values of substantially all of the Company's other long-term indebtedness are estimated based on quoted market prices of the financial instruments which are considered Level 1 of the fair value hierarchy. The carrying amount and estimated fair value of the Company's total long-term indebtedness was \$7,208,376 and \$7,576,833, respectively, as of November 26, 2016. There were no outstanding derivative financial instruments as of November 26, 2016 and February 27, 2016.

7. Income Taxes

The Company recorded an income tax benefit of \$8,087 and an income tax expense of \$48,468 for the thirteen week periods ended November 26, 2016 and November 28, 2015, respectively, and an income tax benefit of \$3,468 and an income tax expense of \$77,372 for the thirty-nine week periods ended November 26, 2016 and November 28, 2015, respectively. The income tax benefit for the thirteen week period ended November 26, 2016 and the income tax expense for the thirteen week period ended November 28, 2015 resulted in a tax rate of (116.8)% and 44.9%, respectively. The income tax benefit for the thirty-nine week period ended

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November 26, 2016 and the income tax expense for the thirty-nine week period ended November 28, 2015 resulted in a tax rate of (16.0)% and 43.7%, respectively. The tax benefit for the thirteen and thirty-nine week periods ended November 26, 2016 was the result of lower projected earnings for the Retail Pharmacy segment which resulted in a cumulative adjustment to the annual effective tax rate.

The Company recognizes tax liabilities in accordance with the guidance for uncertain tax positions and management adjusts these liabilities with changes in judgment as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities.

While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

The Company regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. Management will continue to monitor all available evidence related to the net deferred tax assets that may change the most recent assessment, including events that have occurred or are anticipated to occur. The Company continues to maintain a valuation allowance against net deferred tax assets of \$215,448 and \$212,023, which relates primarily to state deferred tax assets at November 26, 2016 and February 27, 2016, respectively.

8. Medicare Part D

The Company offers Medicare Part D benefits through EIC, which has contracted with CMS to be a Prescription Drug Plan (PDP) and, pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, must be a risk-bearing entity regulated under state insurance laws or similar statutes.

EIC is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, EIC must file quarterly and annual reports with the National Association of Insurance Commissioners (NAIC) and certain state regulators, must maintain certain minimum amounts of capital and surplus under formulas established by certain states and must, in certain circumstances, request and receive the approval of certain state regulators before making dividend payments or other capital distributions to the Company. The Company does not believe these limitations on dividends and distributions materially impact its financial position. EIC is subject to minimum capital and surplus requirements in certain states. The minimum amount of capital and surplus required to satisfy regulatory requirements in these states is \$29,331 as of September 30, 2016. EIC was in excess of the minimum required amounts in these states as of November 26, 2016.

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidies, reinsurance amounts, and coverage gap discount amounts ultimately payable to CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

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As of November 26, 2016, accounts receivable, net included \$193,238 due from CMS and accrued salaries, wages and other current liabilities included \$106,205 of EIC liabilities under certain reinsurance contracts. As of February 27, 2016, accounts receivable, net included \$275,032 due from CMS and accrued salaries, wages and other current liabilities included \$166,238 of EIC liabilities under certain reinsurance contracts. EIC limits its exposure to loss and recovers a portion of benefits paid by utilizing quota-share reinsurance with a commercial reinsurance company.

9. Goodwill and Other Intangible Assets

Goodwill and indefinitely-lived assets, such as certain trademarks acquired in connection with acquisition transactions, are not amortized, but are instead evaluated for impairment on an annual basis at the end of the fiscal year, or more frequently if events or circumstances indicate that impairment may be more likely. During the thirteen and thirty-nine week periods ended November 26, 2016 and the fifty-two week period ended February 27, 2016, no impairment charges have been taken against the Company's goodwill or indefinitely-lived intangible assets. Below is a summary of the changes in the carrying amount of goodwill for the thirty-nine week period ended November 26, 2016:

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	Retail Pharmacy	November 26, 2016 Pharmacy Services	Total
Balance, February 27, 2016	\$ 76,124	\$ 1,637,351	\$ 1,713,475
Acquisition (see Note 2. Acquisition)			
Change in goodwill resulting from changes to the final purchase price allocation		2,004	2,004
Balance, November 26, 2016	\$ 76,124	\$ 1,639,355	\$ 1,715,479

The Company's intangible assets are finite-lived and amortized over their useful lives. Following is a summary of the Company's finite-lived and indefinitely-lived intangible assets as of November 26, 2016 and February 27, 2016.

	November 26, 2016				February 27, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period
Favorable leases and other	\$ 672,470	\$ (530,124)	\$ 142,346	7 years	\$ 665,197	\$ (507,776)	\$ 157,421	8 years
Prescription files	1,578,079	(1,364,143)	213,936	3 years	1,541,518	(1,285,633)	255,885	3 years
Customer relationships(a)	465,000	(93,991)	371,009	16 years	465,000	(44,203)	420,797	17 years
CMS license	57,500	(3,297)	54,203	24 years	57,500	(1,572)	55,928	25 years
Claims adjudication and other developed software	59,082	(12,081)	47,001	6 years	59,000	(5,760)	53,240	7 years
Trademarks	20,100	(2,881)	17,219	9 years	20,100	(1,373)	18,727	10 years
Backlog	11,500	(5,494)	6,006	2 years	11,500	(2,619)	8,881	3 years
Total finite	\$ 2,863,731	\$ (2,012,011)	\$ 851,720		\$ 2,819,815	\$ (1,848,936)	\$ 970,879	
Trademarks	33,500		33,500	Indefinite	33,500		33,500	Indefinite
Total	\$ 2,897,231	\$ (2,012,011)	\$ 885,220		\$ 2,853,315	\$ (1,848,936)	\$ 1,004,379	

(a) Amortized on an accelerated basis which is determined based on the remaining useful economic lives of the customer relationships that are expected to contribute directly or indirectly to future cash flows.

Also included in other non-current liabilities as of November 26, 2016 and February 27, 2016 are unfavorable lease intangibles with a net carrying amount of \$41,820 and \$46,947, respectively. These intangible liabilities are amortized over their remaining lease terms at the time of acquisition.

Amortization expense for these intangible assets and liabilities was \$55,625 and \$166,536 for the thirteen and thirty-nine week periods ended November 26, 2016, respectively. Amortization expense for these intangible assets and liabilities was \$54,338 and \$134,888 for the thirteen and thirty-nine week periods ended November 28, 2015, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2017 \$217,982; 2018 \$178,909; 2019 \$141,415; 2020 \$111,826 and 2021 \$79,109.

10. Indebtedness and Credit Agreements

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Following is a summary of indebtedness and lease financing obligations at November 26, 2016 and February 27, 2016:

	November 26, 2016	February 27, 2016
Secured Debt:		
Senior secured revolving credit facility due January 2020 (\$2,380,000 and \$2,100,000 face value less unamortized debt issuance costs of \$27,292 and \$33,903)	\$ 2,352,708	\$ 2,066,097
Tranche 1 Term Loan (second lien) due August 2020 (\$470,000 face value less unamortized debt issuance costs of \$4,496 and \$5,414)	465,504	464,586
Tranche 2 Term Loan (second lien) due June 2021 (\$500,000 face value less unamortized debt issuance costs of \$2,584 and \$3,007)	497,416	496,993
Other secured	90	90
	3,315,718	3,027,766
Guaranteed Unsecured Debt:		
9.25% senior notes due March 2020 (\$902,000 face value plus unamortized premium of \$2,239 and \$2,743 and less unamortized debt issuance costs of \$8,228 and \$10,180)	896,011	894,563
6.75% senior notes due June 2021 (\$810,000 face value less unamortized debt issuance costs of \$6,759 and \$7,872)	803,241	802,128
6.125% senior notes due April 2023 (\$1,800,000 face value less unamortized debt issuance costs of \$27,135 and \$30,343)	1,772,865	1,769,657
	3,472,117	3,466,348

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	November 26, 2016	February 27, 2016
Unguaranteed Unsecured Debt:		
7.7% notes due February 2027 (\$295,000 face value less unamortized debt issuance costs of \$1,670 and \$1,794)	293,330	293,206
6.875% fixed-rate senior notes due December 2028 (\$128,000 face value less unamortized debt issuance costs of \$789 and \$837)	127,211	127,163
	420,541	420,369
Lease financing obligations	66,534	79,653
Total debt	7,274,910	6,994,136
Current maturities of long-term debt and lease financing obligations	(22,681)	(26,848)
Long-term debt and lease financing obligations, less current maturities	\$ 7,252,229	\$ 6,967,288

Credit Facility

The Company's senior secured credit facility (Amended and Restated Senior Secured Credit Facility or revolver) has a borrowing capacity of \$3,700,000 and matures in January 2020. Borrowings under the revolver bear interest at a rate per annum between (i) LIBOR plus 1.50% and LIBOR plus 2.00% with respect to Eurodollar borrowings and (ii) the alternate base rate plus 0.50% and the alternate base rate plus 1.00% with respect to ABR borrowings, in each case, based upon the average revolver availability (as defined in the Amended and Restated Senior Secured Credit Facility). The Company is required to pay fees between 0.250% and 0.375% per annum on the daily unused amount of the revolver, depending on the Average Revolver Availability (as defined in the Amended and Restated Senior Secured Credit Facility). Amounts drawn under the revolver become due and payable on January 13, 2020.

The Company's ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At November 26, 2016, the Company had \$2,380,000 of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$64,866, which resulted in additional borrowing capacity of \$1,255,134. The Merger Agreement contains a requirement that the Company's borrowings under the revolver not exceed \$3,000,000 in the aggregate immediately prior to the closing of the Merger.

The Amended and Restated Senior Secured Credit Facility restricts the Company and the Subsidiary Guarantors (as defined herein) from accumulating cash on hand, and under certain circumstances, requires the funds in the Company's deposit accounts to be applied first to the repayment of outstanding revolving loans under the Amended and Restated Senior Secured Credit Facility and then to be held as collateral for the senior obligations.

The Amended and Restated Senior Secured Credit Facility allows the Company to have outstanding, at any time, up to \$1,500,000 in secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Amended and Restated Senior Secured Credit Facility and existing indebtedness, provided that not in excess of \$750,000 of such secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (a) the fifth anniversary of the effectiveness of the Amended and Restated Senior Secured Credit Facility and (b) the latest maturity date of any Term Loan or Other Revolving Loan (each as defined in the Amended and Restated Senior Secured Credit Facility) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date and, with respect to any escrow notes issued by Rite Aid, excluding any special mandatory redemption of the type described in clause (iii) of the definition of Escrow Notes in the Amended and Restated Senior Secured Credit Facility). Subject to the limitations described in clauses (a) and (b) of the immediately preceding sentence, the Amended and Restated Senior Secured Credit Facility additionally allows the Company to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Amended and Restated Senior Secured Credit Facility) is not in effect; provided, however, that certain of the Company's other outstanding

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indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Amended and Restated Senior Secured Credit Facility also contains certain restrictions on the amount of secured first priority debt the Company is able to incur. The Amended and Restated Senior Secured Credit Facility also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Amended and Restated Senior Secured Credit Facility is not in default and the Company maintains availability under its revolving credit facility of more than \$365,000.

The Amended and Restated Senior Secured Credit Facility has a financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (a) on any date on which availability under the revolving credit facility is less than \$200,000 or (b) on the third consecutive business day on which availability under the revolving credit facility is less than \$250,000 and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on

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which availability under the revolving credit facility is equal to or greater than \$250,000. As of November 26, 2016, the availability was at a level that did not trigger this covenant. The Amended and Restated Senior Secured Credit Facility also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens.

The Amended and Restated Senior Secured Credit Facility also provides for customary events of default.

The Company also has two second priority secured term loan facilities. The first includes a \$470,000 second priority secured term loan (the Tranche 1 Term Loan). The Tranche 1 Term Loan matures on August 21, 2020 and currently bears interest at a rate per annum equal to LIBOR plus 4.75% with a LIBOR floor of 1.00%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 3.75%. The second includes a \$500,000 second priority secured term loan (the Tranche 2 Term Loan). The Tranche 2 Term Loan matures on June 21, 2021 and currently bears interest at a rate per annum equal to LIBOR plus 3.875% with a LIBOR floor of 1.00%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 2.875%.

With the exception of EIC, substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, and unsecured guaranteed notes. The Amended and Restated Senior Secured Credit Facility and second priority secured term loan facilities are secured, on a senior or second priority basis, as applicable, by a lien on, among other things, accounts receivable, inventory and prescription files of the Subsidiary Guarantors. The subsidiary guarantees related to the Company's Amended and Restated Senior Secured Credit Facility and second priority secured term loan facilities and, on an unsecured basis, the unsecured guaranteed notes, are full and unconditional and joint and several, and there are no restrictions on the ability of the Company to obtain funds from its subsidiaries. The Company has no independent assets or operations. Additionally, prior to the Acquisition, the subsidiaries, including joint ventures, that did not guarantee the Amended and Restated Senior Secured Credit Facility, the credit facility, second priority secured term loan facilities and applicable notes, were minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented for those periods. Subsequent to the Acquisition, other than EIC, the subsidiaries, including joint ventures, that do not guarantee the credit facility, second priority secured term loan facilities and applicable notes, are minor. As such, condensed consolidating financial information for the Company, its guaranteeing subsidiaries and non-guaranteeing subsidiaries is presented for those periods subsequent to the Acquisition. See Note 16 Guarantor and Non-Guarantor Condensed Consolidating Financial Information for additional disclosure.

Other Transactions

On April 2, 2015, the Company issued \$1,800,000 aggregate principal amount of its 6.125% Notes, the net proceeds of which, along with other available cash and borrowings under its Amended and Restated Senior Secured Credit Facility, were used to finance the cash portion of the Acquisition. The Company's obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsubordinated basis, by all of its subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, the 9.25% senior notes due 2020 (the 9.25% Notes) and the 6.75% senior notes due 2021 (the 6.75% Notes) (the Rite Aid Subsidiary Guarantors), including EnvisionRx and certain of its domestic subsidiaries other than, among others, EIC (the EnvisionRx Subsidiary Guarantors) and, together with the Rite Aid Subsidiary Guarantors, the Subsidiary Guarantors). The guarantees are unsecured. The 6.125% Notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all of its other unsecured, unsubordinated indebtedness.

During May 2015, \$64,089 of the Company's 8.5% convertible notes due 2015 were converted into 24,762 shares of common stock, pursuant to their terms. The remaining \$79 of the Company's 8.5% convertible notes due 2015 were repaid by the Company upon maturity.

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On August 15, 2015, the Company completed the redemption of all of its outstanding \$650,000 aggregate principal amount of its 8.00% Notes. In connection with the redemption, the Company recorded a loss on debt retirement, including call premium and unamortized debt issue costs, of \$33,205 during the second quarter of fiscal 2016.

Maturities

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2017 and thereafter are as follows: 2017 \$90; 2018 \$0; 2019 \$0; 2020 \$2,380,000; 2021 \$1,372,000 and \$3,533,000 thereafter.

Table of Contents**11. Stock Options and Stock Awards**

The Company recognizes share-based compensation expense over the requisite service period of the award, net of an estimate for the impact of forfeitures. Operating results for the thirty-nine week periods ended November 26, 2016 and November 28, 2015 include \$36,766 and \$26,529, respectively, of compensation costs related to the Company's stock-based compensation arrangements.

Beginning in fiscal 2015, the Company provided certain of its associates with performance based incentive plans under which the associates will receive a certain number of shares of the Company's common stock based on the Company meeting certain financial and performance goals. During the thirty-nine week periods ended November 26, 2016 and November 28, 2015, the Company incurred \$14,448 and \$7,996 related to these performance based incentive plans, respectively, which is recorded as a component of stock-based compensation expense.

The total number and type of newly awarded grants and the related weighted average fair value for the thirty-nine week periods ended November 26, 2016 and November 28, 2015 are as follows:

	November 26, 2016		November 28, 2015	
	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
Stock options granted		\$ N/A	3,579	\$ 4.45
Restricted stock awards granted	3,613	\$ 7.73	2,750	\$ 8.60
Total awards	3,613		6,329	

Typically, stock options granted vest, and are subsequently exercisable in equal annual installments over a four-year period for employees. Restricted stock awards typically vest in equal annual installments over a three-year period.

The Company calculates the fair value of stock options using the Black-Scholes-Merton option pricing model. The following assumptions were used in the Black-Scholes-Merton option pricing model:

	Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015
Expected stock price volatility	N/A	56%
Expected dividend yield	N/A	0%
Risk-free interest rate	N/A	1.7%
Expected option life	N/A	5.5 years

As of November 26, 2016, the total unrecognized pre-tax compensation costs related to unvested stock options and restricted stock awards granted, net of estimated forfeitures and the weighted average period of cost amortization are as follows:

	Unvested stock options	November 26, 2016 Unvested restricted stock	Unvested performance shares
Unrecognized pre-tax costs	\$ 14,865	\$ 37,183	\$ 28,135
Weighted average amortization period	2.1 years	2.1 years	1.7 years

12. Reclassifications from Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in balances of each component of accumulated other comprehensive loss, net of tax as applicable, for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015:

	Thirteen Week Period Ended November 26, 2016		Thirteen Week Period Ended November 28, 2015		Thirty-Nine Week Period Ended November 26, 2016		Thirty-Nine Week Period Ended November 28, 2015	
	Defined benefit pension plans	Accumulated other comprehensive loss	Defined benefit pension plans	Accumulated other comprehensive loss	Defined benefit pension plans	Accumulated other comprehensive loss	Defined benefit pension plans	Accumulated other comprehensive loss
Accumulated other comprehensive loss								
Balance-beginning of period	\$ (46,419)	\$ (46,419)	\$ (44,655)	\$ (44,655)	\$ (47,781)	\$ (47,781)	\$ (45,850)	\$ (45,850)
Amounts reclassified from accumulated other comprehensive loss to net income, net of \$451, \$398, \$1,353, and \$1,194 tax expense	681	681	597	597	2,043	2,043	1,792	1,792
Balance-end of period	\$ (45,738)	\$ (45,738)	\$ (44,058)	\$ (44,058)	\$ (45,738)	\$ (45,738)	\$ (44,058)	\$ (44,058)

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The following table summarizes the effects on net income of significant amounts classified out of each component of accumulated other comprehensive loss for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015:

Details about accumulated other comprehensive loss components	Thirteen Week Periods Ended November 26, 2016 and November 28, 2015		Affected line item in the condensed consolidated statements of operations
	November 26, 2016	November 28, 2015	
Defined benefit pension plans			
Amortization of unrecognized prior service cost(a)	\$	\$	Selling, general and administrative expenses
Amortization of unrecognized net loss(a)	(1,132)	(978)	Selling, general and administrative expenses
	(1,132)	(995)	Total before income tax expense
	451	398	Income tax expense
	\$ (681)	\$ (597)	Net of income tax expense

Details about accumulated other comprehensive loss components	Thirty-Nine Week Periods Ended November 26, 2016 and November 28, 2015		Affected line item in the condensed consolidated statements of operations
	November 26, 2016	November 28, 2015	
Defined benefit pension plans			
Amortization of unrecognized prior service cost(a)	\$	\$	Selling, general and administrative expenses
Amortization of unrecognized net loss(a)	(3,396)	(2,934)	Selling, general and administrative expenses
	(3,396)	(2,986)	Total before income tax expense
	1,353	1,194	Income tax expense
	\$ (2,043)	\$ (1,792)	Net of income tax expense

(a) See Note 13, Retirement Plans for additional details.

13. Retirement Plans

Net periodic pension expense recorded in the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015, for the Company's defined benefit plans includes the following components:

Defined Benefit Pension Plan	Nonqualified Executive Retirement Plans	Defined Benefit Pension Plan	Nonqualified Executive Retirement Plans
Thirteen Week Period Ended		Thirty-Nine Week Period Ended	

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	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Service cost	\$ 292	\$ 513	\$	\$	\$ 876	\$ 1,538	\$	\$
Interest cost	1,621	1,634	109	119	4,863	4,901	327	356
Expected return on plan assets	(1,142)	(1,593)			(3,426)	(4,779)		
Amortization of unrecognized prior service cost		17				52		
Amortization of unrecognized net loss	1,132	978			3,396	2,934		
Net pension expense	\$ 1,903	\$ 1,549	\$ 109	\$ 119	\$ 5,709	\$ 4,646	\$ 327	\$ 356

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During the thirteen and thirty-nine week periods ended November 26, 2016 the Company contributed \$366 and \$1,115, respectively, to the Nonqualified Executive Retirement Plans and \$0 to the Defined Benefit Pension Plan. During the remainder of fiscal 2017, the Company expects to contribute \$388 to the Nonqualified Executive Retirement Plans and \$0 to the Defined Benefit Pension Plan.

14. Segment Reporting

Prior to June 24, 2015, the Company's operations were within one reportable segment. As a result of the completion of the Acquisition, the Company has realigned its internal management reporting to reflect two reportable segments, its retail drug stores (Retail Pharmacy), and its pharmacy services (Pharmacy Services) segments.

The Retail Pharmacy segment's primary business is the sale of prescription drugs and related consultation to its customers. Additionally, the Retail Pharmacy segment sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private brand product line. The Pharmacy Services segment offers a full range of pharmacy benefit management services including plan design and administration, on both a transparent pass-through model and traditional model, formulary management and claims processing. Additionally, the Pharmacy Services segment offers specialty and mail order services, infertility treatment, and drug benefits to eligible beneficiaries under the federal government's Medicare Part D program.

The Parent Company's chief operating decision makers are its Parent Company Chief Executive Officer, Parent Company President and CEO Retail Pharmacy, CEO Pharmacy Services, Chief Financial Officer and its Senior Executive Vice Presidents (collectively the CODM). The CODM has ultimate responsibility for enterprise decisions. The CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, the Retail Pharmacy segment and the Pharmacy Services segment. The Retail Pharmacy and Pharmacy Services segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. The CODM relies on internal management reporting that analyzes enterprise results on certain key performance indicators, namely, revenues, gross profit, and Adjusted EBITDA.

The following table is a reconciliation of the Company's business segments to the condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015:

	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations (1)	Consolidated
Thirteen Week Period Ended				
November 26, 2016:				
Revenues	\$ 6,535,274	\$ 1,645,835	\$ (91,383)	\$ 8,089,726
Gross Profit	1,791,803	103,057		1,894,860
Adjusted EBITDA(2)	221,716	52,431		274,147

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	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations (1)	Consolidated
November 28, 2015:				
Revenues	\$ 6,744,143	\$ 1,500,895	\$ (90,854)	\$ 8,154,184
Gross Profit	1,921,886	80,993		2,002,879
Adjusted EBITDA(2)	339,255	33,911		373,166
Thirty-Nine Week Period Ended				
November 26, 2016:				
Revenues	\$ 19,696,304	\$ 4,883,070	\$ (275,662)	\$ 24,303,712
Gross Profit	5,416,519	289,384		5,705,903
Adjusted EBITDA(2)	729,186	143,616		872,802
November 28, 2015:				
Revenues	\$ 20,038,947	\$ 2,572,784	\$ (145,210)	\$ 22,466,521
Gross Profit	5,641,929	142,770		5,784,699
Adjusted EBITDA(2)	952,120	67,133		1,019,253

(1) Intersegment eliminations include intersegment revenues and corresponding cost of revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Retail Pharmacy and Pharmacy Services segments record the revenue on a stand-alone basis.

(2) See Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures in MD&A for additional details.

The following is a reconciliation of net income to Adjusted EBITDA for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Net income	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
Interest expense	106,309	106,879	316,810	345,895
Income tax (benefit) expense	(8,087)	48,468	(3,468)	77,372
Depreciation and amortization expense	143,245	136,434	424,084	373,782
LIFO charge	13,750	5,986	41,261	17,959
Lease termination and impairment charges	7,265	7,011	20,279	21,670
Loss on debt retirements, net				33,205
Other	(3,345)	8,845	48,641	49,522
Adjusted EBITDA	\$ 274,147	\$ 373,166	\$ 872,802	\$ 1,019,253

The following is balance sheet information for the Company's reportable segments:

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	Retail Pharmacy	Pharmacy Services	Eliminations (2)	Consolidated
November 26, 2016:				
Total Assets	\$ 8,764,578	\$ 3,047,556	\$ (153,208)	\$ 11,658,926
Goodwill	76,124	1,639,355		1,715,479
Additions to property and equipment and intangible assets	372,857	9,736		382,593
February 27, 2016:				
Total Assets	\$ 8,468,186	\$ 2,948,548	\$ (139,724)	\$ 11,277,010
Goodwill	76,124	1,637,351		1,713,475
Additions to property and equipment and intangible assets	667,719	2,276		669,995

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(2) As of November 26, 2016 and February 27, 2016, intersegment eliminations include netting of the Pharmacy Services segment long-term deferred tax liability of \$128,841 and \$116,027, respectively, against the Retail Pharmacy segment long-term deferred tax asset for consolidation purposes in accordance with ASC 740, and intersegment accounts receivable of \$24,367 and \$23,697, respectively, that represents amounts owed from the Pharmacy Services segment to the Retail Pharmacy segment that are created when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products.

15. Commitments and Contingencies

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

The Company's contingencies are subject to significant uncertainties, including, among other factors: (i) proceedings are in early stages; (ii) whether class or collective action status is sought and the likelihood of a class being certified; (iii) the outcome of pending appeals or motions; (iv) the extent of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the matter; (vi) whether novel or unsettled legal theories are at issue; (vii) there are significant factual issues to be resolved; and/or (viii) in the case of certain government agency investigations, whether a sealed qui tam lawsuit (whistleblower action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

As of November 26, 2016, the Company was aware of ten (10) putative class action lawsuits that were filed by purported Company stockholders, against the Company, its directors (the Individual Defendants, together with the Company, the Rite Aid Defendants), Walgreens Boots Alliance, Inc. (WBA) and Victoria Merger Sub Inc., (Victoria) challenging the transactions contemplated by the Merger agreement between the Company and WBA. Eight (8) of these actions were filed in the Court of Chancery of the State of Delaware (*Smukler v. Rite Aid Corp., et al.*, *Hirschler v. Standley, et al.*, *Catelli v. Rite Aid Corp., et al.*, *Orr v. Rite Aid Corp., et al.*, *DePietro v. Standley, et al.*, *Abadi v. Rite Aid Corp., et al.*, *Mortman v. Rite Aid Corp., et al.*). One (1) action was filed in Pennsylvania in the Court of Common Pleas of Cumberland County (*Wilson v. Rite Aid Corp., et al.*, *Sachs Investment Grp., et al. v. Standley, et al.*). The complaints in these nine (9) actions alleged primarily that the Company's directors breached their fiduciary duties by, among other things, agreeing to an allegedly unfair and inadequate price, agreeing to deal protection devices that allegedly prevented the directors from obtaining higher offers from other interested buyers for the Company and allegedly failing to protect against certain purported conflicts of interest in connection with the Merger. The Complaints further allege that the Company, WBA and/or Victoria aided and abetted these alleged breaches of fiduciary duty. The complaints sought, among other things, to enjoin the closing of the Merger as well as money damages and attorneys' and experts' fees.

On December 23, 2015, the eight (8) Delaware actions were consolidated in an action captioned *In re Rite Aid Corporation Stockholders Litigation*, Consol. C.A. No. 11663-CB (the Consolidated Action). In addition to the claims asserted in the nine (9) complaints discussed above, the operative pleading in the Consolidated Action also included allegations that the preliminary proxy statement contained material omissions,

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including with respect to the process that resulted in the Merger agreement and the fairness opinion rendered by the Company's banker. On December 28, 2015, the plaintiffs in the Consolidated Action filed a motion for expedited proceedings, which the Court orally denied at a hearing held on January 5, 2016. On March 11, 2016, the Court granted the plaintiffs' notice and proposed order voluntarily dismissing the Consolidated Action as moot, while retaining jurisdiction solely for the purpose of adjudicating plaintiffs' counsel's anticipated application for an award of attorneys' fees and reimbursement of expenses. On April 15, 2016, the Company reached a settlement in principle related to this matter for an immaterial amount. On May 11, 2016, the Court entered a stipulated order regarding notice of payment thereof and final dismissal of this matter.

A tenth action was filed in the United States District Court for the Middle District of Pennsylvania (the Pennsylvania District Court), asserting a claim for violations of Section 14(a) of the Exchange Act and SEC Rule 14a-9 against all defendants and a claim for violations of Section 20(a) of the Exchange Act against the Individual Defendants and WBA (*Herring v. Rite Aid Corp., et al.*). The *Herring* complaint alleges, among other things, that Rite Aid and its Board of Directors disseminated an allegedly false and materially misleading proxy. The complaint sought to enjoin the shareholder vote on the proposed Merger, a declaration that the proxy was materially false and misleading in violation of federal securities laws, and an award of money damages and attorneys' and experts' fees. On January 14 and 16, 2016, respectively, the plaintiff in the *Herring* action filed a motion for preliminary injunction and a motion for expedited discovery. On January 21, 2016, the Rite Aid Defendants filed a motion to dismiss the *Herring* complaint.

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At a hearing held on January 25, 2016, the Pennsylvania District Court orally denied the plaintiff's motion for expedited discovery and subsequently denied the plaintiff's motion for preliminary injunction on January 28, 2016. On March 14, 2016, the Pennsylvania District Court appointed Jerry Herring, Don Michael Hussey and Joanna Pauli Hussey as lead plaintiffs for the putative class and approved their selection of Robbins Geller Rudman & Dowd LLP as lead counsel. On April 14, 2016, the Pennsylvania District Court granted the plaintiffs' unopposed motion to stay the *Herring* action for all purposes pending consummation of the Merger.

The Company has been named in a collective and class action lawsuit, *Indergit v. Rite Aid Corporation et al.* pending in the United States District Court for the Southern District of New York, filed purportedly on behalf of current and former store managers working in the Company's stores at various locations around the country. The lawsuit alleges that the Company failed to pay overtime to store managers as required under the FLSA and under certain New York state statutes. The lawsuit also seeks other relief, including liquidated damages, attorneys' fees, costs and injunctive relief arising out of state and federal claims for overtime pay. On April 2, 2010, the Court conditionally certified a nationwide collective group of individuals who worked for the Company as store managers since March 31, 2007. The Court ordered that Notice of the *Indergit* action be sent to the purported members of the collective group (approximately 7,000 current and former store managers) and approximately 1,550 joined the *Indergit* action. Discovery as to certification issues has been completed. On September 26, 2013, the Court granted Rule 23 class certification of the New York store manager claims as to liability only, but denied it as to damages, and denied the Company's motion for decertification of the nationwide collective action claims. The Company filed a motion seeking reconsideration of the Court's September 26, 2013 decision which motion was denied in June 2014. The Company subsequently filed a petition for an interlocutory appeal of the Court's September 26, 2013 ruling with the U. S. Court of Appeals for the Second Circuit which petition was denied in September 2014. Notice of the Rule 23 class certification as to liability only has been sent to approximately 1,750 current and former store managers in the state of New York. Discovery related to the merits of the claims is ongoing. At this time, the Company is not able to either predict the outcome of this lawsuit or estimate a potential range of loss with respect to the lawsuit. The Company's management believes, however, that this lawsuit is without merit and is vigorously defending this lawsuit.

The Company is currently a defendant in several lawsuits filed in state courts in California alleging violations of California wage-and-hour laws, rules and regulations pertaining primarily to failure to pay overtime, failure to pay for missed meals and rest periods, failure to reimburse business expenses and failure to provide employee seating (the California Cases). The class actions pertaining to failure to reimburse business expenses and provide employee seating purport to be class actions and seek substantial damages. The single-plaintiff and multi-plaintiff lawsuits regarding failure to pay overtime and failure to pay for missed meals and rest periods, in the aggregate, seek substantial damages. The Company has aggressively challenged the merits of the lawsuits and, where applicable, the allegations that the cases should be certified as class or representative actions.

In the business expense class action (*Fenley v. Rite Aid Corporation, Santa Clara Superior Court*), the parties have reached a settlement under which the Company will pay an immaterial amount to settle the class claims. The court granted preliminary approval of the settlement on September 8, 2016. The parties currently are involved with the notice process which will lead to a motion for final court approval being filed in calendar year 2017.

In the employee seating case (*Hall v. Rite Aid Corporation, San Diego County Superior Court*), the Court, in October 2011, granted the plaintiff's motion for class certification. The Company filed its motion for decertification, which motion was granted in November 2012. Plaintiff subsequently appealed the Court's order which appeal was granted in May 2014. The Company filed a petition for review of the appellate court's decision with the California Supreme Court, which petition was denied in August 2014. Proceedings in the *Hall* case were stayed pending a decision by the California Supreme Court in two similar cases. That decision was rendered on April 4, 2016. A status conference in the case was held on November 18, 2016, at which time the court lifted the stay and scheduled the case for trial on January 26, 2018.

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With respect to the California Cases, the Company, at this time, is not able to predict either the outcome of these lawsuits or estimate a potential range of loss with respect to said lawsuits.

The Company was served with a Civil Investigative Demand Subpoena Duces Tecum dated August 26, 2011 by the United States Attorney's Office for the Eastern District of Michigan. The subpoena requests records regarding the relationship of Rite Aid's Rx Savings Program to the reporting of usual and customary charges to publicly funded health programs. In connection with the same investigation, the Company was served with a Civil Subpoena Duces Tecum dated February 22, 2013 by the State of Indiana Office of the Attorney General requesting additional information regarding both Rite Aid's Rx Savings Program and usual and customary charges. The Company has responded to both of the subpoenas. To enable the parties to discuss a possible resolution, the Medicaid Fraud Control Units of the several states, commonwealths and the District of Columbia and Rite Aid have entered into an agreement tolling the statute of limitations until October 7, 2015. The parties agreed to extend the tolling agreement and continue to exchange pertinent claims data in the near future. At this stage of the proceedings, Rite Aid is unable to predict the outcome of any review by the government of such information and the outcome of the parties' discussions of a possible resolution.

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On April 26, 2012, the Company received an administrative subpoena from the U.S. Drug Enforcement Administration (DEA), Albany, New York District Office, requesting information regarding the Company's sale of products containing pseudoephedrine (PSE). In April 2012, it also received a communication from the U.S. Attorney's Office (USAO) for the Northern District of New York concerning an investigation of possible civil violations of the Combat Methamphetamine Epidemic Act of 2005 (CMEA). Additional subpoenas were issued in 2013, 2014, and 2015 seeking broader documentation regarding PSE sales and recordkeeping requirements. Assistant U.S. Attorneys from the Northern and Eastern Districts of New York and the Southern District of West Virginia are currently investigating, but no charges have been filed. Between September 2015 and August 2016, the Company received several grand jury subpoenas from the U.S. District Court for the Southern District of West Virginia seeking additional information in connection with the investigation of violations of the CMEA and/or the Controlled Substances Act (CSA). Violations of the CMEA or the CSA could result in the imposition of administrative, civil and/or criminal penalties against the Company. The Company is cooperating with the government and continues to provide information responsive to the subpoenas. The Company has entered into a tolling agreement with the USAOs in the Northern and Eastern Districts of New York and entered into a separate tolling agreement with the USAO in the Southern District of West Virginia. Discussions are underway to resolve these matters with those USAOs and the Department of Justice, but whether an agreement can be reached and on what terms is uncertain. While the Company's management cannot predict the outcome of these matters, it is possible that the Company's results of operations or cash flows could be materially affected by an unfavorable resolution. At this stage of the investigation, Rite Aid is unable to predict the outcome of the investigation.

In January 2013, the DEA, Los Angeles District Office, served an administrative subpoena on the Company seeking documents related to prescriptions by a certain prescriber. The USAO, Central District of California, also contacted the Company about a related investigation into allegations that Rite Aid pharmacies filled certain controlled substance prescriptions for a number of practitioners after their DEA registrations had expired or otherwise become invalid in violation of the federal Controlled Substances Act and DEA regulations. The Company responded to the administrative subpoena and subsequent informal requests for information from the USAO. The Company met with the USAO and DEA in January 2014 and is involved in ongoing discussions with the government regarding this matter. The Company has entered into a tolling agreement with the USAO. The Company recorded a legal accrual during the period ended March 1, 2014, which was revised during the period ending August 29, 2015. However, Rite Aid cannot predict at this time whether an agreement can be reached and the terms of any agreement.

In June 2013, the Company was served with a Civil Investigative Demand (CID) by the United States Attorney's Office for the Eastern District of California (the USAO). The CID requested records and responses to interrogatories regarding the Company's Drug Utilization Review and prescription dispensing protocol and the dispensing of drugs designated as Code 1 by the State of California. The Company researched the government's allegations and refuted the government's position in writing and on conference calls. Subsequently, the USAO's office, along with the State of California, Department of Justice, Bureau of Medical Fraud and Elder Abuse (the Bureau), requested the Company to produce certain prescription files related to Code 1 drugs. There has been a series of four document productions in which the Company has produced prescription and associated documentation concerning Code 1 drugs: (1) on May 15, 2014, the government requested that the Company produce 60 prescriptions; (2) on July 30, 2014, the government requested that the Company produce 30 prescriptions; (3) on June 15, 2015, the government requested that the Company produce 80 prescriptions; and (4) on September 30, 2016, the Company agreed to produce an additional 242 prescriptions. The Company is continuing discussions with the government.

Relator, Matthew Omlansky, filed a *qui tam* action, State of California ex rel. Matthew Omlansky v. Rite Aid Corporation, on behalf of the State of California against Rite Aid in the Superior Court of the State of California. In his Complaint, Relator alleges that Rite Aid violated the California False Claims Act by (i) failing to comply with California rules governing the Company's reporting of its usual and customary prices; (ii) failing to dispense the least expensive equivalent generic drug in certain circumstances, in violation of applicable regulations; and (iii) dispensing, and seeking reimbursement for, restricted brand name drugs without prior approval. Relator filed his Second Amended Complaint on April 19, 2016 and Rite Aid filed its demurrer on July 29, 2016. On October 5, 2016, Rite Aid's demurrer was granted and plaintiff's complaint was dismissed with leave for plaintiff to file an amended complaint. Plaintiff filed a Third Amended Complaint to which Rite Aid filed a second demurrer, which is pending. At this stage of the proceedings, Rite Aid is unable to predict the outcome of its demurrer and Relator's suit.

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In addition to the above described matters, the Company is subject from time to time to various claims and lawsuits and governmental investigations arising in the ordinary course of business. While the Company's management cannot predict the outcome of any of the claims, the Company's management does not believe that the outcome of any of these legal matters will be material to the Company's consolidated financial position. It is possible, however, that the Company's results of operations or cash flows could be materially affected by an unfavorable resolution of pending litigation or contingencies.

16. Guarantor and Non-Guarantor Condensed Consolidating Financial Information

Rite Aid Corporation conducts the majority of its business through its subsidiaries. With the exception of EIC, substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes (the

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Subsidiary Guarantors). Additionally, prior to the Acquisition, the subsidiaries, including joint ventures, that did not guarantee the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes, were minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented for those periods. Condensed consolidating financial information for the Company, its Subsidiary Guarantors and non-guarantor subsidiaries, is presented for periods subsequent to the Acquisition.

For the purposes of preparing the information below, Rite Aid Corporation uses the equity method to account for its investment in subsidiaries. The equity method has been used by Subsidiary Guarantors with respect to investments in the non-guarantor subsidiaries. The subsidiary guarantees related to the Company's Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities and secured guaranteed notes and, on an unsecured basis, the unsecured guaranteed notes, are full and unconditional and joint and several. Presented below is condensed consolidating financial information for Rite Aid Corporation, the Subsidiary Guarantors, and the non-guarantor subsidiaries at November 26, 2016, February 27, 2016, and for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015. Separate financial statements for Subsidiary Guarantors are not presented.

	Rite Aid Corporation Condensed Consolidating Balance Sheet November 26, 2016 (unaudited)				
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$ 180,213	\$ 39,815	\$	\$ 220,028
Accounts receivable, net		1,505,932	201,716		1,707,648
Intercompany receivable		205,869		(205,869)(a)	
Inventories, net of LIFO reserve of \$0, \$1,047,657, \$0, \$0, and \$1,047,657		2,947,358			2,947,358
Prepaid expenses and other current assets		134,193	7,941		142,134
Total current assets		4,973,565	249,472	(205,869)	5,017,168
Property, plant and equipment, net		2,291,459			2,291,459
Goodwill		1,715,479			1,715,479
Other intangibles, net		831,017	54,203		885,220
Deferred tax assets		1,534,437			1,534,437
Investment in subsidiaries	15,199,100	51,401		(15,250,501)(b)	
Intercompany receivable		7,251,774		(7,251,774)(a)	
Other assets		215,163			215,163
Total assets	\$ 15,199,100	\$ 18,864,295	\$ 303,675	\$ (22,708,144)	\$ 11,658,926
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt and lease financing obligations	\$ 90	\$ 22,591		\$	\$ 22,681
Accounts payable		1,790,821	1,753		1,792,574
Intercompany payable			205,869	(205,869)(a)	
Accrued salaries, wages and other current liabilities	92,823	1,136,773	26,687		1,256,283

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Total current liabilities	92,913	2,950,185	234,309	(205,869)	3,071,538
Long-term debt, less current maturities	7,208,286				7,208,286
Lease financing obligations, less current maturities		43,943			43,943
Intercompany payable	7,251,774			(7,251,774)(a)	
Other noncurrent liabilities		671,067	17,965		689,032
Total liabilities	14,552,973	3,665,195	252,274	(7,457,643)	11,012,799
Commitments and contingencies					
Total stockholders equity	646,127	15,199,100	51,401	(15,250,501)(b)	646,127
Total liabilities and stockholders equity	\$ 15,199,100	\$ 18,864,295	\$ 303,675	\$ (22,708,144)	\$ 11,658,926

(a) Elimination of intercompany accounts receivable and accounts payable amounts.

(b) Elimination of investments in consolidated subsidiaries.

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Rite Aid Corporation
Condensed Consolidating Balance Sheet
February 27, 2016

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$ 90,569	\$ 33,902	\$	\$ 124,471
Accounts receivable, net		1,316,797	284,211		1,601,008
Intercompany receivable		224,220		(224,220)(a)	
Inventories, net of LIFO reserve of \$0, \$1,006,396, \$0, \$0, and \$1,006,396		2,697,104			2,697,104
Prepaid expenses and other current assets		121,684	6,460		128,144
Total current assets		4,450,374	324,573	(224,220)	4,550,727
Property, plant and equipment, net		2,255,398			2,255,398
Goodwill		1,713,475			1,713,475
Other intangibles, net		948,451	55,928		1,004,379
Deferred tax assets		1,539,141			1,539,141
Investment in subsidiaries	14,832,523	57,167		(14,889,690)(b)	
Intercompany receivable		7,270,869		(7,270,869)(a)	
Other assets		207,821	6,069		213,890
Total assets	\$ 14,832,523	\$ 18,442,696	\$ 386,570	\$ (22,384,779)	\$ 11,277,010
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt and lease financing obligations	\$ 90	\$ 26,758	\$	\$	\$ 26,848
Accounts payable		1,541,984	813		1,542,797
Intercompany payable			224,220	(224,220)(a)	
Accrued salaries, wages and other current liabilities	65,743	1,274,074	87,433		1,427,250
Total current liabilities	65,833	2,842,816	312,466	(224,220)	2,996,895
Long-term debt, less current maturities	6,914,393				6,914,393
Lease financing obligations, less current maturities		52,895			52,895
Intercompany payable	7,270,869			(7,270,869)(a)	
Other noncurrent liabilities		714,462	16,937		731,399
Total liabilities	14,251,095	3,610,173	329,403	(7,495,089)	10,695,582
Commitments and contingencies					
Total stockholders equity	581,428	14,832,523	57,167	(14,889,690)(b)	581,428
Total liabilities and stockholders equity	\$ 14,832,523	\$ 18,442,696	\$ 386,570	\$ (22,384,779)	\$ 11,277,010

(a) Elimination of intercompany accounts receivable and accounts payable amounts.

(b) Elimination of investments in consolidated subsidiaries.

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Rite Aid Corporation
Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended November 26, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$	\$ 8,062,471	\$ 57,044	\$ (29,789)(a)	\$ 8,089,726
Costs and expenses:					
Cost of revenues		6,166,583	57,270	(28,987)(a)	6,194,866
Selling, general and administrative expenses		1,773,199	1,465	(802)(a)	1,773,862
Lease termination and impairment expenses		7,265			7,265
Interest expense	101,964	4,322	23		106,309
Loss on sale of assets, net		501			501
Equity in earnings of subsidiaries, net of tax	(116,974)	3,059		113,915(b)	
	(15,010)	7,954,929	58,758	84,126	8,082,803
Income (loss) before income taxes	15,010	107,542	(1,714)	(113,915)	6,923
Income tax (benefit) expense		(9,432)	1,345		(8,087)
Net income (loss)	\$ 15,010	\$ 116,974	\$ (3,059)	\$ (113,915)	\$ 15,010
Total other comprehensive income (loss)	681	681		(681)	681
Comprehensive income (loss)	\$ 15,691	\$ 117,655	\$ (3,059)	\$ (114,596)	\$ 15,691

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

Rite Aid Corporation
Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended November 28, 2015
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$	\$ 8,154,184	\$ 58,461	\$ (58,461)(a)	\$ 8,154,184
Costs and expenses:					
Cost of revenues		6,151,305	58,106	(58,106)(a)	6,151,305
Selling, general and administrative expenses		1,774,320	3,682	(355)(a)	1,777,647
Lease termination and impairment expenses		7,011			7,011
Interest expense	102,014	4,861	4		106,879
Loss on debt retirement, net					
Loss on sale of assets, net		3,331			3,331
Equity in earnings of subsidiaries, net of tax	(161,557)	4,557		157,000(b)	
	(59,543)	7,945,385	61,792	98,539	8,046,173
	59,543	208,799	(3,331)	(157,000)	108,011

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Income (loss) before income taxes							
Income tax expense			47,242		1,226		48,468
Net income (loss)	\$	59,543	\$	161,557	\$	(4,557)	\$ (157,000)
Total other comprehensive income (loss)		597		597		(597)	
Comprehensive income (loss)	\$	60,140	\$	162,154	\$	(4,557)	\$ (157,597)

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

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Rite Aid Corporation
Condensed Consolidating Statement of Operations
For the Thirty-Nine Weeks Ended November 26, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$	\$ 24,226,011	\$ 176,153	\$ (98,452)(a)	\$ 24,303,712
Costs and expenses:					
Cost of revenues		18,522,328	170,883	(95,402)(a)	18,597,809
Selling, general and administrative expenses		5,340,971	7,435	(3,050)(a)	5,345,356
Lease termination and impairment expenses		20,279			20,279
Interest expense	303,344	13,436	30		316,810
Loss on sale of assets, net		1,731			1,731
Equity in earnings of subsidiaries, net of tax	(328,539)	3,704		324,835(b)	
	(25,195)	23,902,449	178,348	226,383	24,281,985
Income (loss) before income taxes	25,195	323,562	(2,195)	(324,835)	21,727
Income tax (benefit) expense		(4,977)	1,509		(3,468)
Net income (loss)	\$ 25,195	\$ 328,539	\$ (3,704)	\$ (324,835)	\$ 25,195
Total other comprehensive income (loss)	2,043	2,043		(2,043)	2,043
Comprehensive income (loss)	\$ 27,238	\$ 330,582	\$ (3,704)	\$ (326,878)	\$ 27,238

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

Rite Aid Corporation
Condensed Consolidating Statement of Operations
For the Thirty-Nine Weeks Ended November 28, 2015
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$	\$ 22,466,302	\$ 102,826	\$ (102,607)(a)	\$ 22,466,521
Costs and expenses:					
Cost of revenues		16,681,822	100,858	(100,858)(a)	16,681,822
Selling, general and administrative expenses		5,199,008	5,799	(1,749)(a)	5,203,058
Lease termination and impairment expenses		21,670			21,670
Interest expense	315,908	29,986	1		345,895
Loss on debt retirement, net	33,205				33,205
Loss on sale of assets, net		3,651			3,651
Equity in earnings of subsidiaries, net of tax	(448,961)	5,244		443,717(b)	
	(99,848)	21,941,381	106,658	341,110	22,289,301
	99,848	524,921	(3,832)	(443,717)	177,220

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Income (loss) before income taxes							
Income tax expense			75,960		1,412		77,372
Net income (loss)	\$	99,848	\$	448,961	\$	(5,244)	\$ (443,717) \$ 99,848
Total other comprehensive income (loss)							
		1,792		1,792		(1,792)	1,792
Comprehensive income (loss)	\$	101,640	\$	450,753	\$	(5,244)	\$ (445,509) \$ 101,640

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

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Rite Aid Corporation
Condensed Consolidating Statement of Cash Flows
For the Thirty-Nine Weeks Ended November 26, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ (262,448)	\$ 421,988	\$ 5,913	\$	\$ 165,453
Investing activities:					
Payments for property, plant and equipment		(333,788)			(333,788)
Intangible assets acquired		(48,805)			(48,805)
Intercompany activity		21,964		(21,964)	
Proceeds from dispositions of assets and investments		10,217			10,217
Net cash used in investing activities		(350,412)		(21,964)	(372,376)
Financing activities:					
Net proceeds from revolver	280,000				280,000
Principal payments on long-term debt		(16,426)			(16,426)
Change in zero balance cash accounts		30,685			30,685
Net proceeds from issuance of common stock	4,412				4,412
Excess tax benefit on stock options and restricted stock		3,809			3,809
Intercompany activity	(21,964)			21,964	
Net cash provided by financing activities	262,448	18,068		21,964	302,480
Increase in cash and cash equivalents		89,644	5,913		95,557
Cash and cash equivalents, beginning of period		90,569	33,902		124,471
Cash and cash equivalents, end of period	\$	\$ 180,213	\$ 39,815	\$	\$ 220,028

Rite Aid Corporation
Condensed Consolidating Statement of Cash Flows
For the Thirty Nine Weeks Ended November 28, 2015
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ (227,244)	\$ 902,709	\$ (5,928)	\$	\$ 669,537
Investing activities:					
Payments for property, plant and equipment		(414,338)			(414,338)
Intangible assets acquired		(97,612)			(97,612)
Acquisition of businesses, net of cash acquired	(1,778,377)				(1,778,377)
Intercompany activity	(103,834)	(356,546)		460,380	
Proceeds from dispositions of assets and investments		8,697			8,697

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Net cash used in investing activities	(1,882,211)	(859,799)	460,380	(2,281,630)
Financing activities:				
Proceeds from issuance of long-term debt	1,800,000			1,800,000
Net proceeds from revolver	655,000			655,000
Principal payments on long-term debt	(650,079)	(16,888)		(666,967)

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Rite Aid Corporation
Condensed Consolidating Statement of Cash Flows
For the Thirty Nine Weeks Ended November 28, 2015
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Change in zero balance cash accounts		(35,011)			(35,011)
Net proceeds from issuance of common stock	8,625				8,625
Financing fees paid for early debt redemption	(26,003)				(26,003)
Excess tax benefit on stock options and restricted stock		21,436			21,436
Deferred financing costs paid	(34,634)				(34,634)
Intercompany activity	356,546	63,446	40,388	(460,380)	
Net cash provided by (used in) financing activities	2,109,455	32,983	40,388	(460,380)	1,722,446
Increase in cash and cash equivalents		75,893	34,460		110,353
Cash and cash equivalents, beginning of period		115,899			115,899
Cash and cash equivalents, end of period	\$	\$ 191,792	\$ 34,460	\$	\$ 226,252

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Overview**

We are a full service pharmacy retail healthcare company, providing our customers and communities with the highest level of care and service through various programs we offer through our two reportable business segments, our Retail Pharmacy segment and our Pharmacy Services segment. We accomplish our goal of delivering comprehensive care to our customers through our 4,547 retail drugstores, 92 RediClinic walk-in retail health clinics and transparent and traditional EnvisionRx and MedTrak pharmacy benefit managers with over 4.0 million plan members. We also offer fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies. Additionally through EIC, EnvisionRx also serves one of the fastest-growing demographics in healthcare: seniors enrolled in Medicare Part D. When combined with our retail platform, this comprehensive suite of services allows us to provide additional value and broader choice to customers, patients and payors and allows us to succeed in today's evolving healthcare marketplace.

We currently have two reportable business segments: Retail Pharmacy and Pharmacy Services.

Retail Pharmacy Segment

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Our Retail Pharmacy segment sells brand and generic prescription drugs, as well as an assortment of front-end products including health and beauty aids, personal care products, seasonal merchandise, and a large private brand product line. Our Retail Pharmacy segment generates the majority of its revenue through the sale of prescription drugs and front-end products at our 4,547 retail locations. In addition, the Retail Pharmacy segment includes 92 RediClinic walk-in retail clinics, of which 56 are located within Rite Aid retail stores in the Baltimore/Washington D.C., Philadelphia and Seattle markets.

Pharmacy Services Segment

Our Pharmacy Services segment, which was acquired on June 24, 2015 through our acquisition of EnvisionRx, provides a full range of pharmacy benefit services. The Pharmacy Services segment provides both transparent and traditional pharmacy benefit management (PBM) options through its EnvisionRx and MedTrak PBMs, respectively. EnvisionRx also offers fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies; access to the nation's largest cash pay infertility discount drug program via Design Rx; an innovative claims adjudication software platform in Laker Software; and a national Medicare Part D prescription drug plan through EIC's EnvisionRx Plus product offering. The segment's clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, other sponsors of health benefit plans and individuals throughout the United States.

Pending Merger with Walgreens Boots Alliance, Inc.

On October 27, 2015, we entered into the Merger Agreement with WBA, and Victoria Merger Sub. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid, with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. On February 4, 2016, the proposal to adopt the Merger Agreement was approved by approximately 97% of the votes cast at the special meeting, representing approximately 72% of our total outstanding shares of common stock entitled to vote as of the record date of the special meeting. A quorum of 74% of our total

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outstanding shares of common stock as of the record date voted at the special meeting. Completion of the Merger is subject to various closing conditions, including but not limited to (i) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (ii) the absence of any law or order prohibiting the Merger, and (iii) the absence of a material adverse effect on us, as defined in the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of our common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time (other than shares owned by (i) WBA, Victoria Merger Sub or Rite Aid (which will be cancelled), (ii) stockholders who have properly exercised and perfected appraisal rights under Delaware law, or (iii) any direct or indirect 100 percent owned subsidiary of Rite Aid or WBA (which will be converted into shares of common stock of the surviving corporation)) will be converted into the right to receive \$9.00 per share in cash, without interest.

We, WBA and Victoria Merger Sub have each made customary representations, warranties and covenants in the Merger Agreement, including, among other things, that (i) we and our subsidiaries will continue to conduct our business in the ordinary course consistent with past practice between the execution of the Merger Agreement and the closing of the Merger and (ii) we will not solicit proposals relating to alternative transactions to the Merger or engage in discussions or negotiations with respect thereto, subject to certain exceptions. Additionally, the Merger Agreement limits our ability to incur indebtedness for borrowed money and issue additional capital stock, among other things.

On October 19, 2016, in accordance with the terms of the Merger Agreement, we, along with WBA, jointly agreed to extend the End Date (as defined in the Merger Agreement) to January 27, 2017.

On December 19, 2016, we entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with AFAE, LLC, a Tennessee limited liability company (Buyer), Fred s (solely for the purposes set forth in the Asset Purchase Agreement) and WBA (solely for the purposes set forth in the Asset Purchase Agreement). Pursuant to the terms and subject to the conditions set forth in the Asset Purchase Agreement, Buyer will purchase 865 stores from us (the Acquired Stores) and certain specified assets related thereto for a purchase price of \$950.0 million plus Buyer s assumption of certain of our liabilities (the Sale).

Completion of the Sale is subject to various closing conditions, including but not limited to (i) the closing of the proposed acquisition of us by WBA (the Rite Aid Acquisition), (ii) the Federal Trade Commission (FTC) having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Rite Aid Acquisition identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement, (iii) filings with or receipt of approval from the applicable state boards of pharmacy, and (iv) the absence of a material adverse effect on the stores being acquired in the Sale.

The parties to the Asset Purchase Agreement have each made customary representations and warranties. We have agreed to various covenants and agreements, including, among others, our agreement to conduct business at the Acquired Stores in the ordinary course during the period between the execution of the Asset Purchase Agreement and the closing of the Sale, subject to certain exceptions. Fred s and Buyer have also agreed to various covenants and agreements in the Asset Purchase Agreement, including, among other things, (i) Fred s and Buyer s agreement to use their reasonable best efforts to obtain all authorizations and approvals from governmental authorities and (ii) Fred s and Buyer s agreement to (x) prepare and furnish all necessary information and documents reasonably requested by the FTC, (y) use reasonable best efforts to demonstrate to the FTC that each of Fred s and Buyer is an acceptable purchaser of, and will compete effectively using, the assets purchased in the Sale, and (z) reasonably cooperate with WBA and us in obtaining all FTC approvals. In the event that the FTC requests changes to the Asset Purchase Agreement, the parties agreed to negotiate in good faith to make the necessary changes. To the extent the FTC requests that additional stores be sold, and WBA agrees to sell such stores, each of Fred s and Buyer has agreed to buy those stores.

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The Asset Purchase Agreement contains specified termination rights for us, WBA and Buyer, including a mutual termination right (i) in the event of the issuance of a final, nonappealable governmental order permanently restraining the Sale or (ii) in the event that the Merger Agreement is terminated in accordance with its terms. WBA has additional termination rights, if, among others thing, (i) Buyer or Fred s is not preliminarily approved by the FTC or other necessary governmental authority as purchaser of the assets in the Sale or (ii) the FTC informs WBA or its affiliates in writing that the Director of the Bureau of Competition will not recommend approval of Fred s or Buyer as purchaser of the assets in the Sale.

While WBA is actively engaged in discussions with the FTC regarding the transaction and is working towards a close of the Merger in early calendar 2017, there can be no assurance that the requisite regulatory approvals will be obtained, or that the Merger or the Sale will be completed within the time periods contemplated by the Merger Agreement and Asset Purchase Agreement.

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Overview of Financial Results

Net Income: Our net income for the thirteen and thirty-nine week periods ended November 26, 2016 was \$15.0 million or \$0.01 per basic and diluted share and \$25.2 million or \$0.02 per basic and diluted share, respectively, compared to net income of \$59.5 million or \$0.06 per basic and diluted share and \$99.8 million or \$0.10 per basic and diluted share, respectively, for the thirteen and thirty-nine week periods ended November 28, 2015. The operating results for the thirteen and thirty-nine week period ended November 26, 2016 include the operating results of EnvisionRx. The operating results for the thirteen and thirty-nine week periods ended November 28, 2015 include the operating results of EnvisionRx subsequent to the June 24, 2015 acquisition date. The decline in the thirteen week operating results was due primarily to a decline in Adjusted EBITDA, partially offset by lower income tax expense. The decline in the thirty-nine week operating results was due primarily to a decline in Adjusted EBITDA and a higher LIFO charge, partially offset by lower income tax expense and a \$33.2 million loss on debt retirement in the prior year related to the redemption of our 8.00% Notes.

Adjusted EBITDA: Our adjusted EBITDA for the thirteen and thirty-nine week periods ended November 26, 2016 was \$274.1 million or 3.4 percent of revenues and \$872.8 million or 3.6 percent of revenues, respectively, compared to \$373.2 million or 4.6 percent of revenues and \$1,019.3 million or 4.5 percent of revenues for the thirteen and thirty-nine week periods ended November 28, 2015, respectively. Adjusted EBITDA for the thirteen and thirty-nine week periods ended November 26, 2016 includes the Adjusted EBITDA of EnvisionRx. The Adjusted EBITDA for the thirteen and thirty-nine week periods ended November 28, 2015 includes the Adjusted EBITDA of EnvisionRx subsequent to the June 24, 2015 acquisition date. The decline in our Adjusted EBITDA for the thirteen week period ended November 26, 2016 was due primarily to a decrease of \$117.5 million in the Retail Pharmacy segment resulting from lower pharmacy gross profit, partially offset by an increase in front end gross profit. Pharmacy gross profit decreased because of lower reimbursement rates and script count. The decline in Retail Pharmacy segment Adjusted EBITDA was partially offset by an increase of \$18.5 million of Pharmacy Services segment Adjusted EBITDA. This increase was due to an increase in revenues and strong operating results in the current year.

The decline in our Adjusted EBITDA for the thirty-nine week period ended November 26, 2016 was due primarily to a decrease of \$222.9 million in the Retail Pharmacy segment due to lower gross profit and higher SG&A expense. Gross profit declined due to lower pharmacy gross profit, partially offset by an increase in front end gross profit. Pharmacy gross profit decreased due to lower reimbursement rates and script count. SG&A expense increased due to higher payroll and benefit costs. The decline in the Retail Pharmacy segment Adjusted EBITDA was partially offset by an increase of \$76.5 million of Pharmacy Services segment Adjusted EBITDA. The increase in the Pharmacy Services segment Adjusted EBITDA was due to an increase in revenues and strong operating results in the current year and the fact that prior year's Adjusted EBITDA includes activities beginning on the June 24, 2015 acquisition date.

Please see the section entitled *Segment Analysis* below for additional details regarding gross profit.

Consolidated Results of Operations

Revenues and Other Operating Data

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Revenues(a)	\$ 8,089,726	\$ 8,154,184	\$ 24,303,712	\$ 22,466,521
Revenue (decline) growth	(0.8)%	21.8%	8.2%	14.2%
Net income	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
Net income per diluted share	\$ 0.01	\$ 0.06	\$ 0.02	\$ 0.10
Adjusted EBITDA(b)	\$ 274,147	\$ 373,166	\$ 872,802	\$ 1,019,253
Adjusted Net Income(b)	\$ 23,285	\$ 87,151	\$ 69,997	\$ 173,038
Adjusted Net Income per Diluted Share(b)	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.17

(a) Revenues for the thirteen and thirty-nine weeks ended November 26, 2016 exclude \$91,383 and \$275,662, respectively, of inter-segment activity that is eliminated in consolidation. Revenues for the thirteen and thirty-nine weeks ended November 28, 2015 exclude \$90,854 and \$145,210, respectively, of inter-segment activity that is eliminated in consolidation.

(b) See Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures for additional details.

Table of Contents*Revenues*

Revenues decreased 0.8% for the thirteen weeks ended November 26, 2016 compared to an increase of 21.8% for the thirteen weeks ended November 28, 2015. Revenues increased 8.2% for the thirty-nine weeks ended November 26, 2016 compared to 14.2% for the thirty-nine weeks ended November 28, 2015. Revenues for the thirteen and thirty-nine week periods ended November 26, 2016 include revenues of \$1,645.8 million and \$4,883.1 million, respectively, relating to our Pharmacy Services segment, compared to Pharmacy Services segment revenues of \$1,500.9 million and \$2,572.8 million, respectively, for the thirteen and thirty-nine week periods ended November 28, 2015. Revenues for the thirteen and thirty-nine weeks ended November 26, 2016 exclude \$91.4 million and \$275.7 million, respectively, of inter-segment activity that is eliminated in consolidation, compared to \$90.9 million and \$145.2 million, respectively, of inter-segment activity that is eliminated in consolidation for the thirteen and thirty-nine weeks ended November 28, 2015. Same store sales trends for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015 are described in the Segment Analysis section below.

Please see the section entitled Segment Analysis below for additional details regarding revenues.

Costs and Expenses

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Cost of revenues (a)	\$ 6,194,866	\$ 6,151,305	\$ 18,597,809	\$ 16,681,822
Gross profit	1,894,860	2,002,879	5,705,903	5,784,699
Gross margin	23.4%	24.6%	23.5%	25.7%
Selling, general and administrative expenses	1,773,862	1,777,647	5,345,356	5,203,058
Selling, general and administrative expenses as a percentage of revenues	21.9%	21.8%	22.0%	23.2%
Lease termination and impairment charges	7,265	7,011	20,279	21,670
Interest expense	106,309	106,879	316,810	345,895
Loss on debt retirements, net				33,205
Loss on sale of assets, net	501	3,331	1,731	3,651

(a) Cost of revenues for the thirteen and thirty-nine weeks ended November 26, 2016 exclude \$91,383 and \$275,662, respectively, of inter-segment activity that is eliminated in consolidation. Cost of revenues for the thirteen and thirty-nine weeks ended November 28, 2015 exclude \$90,854 and \$145,210, respectively, of inter-segment activity that is eliminated in consolidation.

Gross Profit and Cost of Revenues

Gross profit decreased by \$108.0 million and \$78.8 million for the thirteen and thirty-nine week periods ended November 26, 2016, respectively compared to the thirteen and thirty-nine week periods ended November 28, 2015. Gross profit for the thirteen week period ended November 26, 2016 includes incremental gross profit of \$22.1 million relating to our Pharmacy Services segment and a decline of \$130.1 million in our Retail Pharmacy segment. Gross profit for the thirty-nine week period ended November 26, 2016 includes incremental gross profit of \$146.6 million relating to our Pharmacy Services segment and a decline of \$225.4 million in our Retail Pharmacy segment. Gross margin was 23.4% and 23.5%, respectively for the thirteen and thirty-nine week periods ended November 26, 2016 compared to 24.6% and 25.7%, respectively, for the thirteen and thirty-nine week periods ended November 28, 2015. The decrease in gross margin is due primarily to revenue growth in our Pharmacy Services segment, which carries a lower gross margin as a percentage of revenue, as well as lower reimbursement rates in the Retail Pharmacy segment that were not offset by improvements in prescription drug costs. Please see the section entitled *Segment Analysis* for a more detailed description of gross profit and gross margin results by segment.

Selling, General and Administrative Expenses

SG&A decreased \$3.8 million and increased \$142.3 million for the thirteen and thirty-nine week periods ended November 26, 2016, respectively, compared to the thirteen and thirty-nine week periods ended November 28, 2015. The decrease in SG&A for the thirteen week period ended November 26, 2016 includes a decrease of \$ 7.8 million relating to our Retail Pharmacy segment, partially offset by an increase of \$4.0 million relating to our Pharmacy Services segment. The increase in SG&A for the thirty-nine week period ended November 26, 2016 includes an increase of \$96.1 million relating to our Pharmacy Services segment, as well as an increase of \$46.2 million relating to our Retail Pharmacy segment. The decrease in our Retail Pharmacy segment SG&A expense for the thirteen week period ended November 26, 2016 is due to tight operating expense control. The increase in SG&A expense for the thirty-nine week period ended November 26, 2016 is due to higher payroll and increased benefit costs. Please see the section entitled *Segment Analysis* below for additional details regarding SG&A.

Table of Contents*Lease Termination and Impairment Charges*

Lease termination and impairment charges consist of amounts as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
Impairment charges	\$ 957	\$ 540	\$ 1,654	\$ 818
Lease termination charges	6,308	6,471	18,625	20,852
	\$ 7,265	\$ 7,011	\$ 20,279	\$ 21,670

Impairment Charges: These amounts include the write-down of long-lived assets at locations that were assessed for impairment because of management's intention to relocate or close the location or because of changes in circumstances that indicated the carrying value of an asset may not be recoverable.

Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Impairment Charges included in our Fiscal 2016 10-K for a detailed description of our impairment methodology.

Lease Termination Charges: Charges to close a store, which principally consist of continuing lease obligations, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in ASC 420, Exit or Disposal Cost Obligations. We calculate our liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. We evaluate these assumptions each quarter and adjust the liability accordingly. As part of our ongoing business activities, we assess stores and distribution centers for potential closure and relocation. Decisions to close or relocate stores or distribution centers in future periods would result in lease termination charges for lease exit costs and liquidation of inventory, as well as impairment of assets at these locations.

Interest Expense

Interest expense was \$106.3 million and \$316.8 million for the thirteen and thirty-nine week periods ended November 26, 2016, respectively, compared to \$106.9 million and \$345.9 million for the thirteen and thirty-nine week periods ended November 28, 2015, respectively. The decrease in interest expense for the thirty-nine week period ended November 26, 2016 was primarily due to the prior year amortization of bridge loan commitment fees relating to the EnvisionRx acquisition. The weighted average interest rates on our indebtedness for the thirty-nine week periods ended November 26, 2016 and November 28, 2015 were 5.3% and 5.5%, respectively.

Income Taxes

We recorded an income tax benefit of \$8.1 million and an income tax expense of \$48.5 million for the thirteen week periods ended November 26, 2016 and November 28, 2015, respectively, and an income tax benefit of \$3.5 million and an income tax expense of \$77.4 million for the thirty-nine week periods ended November 26, 2016 and November 28, 2015, respectively. The income tax benefit for the thirteen week period ended November 26, 2016 and the income tax expense for the thirteen week period ended November 28, 2015 resulted in a tax rate of (116.8)% and 44.9%, respectively. The income tax benefit for the thirty-nine week period ended November 26, 2016 and the income tax expense for the thirty-nine week period ended November 28, 2015 resulted in a tax rate of (16.0)% and 43.7%, respectively. The tax benefit for the thirteen and thirty-nine week periods ended November 26, 2016 was the result of lower projected earnings for the Retail Pharmacy segment which resulted in a cumulative adjustment to the annual effective tax rate.

We recognize tax liabilities in accordance with the guidance for uncertain tax positions and management adjusts these liabilities with changes in judgment as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities.

While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, management does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We will continue to monitor all available evidence related to the net deferred tax assets that may change the most recent assessment,

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including events that have occurred or are anticipated to occur. We continue to maintain a valuation allowance against net deferred tax assets of \$215.5 million and \$212.0 million, which relates primarily to state deferred tax assets at November 26, 2016 and February 27, 2016, respectively.

Segment Analysis

We evaluate the Retail Pharmacy and Pharmacy Services segments performance based on revenue, gross profit, and Adjusted EBITDA. The following is a reconciliation of our segments to the condensed consolidated financial statements:

	Retail Pharmacy Segment	Pharmacy Services Segment	Intersegment Eliminations (1)	Consolidated Totals
Thirteen Week Period Ended				
November 26, 2016:				
Revenue	\$ 6,535,274	\$ 1,645,835	\$ (91,383)	\$ 8,089,726
Gross Profit	1,791,803	103,057		1,894,860
Adjusted EBITDA(*)	221,716	52,431		274,147
November 28, 2015:				
Revenue	\$ 6,744,143	\$ 1,500,895	\$ (90,854)	\$ 8,154,184
Gross Profit	1,921,886	80,993		2,002,879
Adjusted EBITDA(*)	339,255	33,911		373,166
Thirty-Nine Week Period Ended				
November 26, 2016:				
Revenue	\$ 19,696,304	\$ 4,883,070	\$ (275,662)	\$ 24,303,712
Gross Profit	5,416,519	289,384		5,705,903
Adjusted EBITDA(*)	729,186	143,616		872,802
November 28, 2015:				
Revenue	\$ 20,038,947	\$ 2,572,784	\$ (145,210)	\$ 22,466,521
Gross Profit	5,641,929	142,770		5,784,699
Adjusted EBITDA(*)	952,120	67,133		1,019,253

(1) Intersegment eliminations include intersegment revenues and corresponding cost of revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Retail Pharmacy and Pharmacy Services segments record the revenue on a stand-alone basis.

(*) See Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures for additional details on consolidated Adjusted EBITDA.

Retail Pharmacy Segment Results of Operations

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Revenues and Other Operating Data

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Revenues	\$ 6,535,274	\$ 6,744,143	\$ 19,696,304	\$ 20,038,947
Revenue (decline) growth	(3.1)%	0.8%	(1.7)%	1.8%
Same store sales (decline) growth	(3.4)%	0.9%	(1.8)%	1.9%
Pharmacy sales (decline) growth	(4.5)%	1.0%	(2.7)%	2.5%
Same store prescription count (decrease) increase	(2.4)%	0.2%	(1.2)%	0.6%
Same store pharmacy sales (decline) growth	(4.7)%	1.2%	(2.8)%	2.6%
Pharmacy sales as a % of total retail sales	68.9%	69.9%	68.8%	69.5%
Third party sales as a % of total pharmacy sales	98.2%	97.9%	98.1%	97.8%
Front-end sales growth	0.0%	0.3%	0.4%	0.3%
Same store front-end sales (decline) growth	(0.4)%	0.3%	0.3%	0.4%
Front-end sales as a % of total retail sales	31.1%	30.1%	31.2%	30.5%
Adjusted EBITDA(*)	\$ 221,716	\$ 339,255	\$ 729,186	\$ 952,120
Store data:				
Total stores (beginning of period)	4,550	4,561	4,561	4,570
New stores	3		10	2
Store acquisitions	1	2	3	4
Closed stores	(7)	(3)	(27)	(16)
Total stores (end of period)	4,547	4,560	4,547	4,560
Relocated stores	9	5	19	10
Remodeled and expanded stores	95	96	259	324

(*) See Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures for additional details.

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Revenues

Revenues decreased 3.1% for the thirteen weeks ended November 26, 2016 compared to an increase of 0.8% for the thirteen weeks ended November 28, 2015. The decrease in revenues for the thirteen week period ended November 26, 2016 was primarily a result of a decrease in pharmacy same store sales.

Pharmacy same store sales decreased by 4.7% for the thirteen week period ended November 26, 2016 compared to the 1.2% increase in the thirteen week period ended November 28, 2015. The decrease in the current period is due primarily to continued lower reimbursement rates, an approximate 1.8% negative impact from generic introductions, and a 2.4% decrease in same store prescription count which is, in part, due to our limited access to certain narrow networks.

Front-end same store sales decreased 0.4% during the thirteen week period ended November 26, 2016.

Revenues decreased 1.7% for the thirty-nine weeks ended November 26, 2016 compared to an increase of 1.8% for the thirty-nine weeks ended November 28, 2015. The decrease in revenues for the thirty-nine week period ended November 26, 2016 was primarily a result of the decrease in pharmacy same store sales.

Pharmacy same store sales decreased by 2.8% for the thirty-nine week period ended November 26, 2016 compared to the 2.6% increase in the thirty-nine week period ended November 28, 2015. The decrease in the current period is due primarily to continued lower reimbursement rates, an approximate 1.6% negative impact from generic introductions, and a 1.2% decrease in same store prescription count which is, in part, due to our limited access to certain narrow networks.

Front-end same store sales increased by 0.3% during the thirty-nine week period ended November 26, 2016 compared to the 0.4% increase in the thirty-nine week period ended November 28, 2015. The same store front-end sales were positively impacted by our continuing investment in our Wellness format stores.

We include in same store sales all stores that have been open at least one year. Relocation stores are not included in same store sales until one year has lapsed.

Costs and Expenses

Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015

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(dollars in thousands)

Cost of revenues	\$	4,743,471	\$	4,822,257	\$	14,279,785	\$	14,397,018
Gross profit		1,791,803		1,921,886		5,416,519		5,641,929
Gross margin		27.4%		28.5%		27.5%		28.2%
FIFO gross profit(*)		1,805,553		1,927,872		5,457,780		5,659,888
FIFO gross margin(*)		27.6%		28.6%		27.7%		28.2%
Selling, general and administrative expenses		1,700,625		1,708,445		5,133,161		5,086,939
Selling, general and administrative expenses as a percentage of revenues		26.0%		25.3%		26.1%		25.4%

(*) See Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures for additional details.

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Gross Profit and Cost of Revenues

Gross profit decreased \$130.1 million for the thirteen week period ended November 26, 2016 as compared to the thirteen week period ended November 28, 2015. Gross profit was negatively impacted by a decrease in pharmacy gross profit due to lower reimbursement rates and lower same store prescription count, that were not offset by improvements in prescription drug costs, partially offset by increased front-end gross profit.

Gross profit decreased \$225.4 million for the thirty-nine week period ended November 26, 2016 as compared to the thirty-nine week period ended November 28, 2015. Gross profit was negatively impacted by a decrease in pharmacy gross profit due to lower reimbursement rates and lower same store prescription count, partially offset by increased front-end gross profit.

Gross margin was 27.4% and 27.5% of sales for the thirteen and thirty-nine week periods ended November 26, 2016, respectively, compared to 28.5% and 28.2% of sales for the thirteen and thirty-nine week periods ended November 28, 2015, respectively. The decrease in gross margin for the thirteen and thirty-nine week periods was due primarily to continued reimbursement rate pressures and a higher estimated LIFO charge.

We use the last-in, first-out (LIFO) method of inventory valuation, which is estimated on a quarterly basis and is finalized at year end when inflation rates and inventory levels are final. Therefore, LIFO costs for interim period financial statements are estimated. LIFO charges were \$13.8 million and \$41.3 million for the thirteen and thirty-nine week periods ended November 26, 2016, respectively, compared to \$6.0 million and \$18.0 million for the thirteen and thirty-nine week periods ended November 28, 2015, respectively. This year's LIFO charge is higher due to higher inventory balances.

Selling, General and Administrative Expenses

SG&A expenses as a percentage of revenues were 26.0% in the thirteen week period ended November 26, 2016 compared to 25.3% in the thirteen week period ended November 28, 2015. The increase in SG&A as a percentage of revenues was due primarily to declining Retail Pharmacy segment sales leverage.

SG&A expenses as a percentage of revenues were 26.1% in the thirty-nine week period ended November 26, 2016 compared to 25.4% in the thirty-nine week period ended November 28, 2015. The increase in SG&A as a percentage of revenues was due primarily to salary and payroll related increases, higher occupancy costs, increased depreciation and amortization related to our incremental capital investment in our Wellness store remodel program and declining Retail Pharmacy segment sales leverage.

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Pharmacy Services Segment Results of Operations

Acquisition of EnvisionRx

On June 24, 2015, we completed our acquisition of EnvisionRx, pursuant to the terms of the agreement (Agreement) dated February 10, 2015. EnvisionRx, our Pharmacy Services segment, is a full-service pharmacy benefit provider. EnvisionRx provides both transparent and traditional pharmacy benefit manager (PBM) options through its EnvisionRx and MedTrak PBMs, respectively. EnvisionRx also offers fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies; access to the nation's largest cash pay infertility discount drug program via Design Rx; an innovative claims adjudication software platform in Laker Software; and a national Medicare Part D prescription drug plan through EIC's EnvisionRx Plus Silver product for the low income auto-assign market and its Clear Choice product for the chooser market. EnvisionRx operates as our 100 percent owned subsidiary. We believe that the acquisition of EnvisionRx will enable us to expand our retail healthcare platform and enhance our health and wellness offerings by combining EnvisionRx's broad suite of PBM and pharmacy-related businesses with our established retail platform to provide our customers and patients with an integrated offering across retail, specialty and mail-order channels.

Pharmacy Services Segment Results of Operations

Pharmacy Services segment revenue for the thirteen week period ended November 26, 2016 was \$1,645.8 million compared to revenue of \$1,500.9 million for the thirteen week period ended November 28, 2015. Pharmacy Services segment revenue for the thirty-nine week period ended November 26, 2016 was \$4,883.1 million compared to revenue of \$2,572.8 million for the thirty-nine week period ended November 28, 2015. The increase in the thirteen week revenue for the segment is due to early 2016 and mid-year 2015 customer additions and revenue growth at EnvisionPharmacies and Design Rx. The increase in the thirty-nine week revenue for the segment is due to a full year of Pharmacy Services segment operations being included in the current year as compared to a partial year in the prior year. In addition, revenues for the thirty-nine week period ended November 26, 2016 was positively impacted by early 2016 and mid-year 2015 customer additions and revenue growth at EnvisionPharmacies and Design Rx.

Gross profit for the thirteen week period ended November 26, 2016 was \$103.1 million as compared to gross profit of \$81.0 million for the thirteen week period ended November 28, 2015. Gross profit for the thirty-nine week period ended November 26, 2016 was \$289.4 million as compared to gross profit of \$142.8 million for the thirty-nine week period ended November 28, 2015. The increase in the thirteen week gross profit for the segment is due to customer additions. The increase in the thirty-nine week gross profit for the segment is due to a full year of Pharmacy Services segment operating results being included in the current year as compared to a partial year in the prior year. In addition, gross profit for the thirty-nine week period ended November 26, 2016 was positively impacted by customer additions.

Pharmacy Services segment selling, general and administrative expenses for the thirteen and thirty-nine week periods ended November 26, 2016 were \$73.2 million and \$212.2 million, respectively, as compared to \$69.2 million and \$116.1 million, respectively, of selling, general and administrative expenses for the thirteen and thirty-nine week periods ended November 28, 2015. The increase in the selling, general and administrative expenses for the thirteen week period ended November 26, 2016 is the result of additional costs to service new PBM customers. The increase in the selling, general and administrative expenses for the thirty-nine week period ended November 26, 2016 is the result of a full period of operating results in fiscal 2017 as compared to a partial period of operating results in the prior year, as well as from additional costs to service new PBM customers.

Pharmacy Services Adjusted EBITDA for the thirteen and thirty-nine week periods ended November 26, 2016 was \$52.4 million or 3.2 percent of Pharmacy Services revenue and \$143.6 million or 2.9 percent of Pharmacy Services revenue, respectively, as compared to \$33.9 million or 2.3 percent of Pharmacy Services revenue and \$67.1 million or 2.6 percent of Pharmacy Services revenue, respectively, for the thirteen and thirty-nine week periods ended November 28, 2015. The increase in the thirteen week Adjusted EBITDA for the segment is due to an increase in revenues. The increase in the thirty-nine week Adjusted EBITDA for the segment is due to an increase in revenues and the fact that prior year's Pharmacy Services segment results do not reflect a full quarter's ownership of EnvisionRx.

Liquidity and Capital Resources

General

We have two primary sources of liquidity: (i) cash provided by operating activities and (ii) borrowings under our Amended and Restated Senior Secured Credit Facility. Our principal uses of cash are to provide working capital for operations, to service our

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obligations to pay interest and principal on debt and to fund capital expenditures. Total liquidity as of November 26, 2016 was \$1,273.2 million, which consisted of revolver borrowing capacity of \$1,255.1 million and invested cash of \$18.1 million.

Credit Facility

Our Amended and Restated Senior Secured Credit Facility has a borrowing capacity of \$3.7 billion and matures in January 2020. Borrowings under the revolver bear interest at a rate per annum between (i) LIBOR plus 1.50% and LIBOR plus 2.00% with respect to Eurodollar borrowings and (ii) the alternate base rate plus 0.50% and the alternate base rate plus 1.00% with respect to ABR borrowings, in each case, based upon the average revolver availability (as defined in the Amended and Restated Senior Secured Credit Facility). We are required to pay fees between 0.250% and 0.375% per annum on the daily unused amount of the revolver, depending on the Average Revolver Availability (as defined in the Amended and Restated Senior Secured Credit Facility). Amounts drawn under the revolver become due and payable on January 13, 2020.

Our ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At November 26, 2016, we had \$2,380.0 million of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$64.9 million, which resulted in additional borrowing capacity of \$1,255.1 million. If at any time the total credit exposure outstanding under our Amended and Restated Senior Secured Credit Facility and the principal amount of our other senior obligations exceeds the borrowing base, we will be required to make certain other mandatory prepayments to eliminate such shortfall. Additionally, the Merger Agreement limits our ability to incur additional indebtedness for borrowed money, including a requirement that borrowings under the revolver not exceed \$3.0 billion in the aggregate immediately prior to the closing of the Merger.

The Amended and Restated Senior Secured Credit Facility restricts us and all of our subsidiaries that guarantee our obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes (the *Subsidiary Guarantors*) from accumulating cash on hand in excess of \$200.0 million at any time when revolving loans are outstanding (not including cash located in our store deposit accounts and cash necessary to cover our current liabilities) and from accumulating cash on hand with revolver borrowings in excess of \$100.0 million over three consecutive business days. The Amended and Restated Senior Secured Credit Facility also states that if at any time (other than following the exercise of remedies or acceleration of any senior obligations or second priority debt and receipt of a triggering notice by the senior collateral agent from a representative of the senior obligations or the second priority debt) either (a) an event of default exists under our Amended and Restated Senior Secured Credit Facility or (b) the sum of revolver availability under our Amended and Restated Senior Secured Credit Facility and certain amounts held on deposit with the senior collateral agent in a concentration account is less than \$275.0 million for three consecutive business days or less than or equal to \$200.0 million on any day (a *cash sweep period*), the funds in our deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the Amended and Restated Senior Secured Credit Facility, and then held as collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of our Amended and Restated Senior Secured Credit Facility.

The Amended and Restated Senior Secured Credit Facility allows us to have outstanding, at any time, up to \$1.5 billion in secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Amended and Restated Senior Secured Credit Facility and existing indebtedness, provided that not in excess of \$750.0 million of such secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (a) the fifth anniversary of the effectiveness of the Amended and Restated Senior Secured Credit Facility and (b) the latest maturity date of any Term Loan or Other Revolving Loan (each as defined in the Amended and Restated Senior Secured Credit Facility) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date and, with respect to any escrow notes issued by Rite Aid, excluding any special mandatory redemption of the type described in clause (iii) of the definition of *Escrow*

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Notes in the Amended and Restated Senior Secured Credit Facility). Subject to the limitations described in clauses (a) and (b) of the immediately preceding sentence, the Amended and Restated Senior Secured Credit Facility additionally allows us to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Amended and Restated Senior Secured Credit Facility) is not in effect; provided, however, that certain of our other outstanding indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Amended and Restated Senior Secured Credit Facility also contains certain restrictions on the amount of secured first priority debt we are able to incur. The Amended and Restated Senior Secured Credit Facility also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Amended and Restated Senior Secured Credit Facility is not in default and we maintain availability under our revolving credit facility of more than \$365.0 million.

The Amended and Restated Senior Secured Credit Facility has a financial covenant that requires us to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (a) on any date on which availability under the revolving credit facility is less than \$200.0 million or (b) on the third consecutive business day on which availability under the revolving credit facility is less than \$250.0 million and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolving credit facility is equal to or greater than \$250.0 million. As of November 26, 2016, the availability was

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at a level that did not trigger this covenant. The Amended and Restated Senior Secured Credit Facility also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens.

The Amended and Restated Senior Secured Credit Facility provides for customary events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having a principal amount in excess of \$50.0 million or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repayment repurchase, redemption or defeasance of such debt.

We also have two second priority secured term loan facilities. The first includes a \$470.0 million Tranche 1 Term Loan. The Tranche 1 Term Loan matures on August 21, 2020 and currently bears interest at a rate per annum equal to LIBOR plus 4.75% with a LIBOR floor of 1.00%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 3.75%. The second includes a \$500.0 million Tranche 2 Term Loan. The Tranche 2 Term Loan matures on June 21, 2021 and currently bears interest at a rate per annum equal to LIBOR plus 3.875% with a LIBOR floor of 1.00%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 2.875%.

The second priority secured term loan facilities and the indentures that govern our secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by us. As of November 26, 2016, the amount of additional secured debt that could be incurred under the most restrictive covenant of the second priority secured term loan facilities and these indentures was approximately \$1.5 billion (which amount does not include the ability to enter into certain sale and leaseback transactions). However, we currently cannot incur any additional secured debt assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is generally governed by an interest coverage ratio test. As of November 26, 2016, we had the ability to issue additional unsecured debt under the second lien credit facilities and other indentures.

Other

On April 2, 2015, we issued \$1.8 billion aggregate principal amount of our 6.125% Notes to finance the majority of the cash portion of our acquisition of EnvisionRx, which closed on June 24, 2015. Our obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsubordinated basis, by all of our subsidiaries that guarantee our obligations under the Amended and Restated Senior Secured Credit Facility, the Tranche 1 Term Loan, the Tranche 2 Term Loan, the 9.25% senior notes due 2020 (the 9.25% Notes) and the 6.75% senior notes due 2021 (the 6.75% Notes) (the Rite Aid Subsidiary Guarantors), including EnvisionRx and certain of its domestic subsidiaries other than EIC (the EnvisionRx Subsidiary Guarantors and, together with the Rite Aid Subsidiary Guarantors, the Subsidiary Guarantors). The guarantees are unsecured. The 6.125% Notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all of our other unsecured, unsubordinated indebtedness.

During May 2015, \$64.1 million of our 8.5% convertible notes due 2015 were converted into 24.8 million shares of common stock, pursuant to their terms. The remaining \$0.1 million of our 8.5% convertible notes due 2015 were repaid by us upon maturity.

On August 15, 2015, we completed the redemption of all of our outstanding \$650.0 million aggregate principal amount of our 8.00% Notes. In connection with the redemption, we recorded a loss on debt retirement, including call premium and unamortized debt issue costs of \$33.2 million during the second quarter of fiscal 2016.

Net Cash Provided by/Used in Operating, Investing and Financing Activities

Cash flow provided by operating activities was \$165.5 million and \$669.5 million in the thirty-nine week periods ended November 26, 2016 and November 28, 2015, respectively. Operating cash flow was negatively impacted by increases in accounts receivable, inventory and other assets and liabilities, partially offset by an increase in accounts payable. Accounts receivable increased primarily due to increased receivables at our Pharmacy Services segment, based on their normal business cycle and the growth in the PBM business. Inventory increased at our Retail Pharmacy segment, in both pharmacy and front end. Pharmacy inventory increased due to increases in safety stock following an extended period of inventory reductions while front end inventory increased primarily due to seasonal inventory build. Other assets and liabilities increased due to the timing of rent payments in our Retail Pharmacy segment. These negative working capital changes were partially offset by an increase in accounts payable, which was due to the timing of inventory purchases at our Retail Pharmacy segment and increased amounts payable to our pharmacy network relating to the growth of our Pharmacy Services segment.

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Cash used in investing activities was \$372.4 million and \$2,281.6 million for the thirty-nine week periods ended November 26, 2016 and November 28, 2015, respectively. Cash used in investing activities primarily decreased as compared to the prior year due to expenditures of \$1,778.4 million, net of cash acquired, related to the acquisition of EnvisionRx in the prior year. Cash used for the purchase of property, plant, and equipment was lower than in the prior year due to fewer Wellness store remodels in the current year.

Cash provided by financing activities was \$302.5 million and \$1,722.4 million for the thirty-nine week periods ended November 26, 2016 and November 28, 2015, respectively. Cash provided by financing activities for the thirty-nine weeks ended November 26, 2016 includes net borrowings from the revolver of \$280.0 million. Cash provided by financing activities for the thirty-nine weeks ended November 28, 2015 reflects \$1.8 billion in proceeds from our 6.125% Notes, which was used to finance the cash portion of our acquisition of EnvisionRx.

Capital Expenditures

During the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015 capital expenditures were as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
New store construction, store relocation and store remodel projects	\$ 64,348	\$ 76,341	\$ 191,839	\$ 242,395
Technology enhancements, improvements to distribution centers and other corporate requirements	43,722	66,314	141,949	171,943
Purchase of prescription files from other retail pharmacies	19,936	54,150	48,805	97,612
Total capital expenditures	\$ 128,006	\$ 196,805	\$ 382,593	\$ 511,950

Future Liquidity

We are highly leveraged. Our high level of indebtedness could: (i) limit our ability to obtain additional financing; (ii) limit our flexibility in planning for, or reacting to, changes in our business and the industry; (iii) place us at a competitive disadvantage relative to our competitors with less debt; (iv) render us more vulnerable to general adverse economic and industry conditions; and (v) require us to dedicate a substantial portion of our cash flow to service our debt. Based upon our current levels of operations and after giving effect to limitations in the Merger Agreement, we believe that cash flow from operations together with available borrowings under the revolving credit facility and other sources of liquidity will be adequate to meet our requirements for working capital, debt service and capital expenditures at least for the next twelve months. Based on our liquidity position, which we expect to remain strong throughout the year, we do not expect to be subject to the fixed charge covenant in our senior secured credit facility in the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance, and other relevant circumstances. Subject to the limitations set forth in the Merger Agreement, including the requirement that we obtain WBA's consent prior to engaging in certain transactions, from time to time, we may seek deleveraging transactions, including entering into transactions to exchange debt for shares of common stock, issuance of equity (including preferred stock and convertible securities), repurchase or redemption of outstanding indebtedness, or seek to refinance our outstanding debt (including our revolving credit facility) or may otherwise seek transactions to reduce interest expense and extend debt maturities. Additionally, the Merger Agreement contains a requirement that borrowings under the revolver not exceed \$3.0 billion in the aggregate immediately prior to the closing of the Merger. Any of these transactions could impact our financial results. Upon closing of the Merger, we expect that all amounts due under the Amended and Restated Credit Facility, Tranche 1 Term Loan and Tranche 2 Term Loan will be paid in accordance with the terms

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of the Merger Agreement. Additionally, upon closing of the Merger, the indentures governing the 9.25% Notes, the 6.75% Notes and the 6.125% Notes require the Company or WBA to make a change of control offer to repurchase such notes from the noteholders at 101% plus accrued and unpaid interest, to the extent such notes remain outstanding at the closing.

Critical Accounting Policies and Estimates

For a description of the critical accounting policies that require the use of significant judgments and estimates by management, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates included in our Fiscal 2016 10-K.

Table of Contents**Factors Affecting Our Future Prospects**

For a discussion of risks related to our financial condition, operations and industry, refer to **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations** included in our Fiscal 2016 10-K.

Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures

In addition to net income determined in accordance with GAAP, we use certain non-GAAP measures, such as Adjusted EBITDA, in assessing our operating performance. We believe the non-GAAP metrics serve as an appropriate measure in evaluating the performance of our business. We define Adjusted EBITDA as net income excluding the impact of income taxes, interest expense, depreciation and amortization, LIFO adjustments, charges or credits for facility closing and impairment, inventory write-downs related to store closings, debt retirements, and other items (including stock-based compensation expense, severance for distribution center closures, gain or loss on sale of assets, and revenue deferrals related to our customer loyalty program). We reference this particular non-GAAP financial measure frequently in our decision-making because it provides supplemental information that facilitates internal comparisons to the historical periods and external comparisons to competitors. In addition, incentive compensation is primarily based on Adjusted EBITDA and we base certain of our forward-looking estimates on Adjusted EBITDA to facilitate quantification of planned business activities and enhance subsequent follow-up with comparisons of actual to planned Adjusted EBITDA.

The following is a reconciliation of our net income to Adjusted EBITDA for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Net income	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
Interest expense	106,309	106,879	316,810	345,895
Income tax (benefit) expense	(8,087)	48,468	(3,468)	77,372
Depreciation and amortization expense	143,245	136,434	424,084	373,782
LIFO charge	13,750	5,986	41,261	17,959
Lease termination and impairment charges	7,265	7,011	20,279	21,670
Loss on debt retirements, net				33,205
Other	(3,345)	8,845	48,641	49,522
Adjusted EBITDA	\$ 274,147	\$ 373,166	\$ 872,802	\$ 1,019,253

The following is a reconciliation of our net income to Adjusted Net Income and Adjusted Net Income per Diluted Share for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015. Adjusted Net Income is defined as net income excluding the impact of amortization of EnvisionRx intangible assets, merger and acquisition-related costs, loss on debt retirements and LIFO adjustments. We calculate Adjusted Net Income per Diluted Share using our above-referenced definition of Adjusted Net Income. We believe Adjusted Net Income and Adjusted Net Income per Diluted Share serve as appropriate measures to be used in evaluating the performance of our business and help our investors better compare our operating performance over multiple periods. Adjusted Net Income per Diluted Share is calculated using our above-referenced definition of Adjusted Net Income:

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	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2016	November 28, 2015	November 26, 2016	November 28, 2015
	(dollars in thousands)			
Net income	\$ 15,010	\$ 59,543	\$ 25,195	\$ 99,848
Add back Income tax (benefit) expense	(8,087)	48,468	(3,468)	77,372
Income before income taxes	6,923	108,011	21,727	177,220
Adjustments:				
Amortization of EnvisionRx intangible assets	21,049	21,177	62,217	38,217
LIFO charge	13,750	5,986	41,261	17,959
Loss on debt retirements, net				33,205
Merger and Acquisition-related costs	1,964	10,078	6,122	21,796
Adjusted income before income taxes	43,686	145,252	131,327	288,397
Adjusted income tax expense(a)	20,401	58,101	61,330	115,359
Adjusted net income	\$ 23,285	\$ 87,151	\$ 69,997	\$ 173,038
Net income per diluted share	\$ 0.01	\$ 0.06	\$ 0.02	\$ 0.10
Adjusted net income per diluted share	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.17

(a) The fiscal year 2017 and 2016 annual effective tax rates, adjusted to exclude amortization of EnvisionRx intangible assets, LIFO charges and Merger and Acquisition-related costs from projected book income, are used for the thirteen and thirty-nine weeks ended November 26, 2016 and November 28, 2015, respectively.

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In addition to Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share, we occasionally refer to several other Non-GAAP measures, on a less frequent basis, in order to describe certain components of our business and how we utilize them to describe our results. These measures include but are not limited to Adjusted EBITDA Gross Margin and Gross Profit (gross margin/gross profit excluding non-Adjusted EBITDA items), Adjusted EBITDA SG&A (SG&A expenses excluding non-Adjusted EBITDA items), FIFO Gross Margin and FIFO Gross Profit (gross margin/gross profit before LIFO charges), and Free Cash Flow (Adjusted EBITDA less cash paid for interest, rent on closed stores, capital expenditures, acquisition costs and the change in working capital).

We include these non-GAAP financial measures in our earnings announcements in order to provide transparency to our investors and enable investors to better compare our operating performance with the operating performance of our competitors including with those of our competitors having different capital structures. Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share or other non-GAAP measures should not be considered in isolation from, and are not intended to represent an alternative measure of, operating results or of cash flows from operating activities, as determined in accordance with GAAP. Our definition of these non-GAAP measures may not be comparable to similarly titled measurements reported by other companies.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. Our major market risk exposure is changing interest rates. Increases in interest rates would increase our interest expense. We enter into debt obligations to support capital expenditures, acquisitions, working capital needs and general corporate purposes. Our policy is to manage interest rates through the use of a combination of variable-rate credit facilities, fixed-rate long-term obligations and derivative transactions. We currently do not have any derivative transactions outstanding.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of November 26, 2016.

Fiscal Year	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value at 11/26/2016
(dollars in thousands)								
Long-term debt, including current portion, excluding capital lease obligations								
Fixed Rate	\$ 90	\$	\$	\$	\$ 902,000	\$ 3,033,000	\$ 3,935,090	\$ 4,220,221
Average Interest Rate	7.61%	0.00%	0.00%	0.00%	9.25%	6.48%	7.11%	
Variable Rate	\$	\$	\$	\$ 2,380,000	\$ 470,000	\$ 500,000	\$ 3,350,000	\$ 3,356,612
Average Interest Rate	0.00%	0.00%	0.00%	2.21%	5.75%	4.88%	3.10%	

Our ability to satisfy interest payment obligations on our outstanding debt will depend largely on our future performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we do not have sufficient cash flow to service our interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations could be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed.

The interest rate on our variable rate borrowings, which include our revolving credit facility, Tranche 1 Term Loan and our Tranche 2 Term Loan, are all based on LIBOR. However, the interest rate on our Tranche 1 Term Loan and Tranche 2 Term Loan have a LIBOR floor of 100 basis points. If the market rates of interest for LIBOR changed by 100 basis points as of November 26, 2016, our annual interest expense would change by approximately \$29.7 million.

A change in interest rates does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be

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affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures. Increases in interest rates would also impact our ability to refinance existing maturities on favorable terms.

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ITEM 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Part I, Item 3 of our Fiscal Year 2016 10-K, filed with the SEC on April 25, 2016, in Part II, Item 1 of our Fiscal Year 2017, first quarter 10-Q filed with the SEC on July 5, 2016 and in Part II, Item 1 of our Fiscal Year 2017, second quarter 10-Q filed with the SEC on October 4, 2016. The following discussion is limited to certain recent developments concerning our legal proceedings and should be read in conjunction with the 10-K and our Fiscal Year 2017, first quarter 10-Q and second quarter 10-Q.

With respect to the previously disclosed *Omlansky qui tam* lawsuit, on October 5, 2016, Rite Aid's demurrer was granted and plaintiff's complaint was dismissed with leave for plaintiff to file an amended complaint. Plaintiff filed a Third Amended Complaint to which Rite Aid filed a second demurrer, which is pending.

ITEM 1A. Risk Factors

In addition to the risk factors set forth below and the other information set forth in this Quarterly Report, you should carefully consider factors discussed in Part 1, Item 1A, Risk Factors, in our Fiscal 2016 10-K, filed with the SEC on April 25, 2016, which could materially affect our business, financial condition or future results.

Risks Related to the Proposed WBA Merger and the Sale

The Merger with WBA and the Sale are subject to closing conditions, including governmental and regulatory approvals as well as other uncertainties and there can be no assurances as to whether and when the Merger and the Sale may be completed. Failure to complete the Merger or Sale could negatively impact our stock price, future business and financial results.

There can be no assurance that the proposed Merger with WBA or the Sale will occur. On February 4, 2016, the proposal to adopt the Merger was approved by holders of approximately 74% of our outstanding common stock entitled to vote as of the record date. However, completion of the Merger is subject to certain conditions, including, among others, (i) the absence of any order or law prohibiting the Merger; (ii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iii) the accuracy of the parties' respective representations and warranties, subject in some instances to materiality or Material Adverse Effect qualifiers, as of the date of the Merger Agreement and the closing date of the Merger; (iv) the parties' respective performance in all material respects (or, with respect to Rite Aid's specified obligations relating to incurring indebtedness, in all respects) of their respective agreements and covenants contained in the Merger Agreement at or prior to the closing of the Merger; and (v) the absence of a Material Adverse Effect with respect to us, since the execution of and as defined in the Merger Agreement, including the absence of any event, development, circumstance, change, effect, condition or occurrence that results in, at closing, Rite Aid's last twelve (12) months Adjusted EBITDA (as such term is defined in the Merger Agreement), being less than \$1.075 billion determined as of the end of the last fiscal month ended prior to closing for which internal financial

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statements of Rite Aid are available. Similarly, consummation of the Sale is subject to various closing conditions, including but not limited to (i) the closing of the Merger with WBA, (ii) the FTC having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Merger with WBA identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement, (iii) filings with or receipt of approval from the applicable state boards of pharmacy, and (iv) the absence of a material adverse effect on the stores being acquired in the Sale. There can be no assurance that the requisite regulatory approvals will be obtained, that the other closing conditions will be satisfied, or that the Merger and/or the Sale will be completed within the required time period pursuant to the Merger Agreement and Asset Purchase Agreement, as applicable. Satisfaction of the closing conditions may delay the completion of the Merger and the Sale, and if certain closing conditions are not satisfied prior to the end date specified in the Merger Agreement or in the Asset Purchase Agreement, as applicable, the parties will not be obligated to complete the Merger or the Sale, as applicable.

If the Merger or Sale is not completed for any reason, we will have incurred substantial expenses. We have incurred substantial legal, accounting and financial advisory fees that are payable by us whether or not the Merger or Sale is completed, and our management has devoted considerable time and effort in connection with the pending Merger and Sale. If the Merger Agreement is terminated under certain limited circumstances, the Merger Agreement may require us to pay WBA a termination fee of \$325 million. For these and other reasons, a failed Merger or Sale could materially adversely affect our business, operating results or financial condition. In addition, the trading price of our common stock could be adversely affected to the extent that the current price reflects an assumption that the Merger and the Sale will be completed.

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The pendency of the Merger and the Sale may cause disruptions in our business, which could have an adverse effect on our business, financial condition or results of operations.

The pendency of the Merger and the Sale could cause disruptions in and create uncertainty regarding our business, which could have an adverse effect on our financial condition and results of operations, regardless of whether the Merger and the Sale are completed. These risks, which could be exacerbated by a delay in the completion of the Merger and the Sale, include the following:

- certain vendors may change their programs or processes which might adversely affect the supply or cost of the products, which then might adversely affect our stores sales or gross profit;
- negotiations with third party payors might be adversely affected which then might adversely affect our stores sales or gross profit;
- our current and prospective associates may experience uncertainty about their future roles with WBA or Fred s, as applicable, which might adversely affect our ability to attract and retain key personnel;
- key management and other employees may be difficult to retain or may become distracted from day-to-day operations because matters related to the Merger or the Sale may require substantial commitments of their time and resources, which could adversely affect our operations and financial results;
- our current and prospective customers may experience uncertainty about the ability of our stores to meet their needs, which might cause customers to make purchases or fill their prescriptions elsewhere;
- our ability to pursue alternative business opportunities, including strategic acquisitions, is limited by the terms of the Merger Agreement and the Asset Purchase Agreement. If the Merger or the Sale is not completed for any reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely affected;
- our ability to make appropriate changes to our business may be restricted by covenants in the Merger Agreement or the Asset Purchase Agreement; these restrictions generally require us to conduct our business in the ordinary course and subject us to a variety of specified limitations absent WBA s or Buyer s prior written consent, as applicable. We may find that these and other contractual restrictions in the Merger Agreement or the Asset Purchase Agreement may

delay or prevent us from responding, or limit our ability to respond, effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management believes they may be advisable; and

- the costs and potential adverse outcomes of litigation relating to the Merger or the Sale.

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Issuer Repurchases of Equity Securities. The table below is a listing of repurchases of common stock during the third quarter of fiscal 2017.

Fiscal period:	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
August 28 to September 24, 2016(1)	10	\$ 8.02		
September 25 to October 22, 2016		\$		
October 23 to November 26, 2016		\$		

(1) Represents shares withheld by the Company, at the election of certain holders of vested restricted stock, with a market value approximating the amount of withholding taxes due.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

Table of Contents**ITEM 6. Exhibits**

(a) The following exhibits are filed as part of this report.

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Agreement and Plan of Merger, dated as of February 10, 2015, by and among Rite Aid Corporation, Eagle Merger Sub 1 LLC, Eagle Merger Sub 2 LLC, TPG VI Envision BL, LLC, Envision Topco Holdings, LLC and Shareholder Representative Services LLC, in its capacity as Sellers Representative.	Exhibit 2.1 to Form 8-K, filed on February 13, 2015
2.2	Agreement and Plan of Merger, dated as of October 27, 2015, by and among Rite Aid Corporation, Walgreens Boots Alliance, Inc. and Victoria Merger Sub, Inc.	Exhibit 2.1 to Form 8-K, filed on October 29, 2015
3.1	Amended and Restated Certificate of Incorporation, dated January 22, 2014	Exhibit 3.1 to Form 10-K, filed on April 23, 2014
3.2	Amended and Restated By-Laws	Exhibit 3.2 to Form 10-Q, filed on January 6, 2016
4.1	Indenture, dated as of February 27, 2012, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 9.25% Senior Notes due 2020	Exhibit 4.1 to Form 8-K, filed on February 27, 2012
4.2	First Supplemental Indenture, dated as of May 15, 2012, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A. to the Indenture, dated as of February 27, 2012, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.25% Senior Notes due 2020	Exhibit 4.23 to the Registration Statement on Form S-4, File No. 181651, filed on May 24, 2012
4.3	Indenture, dated as of August 1, 1993, between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 7.70% Notes due 2027	Exhibit 4A to Registration Statement on Form S-3, File No. 033-63794, filed on June 3, 1993
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and U.S. Bank Trust National Association (as successor trustee to Morgan Guaranty Trust Company of New York) to the Indenture dated as of August 1, 1993, between Rite Aid Corporation and Morgan Guaranty Trust Company of New York, relating to the Company's 7.70% Notes due 2027	Exhibit 4.1 to Form 8-K filed on February 7, 2000
4.5	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.6	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K, filed on February 7, 2000
4.7	Indenture, dated as of July 2, 2013, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company,	Exhibit 4.1 to Form 8-K, filed on July 2, 2013

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- 4.8 N.A., related to the Company's 6.75% Senior Notes due 2021
Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023 Exhibit 4.1 to Form 8-K, filed on April 2, 2015

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Exhibit Numbers	Description	Incorporation By Reference To
11	Statement regarding computation of earnings per share (See Note 4 to the condensed consolidated financial statements)	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
32	Certification of CEO and CFO pursuant to 18 United States Code, Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at November 26, 2016 and February 27, 2016, (ii) Condensed Consolidated Statements of Operations for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the thirteen and thirty-nine week periods ended November 26, 2016 and November 28, 2015, (iv) Condensed Consolidated Statements of Cash Flows for the thirty-nine week periods ended November 26, 2016 and November 28, 2015 and (v) Notes to Condensed Consolidated Financial Statements, tagged in detail.	

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SIGNATURES

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

Date: January 5, 2017

RITE AID CORPORATION

By:

/s/ DARREN W. KARST
Darren W. Karst
*Senior Executive Vice President, Chief Financial
Officer and Chief Administrative Officer*

Date: January 5, 2017

By:

/s/ DOUGLAS E. DONLEY
Douglas E. Donley
Senior Vice President and Chief Accounting Officer