RITE AID CORP
Form 10-Q
October 05, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 2, 2017

OR

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

For the transition period from to

Commission File Number: 1-5742

RITE AID CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**23-1614034**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 Hunter Lane, Camp Hill, Pennsylvania	**17011**
(Address of principal executive offices)	(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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of Large Accelerated Filer, Accelerated Filer, Smaller Reporting Company and Emerging Growth Company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o Emerging growth companyo

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The registrant had 1,063,959,987 shares of its $1.00 par value common stock outstanding as of September 22, 2017.

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RITE AID CORPORATION

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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 refer 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 through 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 impact of the loss of one or more major third party payors;

- the inability to complete the proposed Sale (as defined in Note 3 below) due to the failure to satisfy the conditions to the completion of the Sale, including receipt of required regulatory approvals, and other risks related to obtaining the requisite consents to the Sale;

- the impact on our business as a result of, and the uncertainty related to the completion of, a transaction with Walgreens Boots Alliance, Inc. (WBA) over the past two years (including the attempted merger (the Merger) pursuant to the terminated Merger Agreement, dated as of October 27, 2015, with WBA and Victoria Merger Sub, Inc. (as amended by Amendment No. 1 thereto, dated as of January 29, 2017, the Merger Agreement), the attempted asset sale pursuant to the Original APA (as defined below) and the proposed Sale), including on our business relationships (including, without limitation, customers, suppliers and employees), operating results and business generally. The initial attempts to sell the Company pursuant to the Merger Agreement and to sell a number of stores to WBA pursuant to the Original APA were not able to obtain regulatory approval and resulted in the entry into the Amended and Restated Asset Purchase Agreement for a smaller number of stores;

• the risk that our stock price may decline significantly if the Sale is not completed;

• our ability to refinance our indebtedness on terms favorable to us in the event that the Sale is not completed;

• the risk that a governmental entity may prohibit, delay or refuse to grant approval for the completion of the Sale or may require conditions, limitations or restrictions in connection with such approvals;

• there may be changes to our strategy in the event that the Sale does not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital or incurring other costs associated with restructuring our business;

• our ability to improve the operating performance of our stores in accordance with our long term strategy;

• our ability to grow prescription count and realize front-end sales growth;

• our ability to hire and retain qualified personnel;

• decisions to close additional stores and distribution centers or undertake additional refinancing activities, which could result in charges to our operating statement;

• our ability to manage expenses and working capital;

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- continued consolidation of the drugstore and the pharmacy benefit management (PBM) industries;

- the risk that changes in federal or state laws or regulations, including the Health Care Education Affordability Reconciliation Act, the repeal of all or part of the Patient Protection and the Affordable Care Act (or Patient Care Act) and any regulations enacted thereunder may occur;

- the risk that provider and state contract changes may occur;

- 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;

- the continued impact of gross margin pressure 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;

- risks related to other business effects, including the effects of industry, market, economic, political or regulatory conditions, future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies or competitive development including aggressive promotional activity from our competitors;

- 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 March 4, 2017 (the Fiscal 2017 10-K), which we filed with the SEC on May 3, 2017, and our Quarterly Report on Form 10-Q for the thirteen weeks ended June 3, 2017 (the First Quarter 2018 10-Q) which we filed on July 6, 2017, as well as in the Risk Factors section of the Fiscal 2017 10-K. These documents are available on the SEC s website at *www.sec.gov*.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(unaudited)

	September 2, 2017	March 4, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 238,978	$ 245,410
Accounts receivable, net	1,843,320	1,771,126
Inventories, net of LIFO reserve of $1,022,282 and $999,776	2,877,427	2,837,211
Prepaid expenses and other current assets	221,644	211,541
Total current assets	5,181,369	5,065,288
Property, plant and equipment, net	2,188,217	2,251,692
Goodwill	1,715,479	1,715,479
Other intangibles, net	747,288	835,795
Deferred tax assets	1,453,291	1,505,564
Other assets	212,664	219,934
Total assets	$ 11,498,308	$ 11,593,752
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	$ 22,491	$ 21,335
Accounts payable	1,687,880	1,613,909
Accrued salaries, wages and other current liabilities	1,270,840	1,370,004
Total current liabilities	2,981,211	3,005,248
Long-term debt, less current maturities	7,082,549	7,263,288
Lease financing obligations, less current maturities	37,890	44,070
Other noncurrent liabilities	663,048	667,076
Total liabilities	10,764,698	10,979,682
Commitments and contingencies		
Stockholders equity:		
Common stock, par value $1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,062,411 and 1,053,690	1,062,411	1,053,690
Additional paid-in capital	4,841,700	4,839,854

Accumulated deficit		(5,129,213)		(5,237,157)
Accumulated other comprehensive loss		(41,288)		(42,317)
Total stockholders equity		733,610		614,070
Total liabilities and stockholders equity	$	11,498,308	$	11,593,752

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	September 2, 2017	August 27, 2016
Revenues	$ 7,678,903	$ 8,029,806
Costs and expenses:		
Cost of revenues	5,891,900	6,113,063
Selling, general and administrative expenses	1,734,306	1,778,247
Lease termination and impairment charges	3,128	7,233
Interest expense	111,261	105,388
Walgreens Boots Alliance merger termination fee	(325,000)	
(Gain) loss on sale of assets, net	(14,495)	174
	7,401,100	8,004,105
Income before income taxes	277,803	25,701
Income tax expense	107,087	10,928
Net income	$ 170,716	$ 14,773
Computation of income attributable to common stockholders:		
Income attributable to common stockholders basic and diluted	$ 170,716	$ 14,773
Basic and diluted income per share	$ 0.16	$ 0.01

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

	Thirteen Week Period Ended	
	September 2, 2017	**August 27, 2016**
Net income	$ 170,716	$ 14,773
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 $342 and $451 tax expense	515	681
Total other comprehensive income	515	681
Comprehensive income	$ 171,231	$ 15,454

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016
Revenues	$ 15,460,356	$ 16,213,987
Costs and expenses:		
Cost of revenues	11,914,319	12,402,944
Selling, general and administrative expenses	3,495,596	3,571,494
Lease termination and impairment charges	7,214	13,014
Interest expense	221,198	210,501
Walgreens Boots Alliance merger termination fee	(325,000)	
(Gain) loss on sale of assets, net	(20,216)	1,230
	15,293,111	16,199,183
Income before income taxes	167,245	14,804
Income tax expense	71,878	4,619
Net income	$ 95,367	$ 10,185
Computation of income attributable to common stockholders:		
Income attributable to common stockholders basic and diluted	$ 95,367	$ 10,185
Basic and diluted income per share	$ 0.09	$ 0.01

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

	Twenty-Six Week Period Ended	
	September 2, 2017	**August 27, 2016**
Net income	$ 95,367	$ 10,185
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 $684 and $902 tax expense	1,029	1,362
Total other comprehensive income	1,029	1,362
Comprehensive income	$ 96,396	$ 11,547

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Twenty-Six Week Period Ended			
	September 2, 2017		August 27, 2016	
Operating activities:				
Net income	$	95,367	$	10,185
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization		274,104		280,839
Lease termination and impairment charges		7,214		13,014
LIFO charge		22,506		27,511
(Gain) loss on sale of assets, net		(20,216)		1,230
Stock-based compensation expense		15,362		23,696
Changes in deferred taxes		64,850		1,998
Excess tax benefit on stock options and restricted stock				(3,248)
Changes in operating assets and liabilities:				
Accounts receivable		(73,782)		(227,255)
Inventories		(62,714)		(157,471)
Accounts payable		62,552		150,339
Other assets and liabilities, net		(87,412)		(101,799)
Net cash provided by operating activities		297,831		19,039
Investing activities:				
Payments for property, plant and equipment		(120,461)		(225,718)
Intangible assets acquired		(13,073)		(28,869)
Proceeds from dispositions of assets and investments		17,407		6,833
Proceeds from insured loss		3,627		
Net cash used in investing activities		(112,500)		(247,754)
Financing activities:				
Net (payments to) proceeds from revolver		(190,000)		250,000
Principal payments on long-term debt		(8,096)		(11,230)
Change in zero balance cash accounts		10,189		534
Net proceeds from issuance of common stock		215		3,958
Excess tax benefit on stock options and restricted stock				3,248
Payments for taxes related to net share settlement of equity awards		(4,071)		(6,173)
Net cash (used in) provided by financing activities		(191,763)		240,337
(Decrease) increase in cash and cash equivalents		(6,432)		11,622
Cash and cash equivalents, beginning of period		245,410		124,471
Cash and cash equivalents, end of period	$	238,978	$	136,093
Supplementary cash flow data:				
Cash paid for interest (net of capitalized amounts of $184 and $101, respectively)	$	208,909	$	199,966
Cash payments of income taxes, net of refunds	$	3,119	$	5,628
Equipment financed under capital leases	$	8,615	$	2,860

Equipment received for noncash consideration	$	1,295	$	746
Reduction in lease financing obligation	$	4,740	$	
Gross borrowings from revolver	$	1,471,000	$	1,937,000
Gross payments to revolver	$	1,661,000	$	1,687,000

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 Twenty-Six Week Periods Ended September 2, 2017 and August 27, 2016

(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 twenty-six week periods ended September 2, 2017 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 2017 10-K.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation, (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which amends the accounting for certain aspects of share-based payments to employees in ASC Topic 718, *Compensation Stock Compensation*. The new guidance eliminates the accounting for any excess tax benefits and deficiencies through equity and requires all excess tax benefits and deficiencies related to employee share-based compensation arrangements to be recorded in the income statement. This aspect of the new guidance is required to be applied prospectively. The new guidance also requires (i.) the presentation of excess tax benefits on the statement of cash flows as an operating activity rather than a financing activity, a change which may be applied prospectively or retrospectively and (ii.) the presentation of employee taxes paid when an employer withholds shares for tax withholding purposes on the statement of cash flows as a financing activity, a change which must be applied retrospectively. The new guidance further provides an accounting policy election to account for forfeitures as they occur rather than utilizing the estimated amount of forfeitures at the time of issuance. The Company adopted this new guidance effective March 5, 2017. The primary impact of adoption was (i.) the modified retrospective recognition of the cumulative amount of previously unrecognized excess tax benefits as an opening balance sheet adjustment and (ii.) the recognition of excess tax benefits in the income statement on a prospective basis, rather than equity. As a result, the Company (i.) increased the deferred tax asset and reduced accumulated deficit by $12,577 as of the beginning of the twenty-six weeks ended September 2, 2017, and (ii.) the Company recognized a discrete income tax expense of $9,653 in income tax expense for the twenty-six weeks ended September 2, 2017. The

Company also elected to adopt the cash flow presentation of the excess tax benefits prospectively commencing in the first quarter of fiscal 2018. The retrospective application of cash paid on employees behalf related to shares withheld for tax purposes resulted in an increase to Net cash provided by operating activities and a decrease to Net cash provided by financing activities of $6,173 for the twenty-six weeks ended August 27, 2016. The Company s stock-based compensation expense continues to reflect estimated forfeitures. None of the other provisions in this new guidance had a material impact on the Company s condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

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 does not intend to early adopt the new standard. The Company assembled a cross

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functional team to identify the population of contracts with customers, for both its Retail Pharmacy and Pharmacy Services segments, and evaluate them under the provisions of ASU 2014-09. The Company intends to adopt the new standard on a modified retrospective basis. Under this implementation method, the Company will recognize the cumulative effect of initially applying the new guidance as an adjustment to the opening retained earnings balance for the annual reporting period of initial application. While the Company is continuing its assessment of all of the potential impacts of the new standard, it does not expect the implementation of the standard to have a material impact on the Company s consolidated financial position, results of operations or cash flow.

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 (fiscal 2020). The Company believes that the new standard will have a material impact on its financial position. The Company is currently evaluating the impact this standard implementation will have on its results of operations and cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles Goodwill and Other, (Topic 350): Simplifying the Test for Goodwill Impairment*, which is intended to simplify the subsequent measurement and impairment of goodwill. The ASU simplifies the complexity of evaluating goodwill for impairment by eliminating the second step of the impairment test, which compares the implied fair value of a reporting unit s goodwill to the carrying amount of that goodwill. Instead, the ASU requires entities to compare the fair value of a reporting unit to its carrying amount in order to determine the amount of goodwill impairment recognized. ASU No. 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2019 (fiscal 2020). Early adoption of all the amendments for ASU 2017-04 is permitted. Amendments must be applied prospectively. The Company is in process of assessing the impact of the adoption of ASU No. 2017-04 on its financial position, results of operations and cash flows.

2. Acquisition

On June 24, 2015, the Company acquired 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 has been rebranded as EnvisionRxOptions (EnvisionRx or EnvisionRxOptions), 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 twenty-six week periods ended September 2, 2017 and August 27, 2016 include EnvisionRx results of operations (please see Note 13 Segment Reporting for the Pharmacy Services segment results included within the condensed consolidated financial statements for the thirteen and twenty-six week periods ended September 2, 2017 and August 27, 2016, which reflects the results of EnvisionRx). The Company s condensed consolidated financial statements reflect the 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.

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During fiscal 2017, the Company finalized the valuation of the identifiable assets acquired and the liabilities assumed. The following is the allocation of the purchase price:

Final purchase price		
Cash consideration	$	1,882,211
Stock consideration		240,907
Total	$	2,123,118
Final purchase price allocation		
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
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
Net assets acquired	$	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 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.

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3. Pending Asset Sale to WBA

Termination of Merger Agreement with WBA

On June 28, 2017, Rite Aid, WBA and Victoria Merger Sub, Inc. entered into a Termination Agreement (the Merger Termination Agreement) under which the parties agreed to terminate the Merger Agreement. The Merger Termination Agreement provides that WBA would pay to Rite Aid a termination fee in the amount of $325,000. Rite Aid received the termination fee payment on June 30, 2017. Subject to limited customary exceptions, the Merger Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the contemplated Merger.

Entry Into Amended and Restated Asset Purchase Agreement with WBA

On September 18, 2017, the Company entered into an Amended and Restated Asset Purchase Agreement (the Amended and Restated Asset Purchase Agreement) with WBA and Walgreen Co., an Illinois corporation and wholly owned direct subsidiary of WBA (Buyer), which amends and restates in its entirety the previously disclosed Asset Purchase Agreement (the Original APA), dated as of June 28, 2017, by and among the Company, WBA and Buyer. Pursuant to the terms and subject to the conditions set forth in the Amended and Restated Asset Purchase Agreement, Buyer will purchase from the Company 1,932 stores (the Acquired Stores) (reduced from 2,186 Rite Aid stores in the Original APA), three (3) distribution centers, related inventory and other specified assets related thereto for a purchase price of approximately $4.375 billion (reduced from $5.175 billion in the Original APA), on a cash-free, debt-free basis (the Sale).

The Company announced on September 19, 2017 that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), expired with respect to the Sale. The expiration of the waiting period under the HSR Act satisfies one of the conditions to the closing of the Sale. Completion of the Sale remains subject to various closing conditions, including but not limited to (i) the absence of a material adverse effect on the stores and distribution centers being acquired in the Sale and (ii) a duplicate copy of the Company s key information technology systems and prescription dispensing system being operational.

The parties to the Amended and Restated 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 Amended and Restated Asset Purchase Agreement and the closing of the Sale, subject to certain exceptions, and the parties agreement to use their reasonable best efforts to obtain all authorizations and approvals from governmental authorities. The Company has agreed to provide transition services to Buyer for up to (3) three years after closing of the Sale.

The Amended and Restated Asset Purchase Agreement contains specified termination rights for the Company and WBA, including a mutual termination right in the event any court of competent jurisdiction or other governmental entity shall have issued a final and nonappealable legal restraint that prevents, makes illegal, prohibits, restrains or enjoins the completion of the Sale, and a termination right for WBA prior to the closing of the first set of stores in the Sale in the event the Company enters into an agreement to sell all of the remainder of Rite Aid or over 50% of its stock or assets to a third party. In the event that the Company enters into an agreement to sell all of the remainder of Rite Aid or over 50% of its stock or assets to a third party prior to the end of the transition period under the Transition Services Agreement (TSA), any potential acquirer would be obligated to assume the Company s remaining obligations under the TSA. Under the terms of the Amended and Restated Asset Purchase Agreement, the Company has the option to purchase pharmaceutical drugs through an affiliate of WBA under terms, including cost, that are substantially equivalent to Walgreen s for a period of ten (10) years, subject to certain terms and conditions.

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.

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	Thirteen Week Period Ended		Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016	September 2, 2017	August 27, 2016
Numerator for income per share:				
Income attributable to common stockholders basic and diluted	$ 170,716	$ 14,773	$ 95,367	$ 10,185
Denominator:				
Basic weighted average shares	1,048,548	1,044,198	1,047,687	1,043,317
Outstanding options and restricted shares, net	18,668	17,251	22,597	17,210
Diluted weighted average shares	1,067,216	1,061,449	1,070,284	1,060,527
Basic and diluted income per share	$ 0.16	$ 0.01	$ 0.09	$ 0.01

Due to their antidilutive effect, 9,206 and 3,351 potential common shares related to stock options have been excluded from the computation of diluted income per share for the thirteen week period ended September 2, 2017 and August 27, 2016, respectively. Due to their antidilutive effect, 5,596 and 3,351 potential common shares related to stock options have been excluded from the computation of diluted income per share for the twenty-six week period ended September 2, 2017 and August 27, 2016, respectively.

5. Lease Termination and Impairment Charges

Lease termination and impairment charges consist of amounts as follows:

	Thirteen Week Period Ended		Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016	September 2, 2017	August 27, 2016
Impairment charges	$ 35	$ 78	$ 694	$ 697
Lease termination charges	3,093	7,155	6,520	12,317
	$ 3,128	$ 7,233	$ 7,214	$ 13,014

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		Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016	September 2, 2017	August 27, 2016
Balance beginning of period	$ 155,666	$ 198,990	$ 165,138	$ 208,421
Provision for present value of noncancellable lease payments of closed stores		2,530	913	3,152
Changes in assumptions about future sublease income, terminations and changes in interest rates	201	1,096	(348)	1,907
Interest accretion	2,907	3,618	6,002	7,396
Cash payments, net of sublease income	(14,763)	(15,526)	(27,694)	(30,168)
Balance end of period	$ 144,011	$ 190,708	$ 144,011	$ 190,708

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.

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• 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.

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 twenty-six week period ended September 2, 2017, long-lived assets from continuing operations with a carrying value of $999, primarily store assets, were written down to their fair value of $305, resulting in an impairment charge of $694 of which $35 relates to the thirteen week period ended September 2, 2017. During the twenty-six week period ended August 27, 2016, long-lived assets from continuing operations with a carrying value of $2,577, primarily store assets, were written down to their fair value of $1,880, resulting in an impairment charge of $697 of which $78 relates to the thirteen week period ended August 27, 2016. 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 September 2, 2017 and August 27, 2016:

Fair Value Measurement Using

	Level 1	Level 2	Level 3	Total as of September 2, 2017
Long-lived assets held for use	$	$	$ 201	$ 201
Long-lived assets held for sale	$	$ 104	$	$ 104
Total	$	$ 104	$ 201	$ 305

	Level 1	Level 2	Level 3	Total as of August 27, 2016
Long-lived assets held for use	$	$	$ 857	$ 857
Long-lived assets held for sale	$	$ 1,023	$	$ 1,023

Total	$	$ 1,023	$ 857	$ 1,880

As of September 2, 2017 and August 27, 2016, 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, as of September 2, 2017 the Company has $7,311 of investments, carried at amortized cost as these investments are being held to maturity, which are included as a component of other assets. As of March 4, 2017 the Company has $6,874 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. 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 $7,082,639 and $7,147,454, respectively, as of September 2, 2017. There were no outstanding derivative financial instruments as of September 2, 2017 and March 4, 2017.

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7. Income Taxes

The Company recorded an income tax expense of $107,087 and $10,928 for the thirteen week periods ended September 2, 2017 and August 27, 2016, respectively, and an income tax expense of $71,878 and $4,619 for the twenty-six week periods ended September 2, 2017 and August 27, 2016, respectively. The effective tax rate for the thirteen week periods ended September 2, 2017 and August 27, 2016 was 38.5% and 42.5%, respectively. The effective tax rate for the twenty-six week periods ended September 2, 2017 and August 27, 2016 was 42.9% and 31.2%, respectively. The effective tax rate for the thirteen and twenty-six week periods ended September 2, 2017 includes an adjustment of 3.0% and 10.4%, respectively, primarily related to the tax impact of the Walgreens Boots Alliance merger termination fee. The lower effective income tax expense rate for the twenty-six week period ended August 27, 2016 is the result of a discrete income tax benefit recorded for the lapse of a statute of limitations on an uncertain tax position which lowered the Company s effective income tax expense rate by 8.9%.

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 $234,706 and $226,726, which relates primarily to state deferred tax assets at September 2, 2017 and March 4, 2017, respectively.

8. Medicare Part D

The Company offers Medicare Part D benefits through EIC, which has contracted with Centers of Medicare and Medicaid Services (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 $30,024 as of June 30, 2017. EIC was in excess of the minimum required amounts in these states as of September 2, 2017.

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.

As of September 2, 2017, accounts receivable, net included $408,772 due from CMS and accrued salaries, wages and other current liabilities included $187,795 of EIC liabilities under certain reinsurance contracts. As of March 4, 2017, accounts receivable, net included $245,766 due from CMS and accrued salaries, wages and other current liabilities included $145,903 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 twenty-six weeks ended September 2, 2017 and

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the fifty-three weeks ended March 4, 2017, no impairment charges have been taken against the Company s goodwill or indefinitely-lived intangible assets. No changes were made to the carrying amount of goodwill for the thirteen and twenty-six weeks ended September 2, 2017.

The Company s intangible assets are primarily finite-lived and amortized over their useful lives. Following is a summary of the Company s finite-lived and indefinite-lived intangible assets as of September 2, 2017 and March 4, 2017.

	September 2, 2017				March 4, 2017			
	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	$ 662,607	$ (543,508)	$ 119,099	7 years	$ 664,670	$ (531,022)	$ 133,648	7 years
Prescription files	1,587,833	(1,427,409)	160,424	3 years	1,584,240	(1,390,139)	194,101	3 years
Customer relationships(a)	465,000	(142,643)	322,357	15 years	465,000	(110,653)	354,347	16 years
CMS license	57,500	(5,022)	52,478	23 years	57,500	(3,872)	53,628	24 years
Claims adjudication and other developed software	58,990	(18,402)	40,588	5 years	58,995	(14,188)	44,807	6 years
Trademarks	20,100	(4,389)	15,711	8 years	20,100	(3,383)	16,717	9 years
Backlog	11,500	(8,369)	3,131	1 year	11,500	(6,453)	5,047	2 years
Total finite	$ 2,863,530	$ (2,149,742)	$ 713,788		$ 2,862,005	$ (2,059,710)	$ 802,295	
Trademarks	33,500		33,500	Indefinite	33,500		33,500	Indefinite
Total	$ 2,897,030	$ (2,149,742)	$ 747,288		$ 2,895,505	$ (2,059,710)	$ 835,795	

(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 September 2, 2017 and March 4, 2017 are unfavorable lease intangibles with a net carrying amount of $35,409 and $38,242, 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 $45,378 and $100,310 for the thirteen and twenty-six week periods ended September 2, 2017, respectively. Amortization expense for these intangible assets and liabilities was $55,409 and $110,912 for the thirteen and twenty-six week periods ended August 27, 2016, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2018 $182,434; 2019 $145,638; 2020 $116,065; 2021 $83,505 and 2022 $54,574.

10. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at September 2, 2017 and March 4, 2017:

	September 2, 2017	March 4, 2017
Secured Debt:		
Senior secured revolving credit facility due January 2020 ($2,240,000 and $2,430,000 face value less unamortized debt issuance costs of $20,511 and $24,918)	$ 2,219,489	$ 2,405,082
Tranche 1 Term Loan (second lien) due August 2020 ($470,000 face value less unamortized debt issuance costs of $3,555 and $4,167)	466,445	465,833
Tranche 2 Term Loan (second lien) due June 2021 ($500,000 face value less unamortized debt issuance costs of $2,149 and $2,431)	497,851	497,569
Other secured	90	90
	3,183,875	3,368,574
Guaranteed Unsecured Debt:		
9.25% senior notes due March 2020 ($902,000 face value plus unamortized premium of $1,736 and $2,071 and less unamortized debt issuance costs of $6,226 and $7,527)	897,510	896,544
6.75% senior notes due June 2021 ($810,000 face value less unamortized debt issuance costs of $5,618 and $6,360)	804,382	803,640
6.125% senior notes due April 2023 ($1,800,000 face value less unamortized debt issuance costs of $23,846 and $25,984)	1,776,154	1,774,016
	3,478,046	3,474,200
Unguaranteed Unsecured Debt:		
7.7% notes due February 2027 ($295,000 face value less unamortized debt issuance costs of $1,543 and $1,625)	293,457	293,375
6.875% fixed-rate senior notes due December 2028 ($128,000 face value less unamortized debt issuance costs of $739 and $771)	127,261	127,229
	420,718	420,604
Lease financing obligations	60,291	65,315
Total debt	7,142,930	7,328,693
Current maturities of long-term debt and lease financing obligations	(22,491)	(21,335)
Long-term debt and lease financing obligations, less current maturities	$ 7,120,439	$ 7,307,358

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Credit Facility

The Company s Amended and Restated Senior Secured Credit Facility 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 September 2, 2017, the Company had $2,240,000 of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of $59,343 which resulted in additional borrowing capacity of $1,400,657.

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 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 revolver of more than $365,000.

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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 revolver is less than $200,000 or (b) on the third consecutive business day on which availability under the revolver 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 which availability under the revolver is equal to or greater than $250,000. As of September 2, 2017, the Company had availability under its revolver of $1,400,657, its fixed charge coverage ratio was greater than 1.00 to 1.00, and the Company was in compliance with the senior secured credit facility s financial 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 Tranche 1 Term Loan and the Tranche 2 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 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 15 Guarantor and Non-Guarantor Condensed Consolidating Financial Information for additional disclosure.

Maturities

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2018 and thereafter are as follows: 2018 $90; 2019 $0; 2020 $2,240,000; 2021 $1,372,000; 2022 $1,310,000 and $2,223,000 thereafter.

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 twenty-six week periods ended September 2, 2017 and August 27, 2016 include $15,362 and $23,696, 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 fiscal 2018, the Company issued performance units to certain of its associates. The performance units will be settled in cash based on the actual performance of the Company relative to certain financial performance goals and the stock price upon vesting. During the twenty-six week periods ended September 2, 2017 and August 27, 2016, the Company incurred $2,170 and $9,112 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 twenty-six week periods ended September 2, 2017 and August 27, 2016 are as follows:

	September 2, 2017		August 27, 2016	
	Shares	**Weighted Average Fair Value**	**Shares**	**Weighted Average Fair Value**
Stock options granted		$ N/A		$ N/A
Restricted stock awards granted	11,241	$ 2.31	3,613	$ 7.73
Total awards	11,241		3,613	

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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.

As of September 2, 2017, 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:

	September 2, 2017		
	Unvested stock options	**Unvested restricted stock**	**Unvested performance shares**
Unrecognized pre-tax costs	$ 8,151	$ 41,478	$ 15,104
Weighted average amortization period	1.5 years	2.3 years	2.5 years

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12. Retirement Plans

Net periodic pension expense recorded in the thirteen and twenty-six week periods ended September 2, 2017 and August 27, 2016, for the Company s defined benefit plan includes the following components:

	Defined Benefit Pension Plan Thirteen Week Period Ended		Defined Benefit Pension Plan Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016	September 2, 2017	August 27, 2016
Service cost	$ 346	$ 292	$ 692	$ 584
Interest cost	1,603	1,621	3,206	3,242
Expected return on plan assets	(1,147)	(1,142)	(2,294)	(2,284)
Amortization of unrecognized prior service cost				
Amortization of unrecognized net loss	857	1,132	1,713	2,264
Net periodic pension expense	$ 1,659	$ 1,903	$ 3,317	$ 3,806

During the thirteen and twenty-six week period ended September 2, 2017 the Company contributed $0 to the Defined Benefit Pension Plan. During the remainder of fiscal 2018, the Company expects to contribute $4,900 to the Defined Benefit Pension Plan.

13. 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, collectively the Parent Company .

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, Chief Financial Officer, and Executive Vice Presidents-Retail Pharmacy, and the Chief Executive Officer Pharmacy Services, and Executive Vice Presidents-Pharmacy Services (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 twenty-six week periods ended September 2, 2017 and August 27, 2016:

	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations (1)	Consolidated
Thirteen Week Period Ended				
September 2, 2017:				
Revenues	$ 6,267,929	$ 1,492,831	$ (81,857)	$ 7,678,903
Gross Profit	1,683,741	103,262		1,787,003
Adjusted EBITDA(2)	163,995	49,275		213,270
August 27, 2016:				
Revenues	$ 6,485,482	$ 1,634,876	$ (90,552)	$ 8,029,806
Gross Profit	1,819,349	97,394		1,916,743
Adjusted EBITDA(2)	262,643	50,010		312,653
Twenty-Six Week Period Ended				
September 2, 2017:				
Revenues	$ 12,618,137	$ 3,006,072	$ (163,853)	$ 15,460,356
Gross Profit	3,337,803	208,234		3,546,037
Adjusted EBITDA(2)	307,960	97,874		405,834
August 27, 2016:				
Revenues	$ 13,161,030	$ 3,237,235	$ (184,278)	$ 16,213,987
Gross Profit	3,624,716	186,327		3,811,043
Adjusted EBITDA(2)	507,470	91,185		598,655

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(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 (Loss), Adjusted Net Income (Loss) 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 twenty-six week periods ended September 2, 2017 and August 27, 2016:

	Thirteen Week Period Ended		Twenty-Six Week Period Ended	
	September 2, 2017	August 27, 2016	September 2, 2017	August 27, 2016
	(dollars in thousands)			
Net income	$ 170,716	$ 14,773	$ 95,367	$ 10,185
Interest expense	111,261	105,388	221,198	210,501
Income tax expense	107,087	10,928	71,878	4,619
Depreciation and amortization expense	132,012	142,051	274,104	280,839
LIFO charge	5,632	13,760	22,506	27,511
Lease termination and impairment charges	3,128	7,233	7,214	13,014
Walgreens Boots Alliance merger termination fee	(325,000)		(325,000)	
Other	8,434	18,520	38,567	51,986
Adjusted EBITDA	$ 213,270	$ 312,653	$ 405,834	$ 598,655

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

	Retail Pharmacy	Pharmacy Services	Eliminations (2)	Consolidated
September 2, 2017:				
Total Assets	$ 8,503,384	$ 3,163,941	$ (169,017)	$ 11,498,308
Goodwill	76,124	1,639,355		1,715,479
Additions to property and equipment and intangible assets	126,816	6,718		133,534
March 4, 2017:				
Total Assets	$ 8,664,216	$ 3,087,143	$ (157,607)	$ 11,593,752
Goodwill	76,124	1,639,355		1,715,479
Additions to property and equipment and intangible assets(1)	468,386	12,725		481,111

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(1) Includes additions to property and equipment and intangible assets for the fifty-three week period ended March 4, 2017.

(2) As of September 2, 2017 and March 4, 2017, intersegment eliminations include netting of the Pharmacy Services segment long-term deferred tax liability of $150,690 and $140,865, respectively, against the Retail Pharmacy segment long-term deferred tax asset for consolidation purposes in accordance with ASC 740, and intersegment accounts receivable of $18,327 and $16,742, 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.

14. 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.

After the announcement of the proposed Merger between the Company and Walgreens Boots Alliance, Inc. (WBA), a putative class action lawsuit was filed in Pennsylvania in the Court of Common Pleas of Cumberland County (*Wilson v. Rite Aid Corp., et al.*) by purported Company stockholders against the Company, its directors (the Individual Defendants, together with the Company, the Rite Aid Defendants), WBA and Victoria Merger Sub Inc. (Victoria) challenging the transactions contemplated by the Merger agreement. The complaint alleged primarily that the Individual Defendants 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 complaint further alleged that the Company, WBA and/or Victoria aided and abetted these alleged breaches of fiduciary duty. The complaint sought, among other things, to enjoin the closing of the Merger as well as money damages and attorneys and experts fees.

Also in connection with the proposed merger, an 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 the Rite Aid Defendants, WBA and Victoria and a claim for violations of Section 20(a) of the Exchange Act against the Individual Defendants and WBA (*Hering v. Rite Aid Corp., et al.*). The complaint in the *Hering* action alleged, among other things, that the Rite Aid Defendants disseminated an allegedly false and materially misleading proxy and 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 *Hering* 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 *Hering* complaint. 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 Hering, 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 lead plaintiffs unopposed motion to stay the *Hering* action for all purposes pending consummation of the Merger.

On March 17, 2017, the *Hering* plaintiffs filed a motion to lift the stay for the purpose of filing a proposed amended complaint. Defendants opposed the motion, and briefing concluded on April 17, 2017. The proposed amended complaint asserted state law breach of fiduciary duty claims against the Individual Defendants, a claim of aiding and abetting the alleged breaches of fiduciary duty against Rite Aid, WBA and Victoria, as well as claims for violations of Section 14(a) of the Exchange Act and SEC Rule 14a-9 against the Rite Aid Defendants, WBA and Victoria, claims for violations of Section 10(b) of the Exchange Act and SEC

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Rule 10b-5 against the Rite Aid Defendants, WBA, Victoria and certain WBA executives, and a claim for violations of Section 20(a) of the Exchange Act against the Individual Defendants, WBA and Victoria. On July 12, 2017, the *Hering* plaintiffs filed a motion to set a status conference. Later the same day, the Pennsylvania District Court ordered the plaintiffs to submit a letter advising the court of the purpose of the requested status conference, any claims that the plaintiffs believe remain in light of the dissolution of the merger, and if any claims remain, the relief the plaintiffs seek. Pursuant to the court s order, the plaintiffs letter was submitted on July 21, 2017, and the Rite Aid Defendants submitted a letter in response on July 28, 2017. On August 4, 2017, the Pennsylvania District Court entered an order lifting the stay, noting that the original claims in this matter are now moot, and directed the plaintiffs to file a motion for leave to amend the complaint, with brief in support thereof, on or before September 15, 2017. On September 12, 2017, the Pennsylvania District Court granted the plaintiffs unopposed motion to extend time, extending the deadline for the plaintiffs to file their motion to September 22, 2017.

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. On January 12, 2017, the parties reached a settlement in principle of this matter, for an immaterial amount of money, which is subject to preliminary and final approval by the court. On August 3, 2017, the court entered an order granting plaintiff s unopposed motion for preliminary approval of the settlement and notice of the settlement was issued to putative class members on September 7, 2017. A final approval hearing is scheduled on January 11, 2018. In the event the settlement does not receive preliminary and/or final approval by the court, the litigation will resume. If such occurs, the Company presently 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 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.

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 and is vigorously defending them.

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 responded to both of the subpoenas. To enable the parties to discuss a possible resolution, the Medicaid Fraud

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Control Units of the several states, commonwealths, and the District of Columbia and the Company 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. On January 19, 2017, the District Court for the Eastern District of Michigan unsealed Relator s Second Amended Complaint against the Company. In its complaint, Relator alleges that the Company failed to report Rx Savings prices as its usual and customary charges under the Medicare Part D program and to federal and state Medicaid programs in 18 states and the District of Columbia; and that the Company is thus liable under the federal False Claims Act and similar False Claims Act statutes operative in the states named in the complaint. The federal government and the 18 states and the District of Columbia named in the lawsuit have elected not to intervene in this action. The Company has filed a motion to dismiss the complaint, which remains pending. At this stage of the proceedings, 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 and is vigorously defending this lawsuit.

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 lawsuits or charges have been filed. Between September 2015 and August 2017, 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 had entered into tolling agreements with the United States with respect to both the civil and grand jury investigations, which expired on June 30, 2017 and August 3, 2016, respectively. There has been no request to renew the agreements. Discussions are underway to attempt 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 not able to predict the outcome of the investigation.

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 (DUR) and prescription dispensing protocol and the dispensing of drugs designated as Code 1 by the State of California (*DUR/Code 1)*. 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: (i) on May 15, 2014, the government requested that the Company produce 60 prescriptions; (ii) on July 30, 2014, the government requested that the Company produce 30 prescriptions; (iii) on June 15, 2015, the government requested that the Company produce 80 prescriptions; and (iv) on September 30, 2016, the Company agreed to produce an additional 242 prescriptions. The Company received a draft copy of the government s complaint, which has yet to be filed with the court. At this stage of the proceedings, the Company is not able to either predict the outcome of this matter or estimate a potential range of loss with respect to this matter, and is vigorously defending this potential lawsuit.

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. On October 5, 2016, Rite Aid s demurrer to the Second Amended Complaint was granted, with leave for Relator to file an amended complaint. Relator filed his Third Amended Complaint to which Rite Aid filed a second demurrer, which the Court granted with leave for Relator to amend on April 20, 2017. Relator filed his Fourth Amended Complaint on May 1, 2017. On July 7, 2017, the Company s demurrer to the Fourth Amended Complaint was sustained without leave for Relator to amend. The court entered a final judgment of dismissal of each of Relator s claims on August 3, 2017. Relator s time to appeal the judgment has yet to expire. At this stage of the proceedings, and due to the legal issues Relator may attempt to raise on appeal, Rite Aid is unable to predict the outcome of any potential appeal by Relator.

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

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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.

15. 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 Subsidiary Guarantors). Additionally, with the exception of EIC, the subsidiaries, including joint ventures, that do not guarantee the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes, are minor.

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 September 2, 2017, March 4, 2017, and for the thirteen and twenty-six week periods ended September 2, 2017 and August 27, 2016. Separate financial statements for Subsidiary Guarantors are not presented.

Rite Aid Corporation
Condensed Consolidating Balance Sheet
September 2, 2017
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 199,978	$ 39,000	$	$ 238,978
Accounts receivable, net		1,430,626	412,694		1,843,320
Intercompany receivable		298,450		(298,450)(a)	
Inventories, net of LIFO reserve of $0, $1,022,282, $0, $0, and $1,022,282		2,877,427			2,877,427
Prepaid expenses and other current assets		220,344	1,300		221,644
Total current assets		5,026,825	452,994	(298,450)	5,181,369
Property, plant and equipment, net		2,188,217			2,188,217
Goodwill		1,715,479			1,715,479
Other intangibles, net		694,810	52,478		747,288
Deferred tax assets		1,453,291			1,453,291
Investment in subsidiaries	15,275,200	49,148		(15,324,348)(b)	
Intercompany receivable		7,392,091		(7,392,091)(a)	
Other assets		205,353	7,311		212,664
Total assets	$ 15,275,200	$ 18,725,214	$ 512,783	$ (23,014,889)	$ 11,498,308

LIABILITIES AND STOCKHOLDERS EQUITY										
Current liabilities:										
Current maturities of long-term debt and lease financing obligations	$	90	$	22,401	$		$		$	22,491
Accounts payable				1,680,524		7,356				1,687,880
Intercompany payable						298,450		(298,450)(a)		
Accrued salaries, wages and other current liabilities		66,860		1,067,239		136,741				1,270,840
Total current liabilities		66,950		2,770,164		442,547		(298,450)		2,981,211
Long-term debt, less current maturities		7,082,549								7,082,549
Lease financing obligations, less current maturities				37,890						37,890
Intercompany payable		7,392,091						(7,392,091)(a)		
Other noncurrent liabilities				641,960		21,088				663,048
Total liabilities		14,541,590		3,450,014		463,635		(7,690,541)		10,764,698
Commitments and contingencies										
Total stockholders equity		733,610		15,275,200		49,148		(15,324,348)(b)		733,610
Total liabilities and stockholders equity	$	15,275,200	$	18,725,214	$	512,783	$	(23,014,889)	$	11,498,308

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

(b) Elimination of investments in consolidated subsidiaries.

Rite Aid Corporation
Condensed Consolidating Balance Sheet
March 4, 2017

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 213,104	$ 32,306	$	$ 245,410
Accounts receivable, net		1,506,288	264,838		1,771,126
Intercompany receivable		215,862		(215,862)(a)	
Inventories, net of LIFO reserve of $0, $999,776, $0, $0, and $999,776		2,837,211			2,837,211
Prepaid expenses and other current assets		203,033	8,508		211,541
Total current assets		4,975,498	305,652	(215,862)	5,065,288
Property, plant and equipment, net		2,251,692			2,251,692
Goodwill		1,715,479			1,715,479
Other intangibles, net		782,167	53,628		835,795
Deferred tax assets		1,505,564			1,505,564
Investment in subsidiaries	15,275,488	50,004		(15,325,492)(b)	
Intercompany receivable		7,331,675		(7,331,675)(a)	
Other assets		219,934			219,934
Total assets	$ 15,275,488	$ 18,832,013	$ 359,280	$ (22,873,029)	$ 11,593,752
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current maturities of long-term debt and lease financing obligations	$ 90	$ 21,245	$	$	$ 21,335
Accounts payable		1,609,025	4,884		1,613,909
Intercompany payable			215,862	(215,862)(a)	
Accrued salaries, wages and other current liabilities	66,365	1,236,297	67,342		1,370,004
Total current liabilities	66,455	2,866,567	288,088	(215,862)	3,005,248
Long-term debt, less current maturities	7,263,288				7,263,288
Lease financing obligations, less current maturities		44,070			44,070
Intercompany payable	7,331,675			(7,331,675)(a)	
Other noncurrent liabilities		645,888	21,188		667,076
Total liabilities	14,661,418	3,556,525	309,276	(7,547,537)	10,979,682
Commitments and contingencies					
Total stockholders equity	614,070	15,275,488	50,004	(15,325,492)(b)	614,070
Total liabilities and stockholders equity	$ 15,275,488	$ 18,832,013	$ 359,280	$ (22,873,029)	$ 11,593,752

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

(b) Elimination of investments in consolidated subsidiaries.

Rite Aid Corporation
Condensed Consolidating Statement of Operations
For the Thirteen Weeks Ended September 2, 2017
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues	$	$ 7,657,233	$ 41,877	$ (20,207)(a)	$ 7,678,903
Costs and expenses:					
Cost of revenues		5,872,689	39,961	(20,750)(a)	5,891,900
Selling, general and administrative expenses		1,732,288	1,475	543(a)	1,734,306
Lease termination and impairment expenses		3,128			3,128
Interest expense	105,384	5,889	(12)		111,261
Walgreens Boots Alliance merger termination fee	(325,000)				(325,000)
Gain on sale of assets, net		(14,495)			(14,495)
Equity in earnings of subsidiaries, net of tax	48,900	(456)		(48,444)(b)	
	(170,716)	7,599,043	41,424	(68,651)	7,401,100
Income before income taxes	170,716	58,190	453	48,444	277,803
Income tax expense (benefit)		107,090	(3)		107,087
Net income (loss)	$ 170,716	$ (48,900)	$ 456	$ 48,444(b)	$ 170,716
Total other comprehensive income (loss)	515	515		(515)	515
Comprehensive income (loss)	$ 171,231	$ (48,385)	$ 456	$ 47,929	$ 171,231

(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 Thirteen Weeks Ended August 27, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	$	$ 7,995,349	$ 60,581	$ (26,124)(a)	$ 8,029,806
Costs and expenses:					
Cost of revenues		6,080,299	57,767	(25,003)(a)	6,113,063
Selling, general and administrative expenses		1,776,135	3,233	(1,121)(a)	1,778,247
Lease termination and impairment expenses		7,233			7,233
Interest expense	100,933	4,447	8		105,388
Loss on sale of assets, net		174			174
Equity in earnings of subsidiaries, net of tax	(115,706)	593		115,113(b)	
	(14,773)	7,868,881	61,008	88,989	8,004,105
Income (loss) before income taxes	14,773	126,468	(427)	(115,113)	25,701
Income tax expense		10,762	166		10,928
Net income (loss)	$ 14,773	$ 115,706	$ (593)	$ (115,113)(b)	$ 14,773
Total other comprehensive income (loss)	681	681		(681)	681
Comprehensive income (loss)	$ 15,454	$ 116,387	$ (593)	$ (115,794)	$ 15,454

(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 Twenty-Six Weeks Ended September 2, 2017
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	$	$ 15,417,291	$ 81,327	$ (38,262)(a)	$ 15,460,356
Costs and expenses:					
Cost of revenues		11,875,730	77,863	(39,274)(a)	11,914,319
Selling, general and administrative expenses		3,489,908	4,676	1,012(a)	3,495,596
Lease termination and impairment expenses		7,214			7,214
Interest expense	211,317	9,855	26		221,198
Walgreens Boots Alliance merger termination fee	(325,000)				(325,000)
Gain on sale of assets, net		(20,216)			(20,216)
Equity in earnings of subsidiaries, net of tax	18,316	856		(19,172)(b)	

		(95,367)		15,363,347		82,565		(57,434)		15,293,111
Income before income taxes		95,367		53,944		(1,238)		19,172		167,245
Income tax expense (benefit)				72,260		(382)				71,878
Net income (loss)	$	95,367	$	(18,316)	$	(856)	$	19,172(b)	$	95,367
Total other comprehensive income (loss)		1,029		1,029				(1,029)		1,029
Comprehensive income (loss)	$	96,396	$	(17,287)	$	(856)	$	18,143	$	96,396

(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 Twenty-Six Weeks Ended August 27, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues	$	$ 16,163,541	$ 119,109	$ (68,663)(a)	$ 16,213,987
Costs and expenses:					
Cost of revenues		12,355,746	113,613	(66,415)(a)	12,402,944
Selling, general and administrative expenses		3,567,772	5,970	(2,248)(a)	3,571,494
Lease termination and impairment expenses		13,014			13,014
Interest expense	201,380	9,114	7		210,501
Loss on sale of assets, net		1,230			1,230
Equity in earnings of subsidiaries, net of tax	(211,565)	645		210,920(b)	
	(10,185)	15,947,521	119,590	142,257	16,199,183
Income (loss) before income taxes	10,185	216,020	(481)	(210,920)	14,804
Income tax expense		4,455	164		4,619
Net income (loss)	$ 10,185	$ 211,565	$ (645)	$ (210,920)(b)	$ 10,185
Total other comprehensive income (loss)	1,362	1,362		(1,362)	1,362
Comprehensive income (loss)	$ 11,547	$ 212,927	$ (645)	$ (212,282)	$ 11,547

(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 Twenty-Six Weeks Ended September 2, 2017
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Operating activities:					
Net cash provided by operating activities	$ 123,440	$ 167,697	$ 6,694	$	$ 297,831
Investing activities:					
Payments for property, plant and equipment		(120,461)			(120,461)
Intangible assets acquired		(13,073)			(13,073)
Intercompany activity		(66,345)		66,345	
Proceeds from dispositions of assets and investments		17,407			17,407
Proceeds from insured loss		3,627			3,627
Net cash (used in) provided by investing activities		(178,845)		66,345	(112,500)
Financing activities:					
Net payments to revolver	(190,000)				(190,000)
Principal payments on long-term debt		(8,096)			(8,096)
Change in zero balance cash accounts		10,189			10,189
Net proceeds from issuance of common stock	215				215
Payments for taxes related to net share settlement of equity awards		(4,071)			(4,071)
Intercompany activity	66,345			(66,345)	
Net cash provided by (used in) financing activities	(123,440)	(1,978)		(66,345)	(191,763)
(Decrease) increase in cash and cash equivalents		(13,126)	6,694		(6,432)
Cash and cash equivalents, beginning of period		213,104	32,306		245,410
Cash and cash equivalents, end of period	$	$ 199,978	$ 39,000	$	$ 238,978

Rite Aid Corporation
Condensed Consolidating Statement of Cash Flows
For the Twenty-Six Weeks Ended August 27, 2016
(unaudited)

	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Operating activities:					
Net cash (used in) provided by operating activities	$ (192,321)	$ 211,970	$ (610)	$	$ 19,039
Investing activities:					
Payments for property, plant and equipment		(225,718)			(225,718)
Intangible assets acquired		(28,869)			(28,869)
Intercompany activity		61,637		(61,637)	

Proceeds from dispositions of assets and investments		6,833		6,833
Net cash (used in) provided by investing activities		(186,117)	(61,637)	(247,754)
Financing activities:				
Net proceeds from revolver	250,000			250,000
Principal payments on long-term debt		(11,230)		(11,230)
Change in zero balance cash accounts		534		