

RITE AID CORP
Form 10-Q
December 29, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 26, 2011

OR

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

**For the transition period from to
Commission File Number: 1-5742**

RITE AID CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

17011
(Zip Code)

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

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

Not Applicable

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months

Edgar Filing: RITE AID CORP - Form 10-Q

(or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a
smaller reporting company)

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

The registrant had 898,454,487 shares of its \$1.00 par value common stock outstanding as of December 14, 2011.

Table of Contents

RITE AID CORPORATION

TABLE OF CONTENTS

	<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>2</u>
	<u>PART I</u>	
	<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>Financial Statements (unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets as of November 26, 2011 and February 26, 2011</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Operations for the Thirteen Week Periods Ended November 26, 2011 and November 27, 2010</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Operations for the Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	<u>35</u>
	<u>PART II</u>	
	<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	<u>36</u>
<u>ITEM 1A.</u>	<u>Risk Factors</u>	<u>37</u>
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>38</u>
<u>ITEM 4.</u>	<u>Removed and Reserved</u>	<u>38</u>
<u>ITEM 5.</u>	<u>Other Information</u>	<u>38</u>
<u>ITEM 6.</u>	<u>Exhibits</u>	<u>38</u>

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, as well as our other public filings or public statements, includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will" and similar expressions and include references to assumptions 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 senior secured credit facility and other debt agreements;

general economic conditions (including the impact of continued high unemployment and changing consumer behavior), inflation and interest rate movements;

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

our ability to realize same store sales growth;

our ability to hire and retain qualified personnel;

the efforts of private and public third party payors to reduce prescription drug reimbursement and encourage mail order;

competitive pricing pressures, including aggressive promotional activity from our competitors;

decisions to close additional stores and distribution centers, which could result in further charges to our operating statement;

our ability to manage expenses;

our ability to realize the benefits from actions to further reduce costs and investment in working capital;

continued consolidation of the drugstore and the pharmacy benefit management industries;

changes in state or federal legislation or regulations, and the impact of healthcare reform;

the outcome of lawsuits and governmental investigations;

Edgar Filing: RITE AID CORP - Form 10-Q

our ability to maintain the listing of our common stock on the New York Stock Exchange (the "NYSE"), and the resulting impact on our indebtedness, results of operations and financial condition; and

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 "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein and included in our Annual Report on Form 10-K for the fiscal year ended February 26, 2011 (the "Fiscal 2011 10-K"),

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

which we filed with the SEC on April 26, 2011, our Quarterly Report on Form 10-Q for the thirteen weeks ended May 28, 2011 (the "First Quarter 2012 10-Q"), which we filed on July 6, 2011, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 27, 2011, which we filed on October 5, 2011 and amended through Amendment No. 1 on Form 10-Q/A filed on October 7, 2011 (as amended, the "Second Quarter 2012 10-Q"). These documents are available on the SEC's website at www.sec.gov.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements**

RITE AID CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(unaudited)

	November 26, 2011	February 26, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148,474	\$ 91,116
Accounts receivable, net	970,218	966,457
Inventories, net of LIFO reserve of \$942,515 and \$875,012	3,389,054	3,158,145
Prepaid expenses and other current assets	109,358	195,647
Total current assets	4,617,104	4,411,365
Property, plant and equipment, net	1,940,470	2,039,383
Other intangibles, net	560,963	646,177
Other assets	438,497	458,925
Total assets	\$ 7,557,034	\$ 7,555,850
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 25,313	\$ 63,045
Accounts payable	1,376,009	1,307,872
Accrued salaries, wages and other current liabilities	1,133,065	1,049,406
Total current liabilities	2,534,387	2,420,323
Long-term debt, less current maturities	6,172,550	6,034,525
Lease financing obligations, less current maturities	113,808	122,295
Other noncurrent liabilities	1,142,134	1,190,074
Total liabilities	9,962,879	9,767,217
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock series G, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued .006 and .006	1	1
Preferred stock series H, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued 1,690 and 1,616	169,034	161,650
Common stock, par value \$1 per share; 1,500,000 authorized; shares issued and outstanding 898,400 and 890,297	898,400	890,297
Additional paid-in capital	4,277,215	4,281,623
Accumulated deficit	(7,722,124)	(7,514,796)
Accumulated other comprehensive loss	(28,371)	(30,142)
Total stockholders' deficit	(2,405,845)	(2,211,367)

Edgar Filing: RITE AID CORP - Form 10-Q

Total liabilities and stockholders' deficit	\$	7,557,034	\$	7,555,850
---	----	-----------	----	-----------

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	November 26, 2011	November 27, 2010
Revenues	\$ 6,312,584	\$ 6,202,353
Costs and expenses:		
Cost of goods sold	4,641,204	4,561,200
Selling, general and administrative expenses	1,583,098	1,578,142
Lease termination and impairment charges	11,540	17,003
Interest expense	129,927	133,742
Gain on sale of assets, net	(2,172)	(7,050)
	6,363,597	6,283,037
Loss before income taxes	(51,013)	(80,684)
Income tax expense (benefit)	972	(1,613)
Net loss	\$ (51,985)	\$ (79,071)
Computation of loss attributable to common stockholders:		
Net loss	\$ (51,985)	\$ (79,071)
Accretion of redeemable preferred stock	(26)	(26)
Cumulative preferred stock dividends	(2,498)	(2,354)
Loss attributable to common stockholders basic and diluted	\$ (54,509)	\$ (81,451)
Basic and diluted loss per share	\$ (0.06)	\$ (0.09)

See accompanying notes to condensed consolidated financial statements.

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

	Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010
Revenues	\$ 18,974,468	\$ 18,758,441
Costs and expenses:		
Cost of goods sold	13,963,208	13,766,924
Selling, general and administrative expenses	4,773,086	4,827,780
Lease termination and impairment charges	43,748	56,820
Interest expense	391,516	415,077
Loss on debt modifications and retirements, net	17,510	44,003
Gain on sale of assets, net	(7,812)	(10,786)
	19,181,256	19,099,818
Loss before income taxes	(206,788)	(341,377)
Income tax expense	533	8,354
Net loss	\$ (207,321)	\$ (349,731)
Computation of loss attributable to common stockholders:		
Net loss	\$ (207,321)	\$ (349,731)
Accretion of redeemable preferred stock	(77)	(77)
Cumulative preferred stock dividends	(7,384)	(6,957)
Loss attributable to common stockholders basic and diluted	\$ (214,782)	\$ (356,765)
Basic and diluted loss per share	\$ (0.24)	\$ (0.40)

See accompanying notes to condensed consolidated financial statements.

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

	Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010
Operating activities:		
Net loss	\$ (207,321)	\$ (349,731)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	333,381	378,998
Lease termination and impairment charges	43,748	56,820
LIFO charges	67,503	44,080
Gain on sale of assets, net	(7,812)	(10,786)
Stock-based compensation expense	11,612	13,902
Loss on debt modifications and retirements, net	17,510	44,003
Changes in operating assets and liabilities:		
Accounts receivable	(7,636)	(18,970)
Inventories	(298,936)	(136,496)
Accounts payable	179,925	272,730
Other assets and liabilities, net	124,067	172,852
Net cash provided by operating activities	256,041	467,402
Investing activities:		
Payments for property, plant and equipment	(146,138)	(104,383)
Intangible assets acquired	(28,090)	(16,071)
Proceeds from sale-leaseback transactions	2,428	
Proceeds from dispositions of assets and investments	16,955	17,266
Net cash used in investing activities	(154,845)	(103,188)
Financing activities:		
Proceeds from issuance of long-term debt	341,285	650,000
Net proceeds from (repayments to) revolver	163,000	(22,000)
Principal payments on long-term debt	(439,553)	(775,236)
Change in zero balance cash accounts	(106,347)	(144,693)
Net proceeds from issuance of common stock	566	101
Financing fees paid for early debt retirement		(19,666)
Deferred financing costs paid	(2,789)	(34,272)
Net cash used in financing activities	(43,838)	(345,766)
Increase in cash and cash equivalents	57,358	18,448
Cash and cash equivalents, beginning of period	91,116	103,594
Cash and cash equivalents, end of period	\$ 148,474	\$ 122,042
Supplementary cash flow data:		
Cash paid for interest (net of capitalized amounts of \$240 and \$385, respectively)	\$ 340,423	\$ 313,615
Cash payments of income taxes, net of refunds	\$ 2,911	\$ 8,028
Equipment financed under capital leases	\$ 6,476	\$ 2,836

Edgar Filing: RITE AID CORP - Form 10-Q

Equipment received for noncash consideration	\$	3,092	\$	2,428
Reduction in lease financing obligation	\$		\$	
Preferred stock dividends paid in additional shares	\$	7,384	\$	6,957
Gross borrowings from revolver	\$	1,629,000	\$	882,000
Gross repayments to revolver	\$	1,466,000	\$	904,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are of a recurring nature and, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended November 26, 2011 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 Company's Fiscal 2011 10-K.

2. Loss Per Share

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

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Numerator for loss per share:				
Net loss	\$ (51,985)	\$ (79,071)	\$ (207,321)	\$ (349,731)
Accretion of redeemable preferred stock	(26)	(26)	(77)	(77)
Cumulative preferred stock dividends	(2,498)	(2,354)	(7,384)	(6,957)
Loss attributable to common stockholders, basic and diluted	\$ (54,509)	\$ (81,451)	\$ (214,782)	\$ (356,765)
Denominator:				
Basic and diluted weighted average shares	886,629	883,515	885,388	882,668
Basic and diluted loss per share	\$ (0.06)	\$ (0.09)	\$ (0.24)	\$ (0.40)

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****2. Loss Per Share (Continued)**

Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted loss per share as of November 26, 2011 and November 27, 2010:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Stock options	76,537	87,235	76,537	87,235
Convertible preferred stock	30,734	28,957	30,734	28,957
Convertible debt	24,800	24,800	24,800	24,800
	132,071	140,992	132,071	140,992

Also excluded from the computation of diluted loss per share as of November 26, 2011 and November 27, 2010 are restricted shares and restricted stock units of 11,567 and 7,282, respectively, which are included in shares outstanding.

3. Lease Termination and Impairment Charges

Lease termination and impairment charges consist of amounts and number of locations as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Impairment charges	\$ 1,439	\$ 751	\$ 2,829	\$ 3,197
Facility and equipment lease exit charges	10,101	16,252	40,919	53,623
	\$ 11,540	\$ 17,003	\$ 43,748	\$ 56,820

Impairment charges				
Number of Stores	18	19	45	42
Number of Distribution Centers		1		1
	18	20	45	43

Lease exit charges				
Number of Stores	2	11	13	31
Number of Distribution Centers				
	2	11	13	31

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****3. Lease Termination and Impairment Charges (Continued)****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.

Facility and equipment lease exit charges

Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in ASC 420, "Exit or Disposal Cost Obligations." The Company calculates the liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting or favorable lease terminations. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

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

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Balance beginning of period	\$ 390,161	\$ 395,098	\$ 405,350	\$ 412,654
Provision for present value of noncancellable lease payments of closed stores	2,282	5,076	5,453	21,707
Changes in assumptions about future sublease income, terminations and changes in interest rates	1,157	4,922	16,378	13,288
Interest accretion	6,341	6,326	19,912	19,661
Cash payments, net of sublease income	(24,381)	(23,977)	(71,533)	(79,865)
Balance end of period	\$ 375,560	\$ 387,445	\$ 375,560	\$ 387,445

The Company's revenues and loss before income taxes for the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010 include results from stores that have been

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****3. Lease Termination and Impairment Charges (Continued)**

closed or are approved for closure as of November 26, 2011. The revenue, operating expenses, and loss before income taxes of these stores for the periods are presented as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Revenues	\$ 25,719	\$ 64,802	\$ 103,605	\$ 234,434
Operating expenses	30,525	72,752	117,005	263,647
Gain from sale of assets	(4,327)	(4,365)	(10,137)	(9,818)
Other expenses	799	506	575	2,279
Loss before income taxes	(1,278)	(4,091)	(3,838)	(21,674)
Included in these stores' loss before income taxes are:				
Depreciation and amortization	226	878	991	3,048
Inventory liquidation charges	714	825	1,173	3,145

The above results are not necessarily indicative of the impact that these closures will have on revenues and operating results of the Company in the future, as the Company often transfers the business of a closed store to another Company store, thereby retaining a portion of these revenues and operating expenses.

The Company prioritizes inputs used in measuring the fair value of its nonfinancial assets and liabilities into a hierarchy of three levels: Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and Level 3 unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Long-lived 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 and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located.

The table below sets forth by level within the fair value hierarchy the long-lived assets as of the impairment measurement date for which an impairment assessment was performed and total losses for

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

3. Lease Termination and Impairment Charges (Continued)

the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses	
					Thirteen Week Period Ended November 26, 2011	Thirty-Nine Week Period Ended November 26, 2011
Long-lived assets held and used	\$	\$	\$	\$	\$ 750	\$ 1,692
Long-lived assets held for sale		\$ 2,800		\$ 2,800	\$ 689	\$ 1,137
Total	\$	\$ 2,800	\$	\$ 2,800	\$ 1,439	\$ 2,829

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses	
					Thirteen Week Period Ended November 27, 2010	Thirty-Nine Week Period Ended November 27, 2010
Long-lived assets held and used	\$	\$ 3,493	\$ 162	\$ 3,655	\$ 751	\$ 3,197
Long-lived assets held for sale						
Total	\$	\$ 3,493	\$ 162	\$ 3,655	\$ 751	\$ 3,197

4. Income Taxes

The Company recorded an income tax expense of \$972 and an income tax benefit of \$1,613 for the thirteen week periods and an income tax expense of \$533 and \$8,354 for the thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively. The income tax expense for the thirteen and thirty-nine week periods ended November 26, 2011 is primarily for adjustments to unrecognized tax benefits and the accrual of state and local taxes, offset by benefits of \$1,747 and \$8,040, respectively for discrete items related to the recognition of previously unrecognized tax benefits. The provision for income taxes for the thirteen and thirty-nine week periods ended November 27, 2010 is primarily due to the need for an accrual of additional state taxes resulting from the receipt of a final audit determination and adjustments to unrecognized tax benefits.

Edgar Filing: RITE AID CORP - Form 10-Q

The Company is indemnified by Jean Coutu Group for certain tax liabilities incurred for all years ended up to and including the acquisition date of June 4, 2007, related to the Brooks Eckerd acquisition. Although the Company is indemnified by Jean Coutu Group, the Company remains the primary obligor to the tax authorities with respect to any tax liability arising for the years prior to the acquisition. Accordingly, as of November 26, 2011 and February 26, 2011, the Company had a corresponding recoverable indemnification asset of \$164,675 and \$158,209 from Jean Coutu Group, respectively, included in the 'Other Assets' line of the Consolidated Balance Sheets, to reflect the indemnification for such liabilities.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

4. Income Taxes (Continued)

The Company files U.S. federal income tax returns as well as income tax returns in those states where it does business. The consolidated federal income tax returns have been subject to examination by the Internal Revenue Service (IRS) through fiscal 2008. However, any net operating losses that were generated in these prior closed years may be subject to examination by the IRS upon utilization. The IRS has completed the examination of the consolidated U.S. income tax returns for Brooks Eckerd for the periods leading up to the acquisition which include fiscal years 2004 through 2007. A revenue agent report (RAR) has been received for each of the three audit cycles, with the last RAR received in the third quarter of fiscal 2011. The company is appealing these audit results. Management believes that the Company has adequately provided for any potential adverse results. Furthermore, pursuant to the tax indemnification referenced above, Jean Coutu Group is required to reimburse the Company for any assessment that may arise. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. However, as a result of filing amended returns, the Company has statutes open in some states from fiscal 2004.

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.

Over the next 12 months, the Company believes that it is reasonably possible that the amount of unrecognized tax positions including interest and penalties could decrease tax liabilities by approximately \$95,764, which would impact the effective tax rate if our tax positions are sustained upon audit, the controlling statute of limitations expires or we agree to a disallowance. The primary driver of the decrease is contingent upon the timing of the conclusion of the pre-acquisition period's audit of the consolidated U.S. income tax returns for Brooks Eckerd and will impact the effective rate by decreasing tax expense by approximately \$61,129. This amount will be completely offset by the reversal of the indemnification asset which will be recorded in selling, general and administrative expenses.

The valuation allowances as of November 26, 2011 and February 26, 2011 apply to the net deferred tax assets of the Company. The Company continues to maintain a full valuation allowance of \$2,272,489 and \$2,199,302 against net deferred tax assets at November 26, 2011 and February 26, 2011, respectively.

5. Sale Leaseback Transactions

During the thirteen week period ended November 26, 2011, the Company sold one owned property to an independent third party. Net proceeds from the sale were \$2,428. Concurrent with the sale, the Company entered into an agreement to lease the store back from the purchaser over a minimum lease term of 10 years. The Company accounted for the lease as an operating lease. The transaction resulted in a loss of \$3,456 which is included in the gain on sale of assets, net for the thirteen and thirty-nine weeks ended November 26, 2011.

During the thirteen and thirty-nine week period ended November 27, 2010, the Company had no sale leaseback transactions.

[Table of Contents](#)**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****6. Intangible Assets**

The Company's intangible assets are finite-lived and amortized over their useful lives. Following is a summary of the Company's amortizable intangible assets as of November 26, 2011 and February 26, 2011.

	November 26, 2011			February 26, 2011		
	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period
Favorable leases and other	\$ 625,436	\$ (369,997)	10 years	\$ 620,786	\$ (335,692)	10 years
Prescription files	1,234,336	(928,812)	5 years	1,217,212	(856,129)	6 years
Total	\$ 1,859,772	\$ (1,298,809)		\$ 1,837,998	\$ (1,191,821)	

Also included in other non-current liabilities as of November 26, 2011 and February 26, 2011 are unfavorable lease intangibles with a net carrying amount of \$84,955 and \$93,952 respectively. These intangible liabilities are amortized over their remaining lease terms.

Amortization expense for these intangible assets and liabilities was \$34,327 and \$109,561 for the thirteen and thirty-nine week periods ended November 26, 2011, respectively. Amortization expense for these intangible assets and liabilities was \$43,106 and \$131,106 for the thirteen and thirty-nine week periods ended November 27, 2010, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2012 \$ 138,411; 2013 \$ 114,981; 2014 \$ 89,435; 2015 \$ 72,323 and 2016 \$ 60,995.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

7. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at November 26, 2011 and February 26, 2011:

	November 26, 2011	February 26, 2011
Secured Debt:		
Senior secured revolving credit facility due August 2015 (or April 2014, see <i>Credit Facility</i> below)	\$ 191,000	\$ 28,000
Senior secured credit facility term loan due June 2014	1,044,433	1,074,613
Senior secured credit facility term loan due June 2014 (\$342,125 face value less unamortized discount of \$19,718)		322,407
Senior secured credit facility term loan due March 2018 (or December 2014 or September 2015, see <i>Credit Facility</i> below) (\$333,367 face value less unamortized discount of \$1,549)	331,818	
9.75% senior secured notes (senior lien) due June 2016 (\$410,000 face value less unamortized discount of \$4,843 and \$5,635)	405,157	404,365
8.00% senior secured notes (senior lien) due August 2020	650,000	650,000
10.375% senior secured notes (second lien) due July 2016 (\$470,000 face value less unamortized discount of \$25,805 and \$29,952)	444,195	440,048
7.5% senior secured notes (second lien) due March 2017	500,000	500,000
10.25% senior secured notes (second lien) due October 2019 (\$270,000 face value less unamortized discount of \$1,620 and \$1,774)	268,380	268,226
Other secured	5,330	5,408
	3,840,313	3,693,067
Guaranteed Unsecured Debt:		
8.625% senior notes due March 2015	459,000	500,000
9.375% senior notes due December 2015 (\$405,000 and \$410,000 face value less unamortized discount of \$2,851 and \$3,345)	402,149	406,655
9.5% senior notes due June 2017 (\$810,000 face value less unamortized discount of \$7,155 and \$8,130)	802,845	801,870
	1,663,994	1,708,525
Unsecured Unguaranteed Debt:		
9.25% senior notes due June 2013	6,015	6,015
6.875% senior debentures due August 2013	180,277	184,773
8.5% convertible notes due May 2015	64,188	64,188
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	673,480	677,976
Lease financing obligations	133,884	140,297
Total debt	6,311,671	6,219,865
Current maturities of long-term debt and lease financing obligations	(25,313)	(63,045)
Long-term debt and lease financing obligations, less current maturities	\$ 6,286,358	\$ 6,156,820

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

7. Indebtedness and Credit Agreements (Continued)

Credit Facility

The Company has a senior secured credit facility that consists of a \$1,175,000 revolving credit facility and two term loans. Borrowings under the revolving credit facility bear interest at a rate per annum between LIBOR plus 3.25% and LIBOR plus 3.75% if the Company chooses to make LIBOR borrowings, or between Citibank's base rate plus 2.25% and Citibank's base rate plus 2.75%, in each case based upon the amount of revolver availability, as defined in the senior secured credit facility. The Company is required to pay fees between 0.50% and 0.75% per annum on the daily unused amount of the revolver depending on the amount of revolver availability. Amounts drawn under the revolver become due and payable on August 19, 2015, provided that such maturity date shall instead be April 18, 2014 in the event that on or prior to April 18, 2014 the Company does not repay, refinance or otherwise extend the maturity date of its Tranche 2 Term Loan (as defined below) to a date that is at least 90 days after August 19, 2015 and, in the case of a repayment or refinancing, the Company must have at least \$500,000 of availability under the revolver.

The Company's ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At November 26, 2011, the Company had \$191,000 of borrowings outstanding under the revolver and had letters of credit outstanding thereunder of \$134,415 which gave the Company additional borrowing capacity of \$849,585.

The credit facility also includes a \$1,044,433 senior secured term loan (the "Tranche 2 Term Loan"). The Tranche 2 Term Loan will mature on June 4, 2014 and currently bears interest at a rate per annum equal to LIBOR plus 1.75%, if the Company elects LIBOR borrowings, or at Citibank's base rate plus 0.75%. Mandatory prepayments are required to be made from proceeds of asset dispositions and casualty events (subject to certain limitations), a portion of excess cash flows (as defined in the senior secured credit facility) and proceeds from certain issuances of equity or debt (subject to certain exceptions). If at any time there is a shortfall in the borrowing base under the senior secured credit facility, prepayment of the Tranche 2 Term Loan may also be required.

On March 3, 2011, the Company refinanced its Tranche 3 Term Loan with a \$331,818 senior secured term loan (the "Tranche 5 Term Loan"). The Tranche 5 Term Loan matures on March 3, 2018, although the maturity will instead be December 1, 2014 in the event that the Company does not repay or refinance its outstanding 8.625% senior notes due 2015 prior to that time, or September 16, 2015, in the event that the Company does not repay or refinance its outstanding 9.375% senior notes due 2015 prior to that time. The Tranche 5 Term Loan bears interest at a rate per annum equal to LIBOR plus 3.25% with a 1.25% LIBOR floor, and is subject to a 1% prepayment fee in the event it is refinanced within the first year after issuance with the proceeds of a substantially concurrent issuance of new loans or other indebtedness incurred for the primary purpose of repaying, refinancing or replacing the Tranche 5 Term Loan. The Company must make mandatory prepayments of the Tranche 5 Term Loan with the proceeds of asset dispositions and casualty events (subject to certain limitations), with a portion of excess cash flow generated by the Company (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

7. Indebtedness and Credit Agreements (Continued)

time there is a shortfall in its borrowing base under its senior secured credit facility, prepayment of the Tranche 5 Term Loan may also be required.

The senior secured credit facility also restricts the Company and the subsidiary guarantors from accumulating cash on hand in excess of \$200,000 at any time when revolving loans are outstanding (not including cash located in the Company's store deposit or lockbox accounts, cash necessary to cover the Company's current liabilities and certain other exceptions) and from accumulating cash on hand with revolver borrowings in excess of \$100,000 over three consecutive business days. The senior secured credit facility also states that if at any time (other than following the exercise of remedies or acceleration of any senior obligations or second priority debt and receipt of a triggering notice by the senior collateral agent from a representative of the senior obligations or the second priority debt) either (a) an event of default exists under the Company's senior secured credit facility or (b) the sum of revolver availability under the Company's senior secured credit facility and certain amounts held on deposit with the senior collateral agent in a concentration account is less than \$100,000 for three consecutive business days (a "cash sweep period"), the funds in the Company's deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the senior secured credit facility, and then held as Collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of the Company's senior secured credit facility.

The senior secured credit facility allows the Company to have outstanding, at any time, up to \$1,500,000 in secured second priority debt and unsecured debt in addition to borrowings under the senior secured credit facility and existing indebtedness, provided that not in excess of \$750,000 of such secured second priority debt and unsecured debt shall mature or require scheduled payments of principal prior to three months after June 4, 2014. The senior secured credit facility allows the Company to incur an unlimited amount of unsecured debt with a maturity beyond three months after June 4, 2014; however, other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows, so long as the senior secured credit facility is not in default, for the repurchase of any debt with a maturity on or before June 4, 2014, for the voluntary repurchase of debt with a maturity after June 4, 2014, and the mandatory repurchase of the Company's 8.5% convertible notes due 2015 if the Company maintains availability on the revolving credit facility of at least \$100,000.

The senior secured credit facility contains covenants which place restrictions on the incurrence of debt beyond the restrictions described above, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens. The credit facility has a financial covenant, which is the maintenance of a fixed charge coverage ratio. The covenant requires that, if availability on the revolving credit facility is less than \$150,000, the Company must maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 through November 26, 2011. This ratio increases to 1.05 to 1.00 in the last quarter of Fiscal 2012 and remains at that level for the remaining term of the facility. As of November 26, 2011, the Company was in compliance with this financial covenant.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

7. Indebtedness and Credit Agreements (Continued)

The senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if the Company fails to make any required payment on debt having a principal amount in excess of \$50,000 or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repurchase of such debt. Mandatory repurchases of the 8.5% convertible notes due 2015 are excluded from this event of default.

Substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the senior secured credit facility. The subsidiary guarantees of the senior secured credit facility, the 9.75% senior secured notes due 2016 and the 8.00% senior secured notes due 2020 are secured by a senior lien on, among other things, accounts receivable, inventory and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from its subsidiaries to service payments due under the senior secured credit facility. The subsidiary guarantees of the Company's 10.375% senior secured notes due 2016, the 7.5% senior secured notes due 2017 and the 10.25% senior secured notes due 2019 are secured on a second priority basis by the same collateral that secures the senior secured credit facility, the 9.75% senior secured notes due 2016 and the 8.00% senior secured notes due 2020. The 8.625% senior notes due 2015, the 9.375% senior notes due 2015 and the 9.5% senior notes due 2017 are guaranteed by substantially all of the Company's 100 percent owned subsidiaries on an unsecured basis.

The subsidiary guarantees related to the Company's senior secured credit facility and secured guaranteed notes 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. Also, the Company has no independent assets or operations, and subsidiaries not guaranteeing the credit facility and applicable notes are minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented.

The indentures that govern the Company's secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by the Company. As of November 26, 2011, the amount of additional secured and unsecured debt that could be incurred under these indentures was \$951,200 (which does not include the ability to enter into certain sale and leaseback transactions.) However, the Company could not incur any additional secured debt assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is governed by an interest coverage ratio test.

Other Indebtedness

Convertible Notes

On March 1, 2011, the Company was notified by the NYSE that, as of March 1, 2011, it had regained compliance with the NYSE minimum share price listing requirement. The Company is now in compliance with all NYSE listing rules, and has actively been taking steps to maintain its listing and expects its efforts to maintain its NYSE listing will be successful. However, there can be no assurance

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

7. Indebtedness and Credit Agreements (Continued)

that the Company will maintain compliance with the NYSE minimum share price rule or other continued listing requirements. In the event of a delisting, all holders of its \$64,188 of outstanding 8.5% Convertible Notes due May 2015 ("Convertible Notes") would be entitled to require the Company to repurchase its Convertible Notes. The Company's senior secured credit facility permits the Company to make such a repurchase of the Convertible Notes; provided that, before and after such transaction, no default or event of default shall have occurred and be continuing under the senior secured credit facility and the Company has at least \$100,000 of availability under its revolving credit facility. The Company's ability to pay cash to holders of the Convertible Notes may be limited by its financial resources at the time of such repurchase. The Company cannot assure you that sufficient financing will be available on terms acceptable to it if necessary to make any required repurchase of the Convertible Notes.

Optional Debt Repurchases

During August 2011, the Company repurchased \$41,000 of its 8.625% senior notes due March 2015, \$5,000 of its 9.375% senior notes due December 2015 and \$4,496 of its 6.875% senior debentures due August 2013. These repurchases resulted in a gain of \$4,924.

Maturities

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2012 and thereafter are as follows: 2012 \$5,153; 2013 \$114; 2014 \$189,326; 2015 \$1,044,692; 2016 \$1,122,618 and \$3,859,707 thereafter.

Refinancing

In August 2010, the Company repaid all borrowings outstanding under its revolving credit facility due September 2012 and cancelled all of its commitments thereunder and replaced such facility with a new \$1,175,000 revolving credit facility due 2015 (or such earlier date as noted above) and repaid and retired all borrowings and accrued interest due under its \$647,726 Tranche 4 Term Loan due June 2015 with the net proceeds from an issuance of \$650,000 of new 8.00% Senior Secured Notes due August 2020 (collectively, the "Refinancing"), together with cash on hand. The prepayment of the Tranche 4 Term Loan occurred prior to the second anniversary of the borrowing and therefore a 3.0% penalty of the principal amount outstanding was paid totaling \$19,432, which is included in the loss on debt modifications. The loss on debt modifications and retirements also included the write-off of debt issue costs of \$13,142 and net unamortized original issuance discounts of \$11,429. Additionally, the Company incurred fees and expenses of \$34,272 to consummate the Refinancing, which are being deferred and amortized over the terms of the related debt instruments.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****8. Financial Instruments**

The carrying amounts and fair values of financial instruments at November 26, 2011 and February 26, 2011 are listed as follows:

	November 26, 2011		February 26, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	\$ 1,567,250	\$ 1,471,560	\$ 1,425,020	\$ 1,386,861
Fixed rate indebtedness	\$ 4,610,537	\$ 4,320,969	\$ 4,654,548	\$ 4,544,974

Cash, trade receivables and trade payables are carried at market value, which approximates their fair values due to the short-term maturity of these instruments.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

LIBOR-based borrowings under credit facilities:

The carrying amounts for LIBOR-based borrowings under the credit facilities, term loans and term notes are estimated based on the quoted market price of the financial instruments.

Long-term indebtedness:

The fair values of long-term indebtedness are estimated based on the quoted market prices of the financial instruments. If quoted market prices were not available, the Company estimated the fair value based on the quoted market price of a financial instrument with similar characteristics.

9. Stock Options and Stock Awards

The Company recognizes share-based compensation expense over the requisite service period of the award, net of an estimate for the impact of forfeitures. Operating results for the thirty-nine week periods ended November 26, 2011 and November 27, 2010 include \$11,612 and \$13,902, respectively, of compensation costs related to the company's stock-based compensation arrangements.

The total number and type of grants and the related weighted average fair value for the thirty-nine week periods ended November 26, 2011 and November 27, 2010 are as follows:

	November 26, 2011		November 27, 2010	
	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
Stock options granted	17,889	\$ 0.82	17,443	\$ 0.71
Stock awards granted	8,526	\$ 1.23	4,574	\$ 1.07
Total awards	26,415		22,017	

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****9. Stock Options and Stock Awards (Continued)**

Typically, stock options granted vest, and are subsequently exercisable in equal annual installments over a four-year period for employees. During fiscal 2012, certain employee stock options and awards were issued that vest 50% in year 3 and 50% in year four. Non-employee director options granted vest, and are subsequently exercisable in equal annual installments over a three-year period. Stock awards granted vest in equal annual installments over a three-year period. Beginning in fiscal 2011, stock awards granted to non-employee directors vest 80% in year one, 10% in year two and 10% in year three.

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

	Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010
Expected stock price volatility	79%	79%
Expected dividend yield	0%	0%
Risk-free interest rate	1.45%	1.9%
Expected option life	5.5 years	5.5 years

As of November 26, 2011, there was \$22,724 of total unrecognized pre-tax compensation costs related to unvested stock options, net of estimated forfeitures. These costs are expected to be recognized over a weighted average period of 2.66 years. As of November 26, 2011, there was \$10,879 of total unrecognized pre-tax compensation costs related to unvested restricted stock grants, net of estimated forfeitures. These costs are expected to be recognized over a weighted average period of 2.67 years.

On March 21, 2011, the Company launched a Stock Option Exchange Program ("Program") for eligible associates only. Under the Program, eligible associates had the opportunity to surrender certain stock options for a lesser number of new stock options with an exercise price that was determined based on the closing market price on April 21, 2011, the day the Program concluded. The number of new options was determined by applying exchange ratios that resulted in providing new stock options with an aggregate fair value that approximated the aggregate fair value of the options they replaced. The new options vest over two years and have a five year life with an exercise price of \$1.03. A total of 14.0 million options with an average exercise price in excess of \$1.77 were cancelled and 5.3 million new options were granted with an exercise price of \$1.03. The Company recognized a minimal incremental compensation expense as a result of the Program.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****10. Retirement Plans**

Net periodic pension expense recorded in the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010, for the Company's defined benefit plans includes the following components:

	Defined Benefit Pension Plan				Nonqualified Executive Retirement Plans				Defined Benefit Pension Plan				Nonqualified Executive Retirement Plans			
	Thirteen Week Period Ended								Thirty-Nine Week Period Ended							
	November 26, 2011		November 27, 2010		November 26, 2011		November 27, 2010		November 26, 2011		November 27, 2010		November 26, 2011		November 27, 2010	
Service cost	\$	838	\$	809	\$	5	\$	18	\$	2,514	\$	2,427	\$	15	\$	54
Interest cost		1,518		1,515		193		212		4,554		4,547		578		635
Expected return on plan assets		(1,505)		(1,248)						(4,515)		(3,744)				
Amortization of unrecognized prior service cost		157		215						471		645				
Amortization of unrecognized net loss (gain)		422		507				(332)		1,266		1,521				(996)
Net pension expense (income)	\$	1,430	\$	1,798	\$	198	\$	(102)	\$	4,290	\$	5,396	\$	593	\$	(307)

During the thirteen and thirty-nine week periods ended November 26, 2011 the Company contributed \$431 and \$1,215, respectively, to the Nonqualified Executive Retirement Plans. In addition, the Company prepaid \$5,100 to the Defined Benefit Pension Plan during fiscal 2011 and contributed an additional \$8,014 during the thirty-nine week period ended November 26, 2011. During the remainder of fiscal 2012, the Company expects to contribute \$404 to the Nonqualified Executive Retirement Plans and \$1,763 to the Defined Benefit Pension Plan.

11. Commitments and Contingencies

While the Company cannot predict with certainty the timing or outcome of the legal matters described below, the Company does not believe that any of these matters will have a material adverse effect on its business or financial condition. The Company cannot give assurance, however, that an unfavorable outcome in one or more of these matters will not have a material adverse effect on its results of operations for the period in which they are resolved.

The Company is currently a defendant in several putative collective or class action lawsuits filed in federal or state courts in several states, including Pennsylvania, New Jersey, New York, Maryland, Massachusetts, Maine, New Hampshire, Washington and Oregon, purportedly on behalf of, in some cases (i) current and former assistant store managers and co-managers or (ii) current and former store managers and assistant store managers, respectively, working in the Company's stores at various locations. The lawsuits allege violations of the Fair Labor Standards Act and of certain state wage and hour statutes. The lawsuits seek various combinations of unpaid compensation (including overtime compensation), liquidated damages, exemplary damages, pre-and post-judgment interest as well as attorneys' fees and costs. In one of the cases, *Craig et al v. Rite Aid Corporation et al*, pending in the

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

11. Commitments and Contingencies (Continued)

United States District Court for the Middle District of Pennsylvania, brought on behalf of current and former assistant store managers, the Court, on December 9, 2009, conditionally certified a nationwide collective group of individuals who worked for the Company as assistant store managers since December 9, 2006. Notice of the *Craig* action was sent to the purported members of the collective group (approximately 6,700 current and former assistant store managers) and approximately 1,100 joined the *Craig* action. The Company has filed a motion to decertify the class which is presently pending. In another of the cases, *Indergit v. Rite Aid Corporation et al*, pending in the United States District Court for the Southern District of New York, brought on behalf of current and former store managers, the Court, on April 2, 2010, 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. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company's management believes, however, that the lawsuits are without merit and not appropriate for collective or class action treatment. The Company is vigorously defending all of these claims.

The Company is currently a defendant in several putative class action lawsuits filed in state courts in California alleging violations of California wage and hour laws pertaining primarily to pay for missed meals and rest periods. These suits purport to be class actions and seek substantial damages. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company's management believes, however, that the plaintiffs' allegations are without merit and that their claims are not appropriate for class action treatment. The Company is vigorously defending all of these claims.

The Company was served with a United States Department of Health and Human Services Office of the Inspector General ("OIG") subpoena dated March 5, 2010 in connection with an investigation being conducted by the OIG, the United States Attorney's Office for the Central District of California and the United States Department of Justice Commercial Litigation Branch. The subpoena requests records related to any gift card or similar programs for customers who transferred prescriptions for drugs or medicines to the Company's pharmacies, and whether any customers who receive federally funded prescription benefits (e.g. Medicare and Medicaid) may have benefited from those programs. The Company is in the process of completing its production of records in response to the subpoena and is unable to predict with certainty the timing or outcome of any review by the government of such information.

The Company received a subpoena dated May 9, 2011 from certain California counties seeking information regarding compliance with environmental regulations governing the management of hazardous waste. The Company is completing its production of records in response to the subpoena. The Company is unable to predict with certainty the timing or outcome of any review by the government of such information.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

11. Commitments and Contingencies (Continued)

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. The Company is in the process of communicating with the U.S. Attorney's Office regarding the scope of the subpoena and is unable to predict with certainty the timing or outcome of any review by the government of such information.

The Company is subject from time to time to various claims and lawsuits and governmental investigations arising in the ordinary course of our business. While the Company's management cannot predict the outcome of these claims with certainty, the Company's management does not believe that the outcome of any of these legal matters will have a material adverse effect on its financial statements.

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

Net loss for the thirteen week period ended November 26, 2011 was \$52.0 million compared to the net loss of \$79.1 million for the thirteen week period ended November 27, 2010. The decrease in net loss was primarily driven by sales growth and decreases in the wellness+ loyalty program revenue deferral, depreciation and amortization, lease termination and impairment charges and interest expense partially offset by a lower gain on sale of assets. Revenues increased in the current quarter due to increases in same store sales reflecting the positive impact of our wellness+ loyalty program, immunization programs, and other management initiatives. Gross margin rate for the thirteen weeks ended November 26, 2011 was flat to the thirteen week period ended November 27, 2010.

Net loss for the thirty-nine week period ended November 26, 2011 was \$207.3 million compared to the net loss of \$349.7 million for the thirty-nine week period ended November 27, 2010. Revenues increased due to an increase in same store sales reflecting the positive impact for our wellness+ loyalty program and increased prescription count. Gross margin decreased due primarily to higher markdowns associated with our wellness+ loyalty program and a decrease in pharmacy gross margin rate due to continued reimbursement rate pressures, which we expect to continue for the foreseeable future. These items are described in more detail in the following sections.

Results of Operations*Revenues and Other Operating Data*

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
	(dollars in thousands)			
Revenues	\$ 6,312,584	\$ 6,202,353	\$ 18,974,468	\$ 18,758,441
Revenue growth (decline)	1.8%	(2.4)%	1.2%	(2.3)%
Same store sales growth (decline)	2.0%	(1.3)%	1.6%	(1.3)%
Pharmacy sales growth (decline)	2.3%	(2.7)%	1.4%	(2.4)%
Same store pharmacy sales growth (decline)	2.9%	(1.9)%	1.9%	(1.5)%
Pharmacy sales as a % of total sales	68.7%	68.3%	68.4%	68.2%
Third party sales as a % of total pharmacy sales	96.4%	96.2%	96.4%	96.2%
Front-end sales growth (decline)	0.6%	(1.5)%	0.6%	(2.1)%
Same store front-end sales growth (decline)	0.0%	0.0%	0.8%	(0.7)%
Front-end sales as a % of total sales	31.3%	31.7%	31.6%	31.8%
Store data:				
Total stores (beginning of period)	4,697	4,747	4,714	4,780
New stores		1		3
Closed stores	(18)	(17)	(35)	(52)
Total stores (end of period)	4,679	4,731	4,679	4,731
Relocated stores	2	11	13	24
Remodeled stores	119	15	157	17

Revenues

Revenues increased 1.8% and declined 2.4% in the thirteen week periods ended November 26, 2011 and November 27, 2010, respectively. Revenues increased 1.2% and declined 2.3% in the thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively.

Revenue

Table of Contents

increases for the thirteen and thirty-nine week periods ended November 26, 2011 were driven by an increase in same store sales, reflecting the positive impact of our wellness + loyalty program and other management initiatives to increase sales and prescriptions. These increases were partially offset by operating fewer stores than the same period last year.

Pharmacy same store sales increased 2.9% and 1.9% in the thirteen and thirty-nine week periods ended November 26, 2011. Our immunization program and wellness+ program contributed to our same store prescription increase of 0.5% and 0.4% for the thirteen and thirty-nine week periods ended November 26, 2011. Same store sales were also positively impacted by inflation on brand prescriptions, partially offset by an approximate 1.6% negative impact from new generic introductions.

Front-end same store sales were flat and increased 0.8% in the thirteen and thirty-nine week periods ended November 26, 2011. The increase in the thirty-nine week same store sales reflects the positive impact of our wellness + loyalty program and other management initiatives to increase sales in the front-end.

Costs and Expenses

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
	(dollars in thousands)			
Cost of goods sold	\$ 4,641,204	\$ 4,561,200	\$ 13,963,208	\$ 13,766,924
Gross profit	1,671,380	1,641,153	5,011,260	4,991,517
Gross margin rate	26.5%	26.5%	26.4%	26.6%
Selling, general and administrative expenses	1,583,098	1,578,142	4,773,086	4,827,780
Selling, general and administrative expenses as a percentage of revenues	25.1%	25.4%	25.2%	25.7%
Lease termination and impairment charges	11,540	17,003	43,748	56,820
Interest expense	129,927	133,742	391,516	415,077

Cost of Goods Sold

Gross profit increased due to higher same store sales and a reduced wellness+ loyalty program revenue deferral. Gross margin rate was 26.5% for the thirteen week periods ended November 26, 2011 and November 27, 2010. Gross margin rate was positively impacted by better front-end margin, shrink, and distribution expenses, which was offset by continued pharmacy reimbursement pressures, higher markdowns associated with our wellness+ loyalty program and a higher LIFO charge.

Gross profit increased due to higher pharmacy sales and an overall reduction in shrink. Gross margin rate was 26.4% for the thirty-nine week period ended November 26, 2011 compared to 26.6% for the thirty-nine week period ended November 27, 2010. The decrease in the gross margin rate was due to a lower front-end gross margin rate, which was due primarily to higher markdowns associated with our wellness+ loyalty program, and a decrease in the pharmacy rate due to continued reimbursement pressures.

We use the last-in, first-out (LIFO) method of inventory valuation, which is determined annually when inflation rates and inventory levels are finalized. Therefore, LIFO costs for interim period financial statements are estimated. The increased LIFO charges in the current quarter are due to higher than previously estimated front end inflation rates, which are also expected to be higher than in the prior year. Cost of sales includes LIFO charges of \$27.5 million and \$67.5 million for the thirteen and thirty-nine week periods ended November 26, 2011 compared to LIFO charges of \$3.0 million and \$44.1 million for the thirteen and thirty-nine week periods ended November 27, 2010.

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Selling, General and Administrative Expenses

SG&A as a percentage of revenues was 25.1% in the thirteen week period ended November 26, 2011 compared to 25.4% in the thirteen week period ended November 27, 2010. SG&A as a percentage of revenues was 25.2% in the thirty-nine week period ended November 26, 2011 compared to 25.7% in the thirty-nine week period ended November 27, 2010. The decrease in SG&A as a percentage of revenues for the thirteen and thirty-nine week periods is due primarily to decreased depreciation and amortization and lower salaries and corporate overhead resulting from management's continued focus on cost control. These decreases are partially offset by higher associate bonus expense, advertising and other operating costs.

Lease Termination and Impairment Charges

Lease termination and impairment charges consist of amounts and number of locations as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
	(dollars in thousands)			
Impairment charges	\$ 1,439	\$ 751	\$ 2,829	\$ 3,197
Facility and equipment lease exit charges	10,101	16,252	40,919	53,623
	\$ 11,540	\$ 17,003	\$ 43,748	\$ 56,820
Impairment charges				
Number of Stores	18	19	45	42
Number of Distribution Centers		1		1
	18	20	45	43
Lease exit charges				
Number of Stores	2	11	13	31
Number of Distribution Centers				
	2	11	13	31

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.

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

Table of Contents

Interest Expense

Interest expense was \$129.9 million and \$391.5 million for the thirteen and thirty-nine week periods ended November 26, 2011, compared to \$133.7 million and \$415.1 million for the thirteen and thirty-nine week periods ended November 27, 2010. The decrease in interest expense for the thirteen and thirty-nine week periods ended November 26, 2011 is due primarily to favorable interest rates resulting from our March 2011 Tranche 3 Term Loan refinancing and the August 2010 refinancing of our Tranche 4 Term Loan. The weighted average interest rates on our indebtedness for the thirty-nine week period ended November 26, 2011 and November 27, 2010 were 7.3% and 7.4%, respectively.

Income Taxes

We recorded an income tax expense of \$1.0 million and an income tax benefit of \$1.6 million for the thirteen week periods and an income tax expense of \$0.5 million and \$8.4 million for the thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively. The income tax expense for the thirteen and thirty-nine week periods ended November 26, 2011 is primarily for adjustments to unrecognized tax benefits and the accrual of state and local taxes, offset by benefits of \$1.7 million and \$8.0 million, respectively for discrete items related to the recognition of previously unrecognized tax benefits. The income tax expense for the thirteen and thirty-nine week periods ended November 27, 2010 is primarily due to the need for an accrual of additional state taxes resulting from the receipt of a final audit determination and adjustments to unrecognized tax benefits.

The IRS has completed the examination of the consolidated U.S. income tax returns for Brooks Eckerd for the periods leading up to the acquisition which include fiscal years 2004 through 2007. The revenue agent reports (RAR) for these periods have been received and we are appealing these audit results. We believe we have adequately provided for any potential adverse results. Furthermore, we are indemnified by Jean Coutu Group who will reimburse us for any assessment that may arise.

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

Over the next 12 months, we believe that it is reasonably possible that the amount of unrecognized tax positions including interest and penalties could decrease tax liabilities by approximately \$95.8 million, which would impact the effective tax rate if our tax positions are sustained upon audit, the controlling statute of limitations expires, or we agree to a disallowance. The primary driver of the decrease is contingent upon the timing of the conclusion of the pre-acquisition period's audit of the consolidated U.S. income tax returns for Brooks Eckerd and will impact the effective rate by decreasing tax expense by approximately \$61.1 million. This amount will be completely offset by the reversal of the indemnification asset which will be recorded in selling, general and administrative expenses.

We evaluate our deferred tax assets on a regular basis to determine if a valuation allowance against the net deferred tax assets is required. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable. Based on the negative evidence, we are precluded from relying on projections of future taxable income to support the recognition of deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income generated in the carryforward periods.

Table of Contents

Liquidity and Capital Resources

General

We have three primary sources of liquidity: (i) cash and cash equivalents (ii) cash provided by operating activities and (iii) borrowings under the revolving credit facility under our senior secured credit facility. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt, and to fund capital expenditures. Total liquidity at November 26, 2011, was \$850.8 million which consisted of revolver borrowing capacity of \$849.6 million and invested cash of \$1.2 million.

Credit Facility

Our senior secured credit facility consists of a \$1.175 billion revolving credit facility and two term loans. Borrowings under the revolving credit facility bear interest at a rate per annum between LIBOR plus 3.25% and LIBOR plus 3.75%, if we choose to make LIBOR borrowings, or between Citibank's base rate plus 2.25% and Citibank's base rate plus 2.75% in each case based upon the amount of revolver availability as defined in the senior secured credit facility. We are required to pay fees between 0.50% and 0.75% per annum on the daily unused amount of the revolver, depending on the amount of revolver availability. Amounts drawn under the revolver become due and payable on August 19, 2015, provided that such maturity date shall instead be April 18, 2014 in the event that on or prior to April 18, 2014 we do not repay, refinance or otherwise extend the maturity date of our Tranche 2 Term Loan (as defined below) to a date that is at least 90 days after August 19, 2015 and, in the case of a repayment or refinancing, we must have at least \$500.0 million of availability under the revolver.

Our ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At November 26, 2011, we had \$191.0 million borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$134.4 million, which resulted in additional borrowing capacity of \$849.6 million.

The credit facility also includes our \$1.044 billion senior secured term loan (the "Tranche 2 Term Loan"). The Tranche 2 Term Loan will mature on June 4, 2014 and currently bears interest at a rate per annum equal to LIBOR plus 1.75%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 0.75%. We must make mandatory prepayments of the Tranche 2 Term Loan with the proceeds of asset dispositions and casualty events (subject to certain limitations), with a portion of any excess cash flow generated by us (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time there is a shortfall in our borrowing base under our senior secured credit facility, prepayment of the Tranche 2 Term Loan may also be required.

On March 3, 2011, we refinanced the Tranche 3 Term Loan with a \$331.8 million senior secured term loan (the "Tranche 5 Term Loan"). The Tranche 5 Term Loan matures on March 3, 2018, although the maturity will instead be December 1, 2014 in the event that we do not repay or refinance our outstanding 8.625% senior notes due 2015 prior to that time, or September 16, 2015, in the event that we do not repay or refinance our outstanding 9.375% senior notes due 2015 prior to that time. The Tranche 5 Term Loan bears interest at a rate per annum equal to LIBOR plus 3.25% with a 1.25% LIBOR floor, and is subject to a 1% prepayment fee in the event it is refinanced within the first year after issuance with the proceeds of a substantially concurrent issuance of new loans or other indebtedness incurred for the primary purpose of repaying, refinancing or replacing the Tranche 5 Term Loan. We must make mandatory prepayments of the Tranche 5 Term Loan with the proceeds of asset dispositions and casualty events (subject to certain limitations), with a portion of any excess cash flow generated by us (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time there is a shortfall in our

Table of Contents

borrowing base under our senior secured credit facility, prepayment of the Tranche 5 Term Loan may also be required.

The senior secured credit facility also restricts us and the subsidiary guarantors from accumulating cash on hand in excess of \$200.0 million at any time when revolving loans are outstanding (not including cash located in our store deposit and lockbox accounts, cash necessary to cover our current liabilities and certain other exceptions) and from accumulating cash on hand with revolver borrowings in excess of \$100.0 million over three consecutive business days. The senior secured credit facility also states that if at any time (other than following the exercise of remedies or acceleration of any senior obligations or second priority debt and receipt of a triggering notice by the senior collateral agent from a representative of the senior obligations or the second priority debt) either (a) an event of default exists under our senior secured credit facility or (b) the sum of revolver availability under our senior secured credit facility and certain amounts held on deposit with the senior collateral agent in a concentration account is less than \$100.0 million for three consecutive business days (a "cash sweep period"), the funds in our deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the senior secured credit facility, and then held as Collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of our senior secured credit facility.

The senior secured credit facility allows us to have outstanding, at any time, up to \$1.5 billion in secured second priority debt and unsecured debt in addition to borrowings under the senior secured credit facility and existing indebtedness, provided that not in excess of \$750.0 million of such secured second priority debt and unsecured debt shall mature or require scheduled payments of principal prior to three months after June 4, 2014. The senior secured credit facility allows us to incur an unlimited amount of unsecured debt with a maturity beyond three months after June 4, 2014; however, 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 of said debt. The senior secured facility also allows, so long as the senior secured credit facility is not in default, for the repurchase of any debt with a maturity on or before June 4, 2014, for the voluntary repurchase of debt with a maturity after June 4, 2014 and the mandatory repurchase of our 8.5% convertible notes due 2015 if we maintain availability on the revolving credit facility of at least \$100.0 million.

Our senior secured credit facility contains covenants which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. Our credit facility has a financial covenant, which is the maintenance of a fixed charge coverage ratio. The covenant requires that, if availability on the revolving credit facility is less than \$150.0 million, we maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 through November 26, 2011. This ratio increases to 1.05 to 1.00 in the last quarter of fiscal 2012 and remains at that level for the remaining term of the facility. As of November 26, 2011, we were in compliance with this financial covenant.

The senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having a principal amount in excess of \$50.0 million or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repurchase of such debt. Mandatory repurchases of the 8.5% convertible notes due 2015 are excluded from this event of default.

The indentures that govern our secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by us. As of November 26, 2011, the amount of additional secured debt that could be incurred under these indentures was approximately \$951.2 million (which amount does not include the ability to enter into certain sale and leaseback transactions). However, we could not incur any additional secured debt as of February 27, 2010 assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is governed by an interest coverage ratio test.

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Other Transactions

During August 2011, we repurchased \$41.0 million of our 8.625% senior notes due March 2015, \$5.0 million of its 9.375% senior notes due December 2015 and \$4.5 million of its 6.875% senior debentures due August 2013. These repurchases resulted in a gain of \$5.0 million.

In August 2010, we repaid all borrowings outstanding under our revolving credit facility due September 2012 and cancelled all of our commitments thereunder and replaced such facility with a new \$1.175 billion revolving credit facility (the "New Revolver") due 2015 (or such earlier date as noted below). We also repaid and retired all borrowings and accrued interest due under our \$647.7 million Tranche 4 Term Loan due June 2015. We financed these repayments with the net proceeds from an issuance of \$650.0 million of new 8.00% Senior Secured Notes due August 2020 (collectively, the "Refinancing"), together with cash on hand. The prepayment of the Tranche 4 Term Loan occurred prior to the second anniversary of the borrowing thereof and therefore a 3.0% penalty of the principal amount outstanding was paid totaling \$19.4 million which was included in loss on debt modifications for the thirteen week period ended August 28, 2010. The loss on debt modifications and retirements for the thirteen week period ended August 28, 2010 also included the write-off of debt issue costs of \$13.1 million and net unamortized original issuance discounts of \$11.4 million. Additionally, we incurred fees and expenses of \$34.3 million to consummate the Refinancing, which are being deferred and amortized over the terms of the related debt instruments.

Sale Leaseback Transactions

During the thirteen week period ended November 26, 2011, we sold one owned property to an independent third party. Net proceeds from the sale were \$2.4 million. Concurrent with the sale, we entered into an agreement to lease the store back from the purchaser over a minimum lease term of 10 years. We accounted for the lease as an operating lease. The transaction resulted in a loss of \$3.5 million which is included in the gain on sale of assets, net for the thirteen and thirty-nine weeks ended November 26, 2011.

During the thirteen and thirty-nine week period ended November 27, 2010, we had no sale leaseback transactions.

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

Cash flow provided by operating activities was \$256.0 million for the thirty-nine week period ended November 26, 2011 compared to \$467.4 million provided by operating activities in the thirty-nine week period ended November 27, 2010. Cash flow was positively impacted by an increase in accounts payable due to the timing of purchases as well as rent, pension funding and interest payments partially offset by increases in inventory for seasonal build, price inflation and increased store inventory to improve in-stock levels.

Cash used in investing activities was \$154.8 million and \$103.2 million for the thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively. Cash used for the purchase of property, plant, equipment and prescription files as well as proceeds from the sale of assets were higher compared to prior year.

Cash used in financing activities was \$43.8 million for the thirty-nine week period ended November 26, 2011 compared to \$345.8 million used in financing activities in the thirty-nine week period ended November 27, 2010. Cash used in financing activities for the thirty-nine weeks ended November 26, 2011 was primarily due to the March 2011 refinancing of our Tranche 3 Term Loan, other debt repayments and a decrease in our zero balance cash accounts. Cash used in financing activities for the thirty-nine weeks ended November 27, 2010 was primarily due to the refinancing activity that occurred during the second quarter of fiscal 2011, the repurchase of \$93.8 million of the

Table of Contents

Convertible Notes, other scheduled debt repayments and the significant decrease in our zero balance cash accounts.

Capital Expenditures

During the thirteen week period ended November 26, 2011, we spent \$67.5 million on capital expenditures, consisting of \$28.9 million related to new store construction, store relocation and store remodel projects, \$26.9 million related to technology enhancements, improvements to distribution centers and other corporate requirements, and \$11.7 million related to the purchase of prescription files. We plan on making total capital expenditures of approximately \$250.0 million during fiscal 2012, consisting of approximately 46.0% related to store relocations and remodels and new store construction, 34.0% related to infrastructure and maintenance requirements and 20.0% related to prescription file purchases. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities.

Future Liquidity

We are highly leveraged. Our high level of indebtedness: (i) limits our ability to obtain additional financing; (ii) limits our flexibility in planning for, or reacting to, changes in our business and the industry; (iii) places us at a competitive disadvantage relative to our competitors with less debt; (iv) renders us more vulnerable to general adverse economic and industry conditions; and (v) requires us to dedicate a substantial portion of our cash flow to service our debt. Based upon our current levels of operations, we believe that cash flow from operations together with available borrowings under the senior secured credit facility and other sources of liquidity will be adequate to meet our requirements for working capital, debt service and capital expenditures at least for the next twelve months. Based on our liquidity position, which we expect to remain strong throughout the year, we do not expect the restriction on our credit facility, that could result if we fail to meet the fixed charge covenant in our senior secured credit facility, to have any impact on our business in the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance, and other relevant circumstances. Should we determine, at any time, that it is necessary to obtain additional short-term liquidity, we will evaluate our alternatives and take appropriate steps to obtain sufficient additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or if obtained, would be on terms acceptable to us. From time to time, we may seek deleveraging transactions, including entering into transactions to exchange debt for shares of common stock, repurchase outstanding indebtedness or seek to refinance our outstanding debt or may otherwise seek transactions to reduce interest expense and extend debt maturities.

Critical Accounting Policies and Estimates

For a description of the critical accounting policies that require the use of significant judgments and estimates by management, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" included in our Fiscal 2011 10-K.

Factors Affecting Our Future Prospects

For a discussion of risks related to our financial condition, operations and industry, refer to "Risk Factors" included herein and in our Fiscal 2011 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Fiscal 2011 10-K.

Table of Contents**Adjusted EBITDA**

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

The following is a reconciliation of Adjusted EBITDA to our net loss for the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
	(dollars in thousands)			
Net loss	\$ (51,985)	\$ (79,071)	\$ (207,321)	\$ (349,731)
Interest expense	129,927	133,742	391,516	415,077
Income tax expense (benefit)	972	(1,613)	533	8,354
Depreciation and amortization expense	107,579	124,985	333,381	378,998
LIFO charges	27,501	3,024	67,503	44,080
Lease termination and impairment charges	11,540	17,003	43,748	56,820
Stock-based compensation expense	4,089	4,167	11,612	13,902
Gain on sale of assets, net	(2,172)	(7,050)	(7,812)	(10,786)
Loss on debt modifications and retirements, net			17,510	44,003
Closed facility liquidation expense	1,527	2,386	5,159	6,619
Severance costs		2,019	256	2,029
Customer loyalty card program revenue deferral	(5,846)	13,807	22,905	34,238
Other	(1,672)	(900)	(10,420)	(70)
Adjusted EBITDA	\$ 221,460	\$ 212,499	\$ 668,570	\$ 643,533

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

We include these non-GAAP financial measures in our earnings announcements and guidance in order to provide transparency to our investors and enable investors to better compare our operating performance with the operating performance of our competitors including with those of our

Table of Contents

competitors having different capital structures. Adjusted EBITDA or other non-GAAP measures should not be considered in isolation from, and is not intended to represent an alternative measure of, operating results or of cash flows from operating activities, as determined in accordance with GAAP. Our definition of these non-GAAP measures may not be comparable to similarly titled measurements reported by other companies.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates for each fiscal year as of November 26, 2011.

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value at 11/26/2011
(dollars in thousands)								
Long-term debt, including current portion								
Fixed rate	\$ 5,153	\$ 114	\$ 186,355	\$	\$ 928,188	\$ 3,533,000	\$ 4,652,810	\$ 4,320,969
Average Interest Rate	1.41%	7.00%	6.95%	0.00%	8.94%	8.90%	8.82%	
Variable Rate	\$	\$	\$ 2,971	\$ 1,044,692	\$ 194,430	\$ 326,707	\$ 1,568,800	\$ 1,471,560
Average Interest Rate	0.00%	0.00%	2.00%	2.01%	5.48%	4.50%	2.96%	
Total	\$ 5,153	\$ 114	\$ 189,326	\$ 1,044,692	\$ 1,122,618	\$ 3,859,707	\$ 6,221,610	\$ 5,792,529

As of November 26, 2011, 25.2% of our total debt is exposed to fluctuations in variable interest rates. The interest rate on our variable rate borrowings, which include our revolving credit facility, our Tranche 2 Term loan and Tranche 5 Term loan, are all based on LIBOR. However, the interest rate on the Tranche 5 Term loan has a LIBOR floor of 125 basis points. If the market rates of interest for LIBOR changed by 100 basis points as of November 26, 2011, our annual interest expense would change by approximately \$10.4 million.

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

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

Table of Contents

ITEM 4. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

While the Company cannot predict with certainty the timing or outcome of the legal matters described below, the Company does not believe that any of these matters will have a material adverse effect on its business or financial condition. The Company cannot give assurance, however, that an unfavorable outcome in one or more of these matters will not have a material adverse effect on its results of operations for the period in which they are resolved.

The Company is currently a defendant in several putative collective or class action lawsuits filed in federal or state courts in several states, including Pennsylvania, New Jersey, New York, Maryland, Massachusetts, Maine, New Hampshire, Washington and Oregon, purportedly on behalf of, in some cases (i) current and former assistant store managers and co-managers or (ii) current and former store managers and assistant store managers, respectively, working in the Company's stores at various locations. The lawsuits allege violations of the Fair Labor Standards Act and of certain state wage and hour statutes. The lawsuits seek various combinations of unpaid compensation (including overtime compensation), liquidated damages, exemplary damages, pre-and post-judgment interest as well as attorneys' fees and costs. In one of the cases, *Craig et al v. Rite Aid Corporation et al*, pending in the United States District Court for the Middle District of Pennsylvania, brought on behalf of current and former assistant store managers, the Court, on December 9, 2009, conditionally certified a nationwide collective group of individuals who worked for the Company as assistant store managers since December 9, 2006. Notice of the *Craig* action was sent to the purported members of the collective group (approximately 6,700 current and former assistant store managers) and approximately 1,100 joined the *Craig* action. The Company has filed a motion to decertify the class which is presently pending. In another of the cases, *Indergit v. Rite Aid Corporation et al*, pending in the United States District Court for the Southern District of New York, brought on behalf of current and former store managers, the Court, on April 2, 2010, 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. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company's management believes, however, that the lawsuits are without merit and not appropriate for collective or class action treatment. The Company is vigorously defending all of these claims.

The Company is currently a defendant in several putative class action lawsuits filed in state courts in California alleging violations of California wage and hour laws pertaining primarily to pay for missed meals and rest periods. These suits purport to be class actions and seek substantial damages. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company's management believes, however, that the plaintiffs' allegations are without merit and that their claims are not appropriate for class action treatment. The Company is vigorously defending all of these claims.

The Company was served with a United States Department of Health and Human Services Office of the Inspector General ("OIG") subpoena dated March 5, 2010 in connection with an investigation being conducted by the OIG, the United States Attorney's Office for the Central District of California and the United States Department of Justice Commercial Litigation Branch. The subpoena requests records related to any gift card or similar programs for customers who transferred prescriptions for drugs or medicines to the Company's pharmacies, and whether any customers who receive federally funded prescription benefits (e.g. Medicare and Medicaid) may have benefited from those programs. The Company is in the process of completing its production of records in response to the subpoena

Table of Contents

and is unable to predict with certainty the timing or outcome of any review by the government of such information.

The Company received a subpoena dated May 9, 2011 from certain California counties seeking information regarding compliance with environmental regulations governing the management of hazardous waste. The Company is completing its production of records in response to the subpoena. The Company is unable to predict with certainty the timing or outcome of any review by the government of such information.

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. The Company is in the process of communicating with the U.S. Attorney's Office regarding the scope of the subpoena and is unable to predict with certainty the timing or outcome of any review by the government of such information.

The Company is subject from time to time to various claims and lawsuits and governmental investigations arising in the ordinary course of our business. While the Company's management cannot predict the outcome of these claims with certainty, the Company's management does not believe that the outcome of any of these legal matters will have a material adverse effect on its financial statements.

ITEM 1A. Risk Factors

In addition to the information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K, for the year ended February 26, 2011 and in our Quarterly Report on Form 10-Q for the thirteen and thirty-nine week period ended November 26, 2011, which could materially affect our business, financial condition or future results.

Consolidation in the healthcare industry could adversely affect our business, financial condition and results of operations.

Many organizations in the healthcare industry, including pharmacy benefit managers, have consolidated in recent years to create larger healthcare enterprises with greater market power, which has resulted in greater pricing pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services. If these pressures result in reductions in our prices, our business will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business, financial condition and results of operations.

Table of Contents**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Issuer Repurchases of Equity Securities. The table below is a listing of repurchases of Common Stock during the third quarter of fiscal 2012.

Fiscal period:	Total Number of Shares Repurchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
August 28 to September 24, 2011	505	\$ 1.05		
September 25 to October 22, 2011	209,799	\$ 0.98		
October 23 to November 26, 2011				

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

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Removed and Reserved**ITEM 5. Other Information**

Not applicable.

ITEM 6. Exhibits

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

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Amended and Restated Stockholder Agreement, dated August 23, 2006, amended and restated as of June 4, 2007, by and between Rite Aid Corporation, The Jean Coutu Group (PJC) Inc., Jean Coutu, Marcelle Coutu, Francois J. Coutu, Michel Coutu, Louis Coutu, Sylvie Coutu and Marie-Josée Coutu	Exhibit 2.2 to Form 10-Q, filed on July 12, 2007
2.2	Letter Agreement to the Amended and Restated Stockholder	Exhibit 2.2 to Form 10-Q, filed on July 6, 2010

Edgar Filing: RITE AID CORP - Form 10-Q

Agreement, dated April 20, 2010, by and between Rite Aid
Corporation and The Jean Coutu Group (PJC) Inc.

38

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
2.3	Registration Rights Agreement, dated August 23, 2006, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 10.2 to Form 8-K, filed on August 24, 2006
3.1	Restated Certificate of Incorporation, dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation, dated February 22, 1999	Exhibit 3(ii) to Form 8-K, filed on November 2, 1999
3.3	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 27, 2001	Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
3.4	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 4, 2007	Exhibit 4.4 to Registration Statement on Form S-8, File No. 333-146531, filed on October 5, 2007
3.5	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 25, 2009	Exhibit 3.5 to Form 10-Q, filed on July 8, 2009
3.6	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.7	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.8	Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K, filed on January 27, 2010
4.1	Indenture, dated August 1, 1993, by and between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4A to Registration Statement on Form S-3, File No. 333-63794, filed on June 3, 1993
4.2	Supplemental Indenture dated as of February 3, 2000, between Rite Aid Corporation, as issuer, and U.S. Bank Trust National Association as successor to Morgan Guaranty Trust Company of New York, to the Indenture dated as of August 1, 1993, relating to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4.1 to Form 8-K filed on February 7, 2000

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
4.3	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K filed on February 7, 2000
4.5	Indenture, dated as of May 20, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 9.25% Senior Notes due 2013	Exhibit 4.12 to Form 10-Q, filed on July 3, 2003
4.6	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture, dated as of May 20, 2003, between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 9.25% Senior Secured Notes due 2013	Exhibit 4.8 to Form 10-Q, filed on January 9, 2008
4.7	Second Supplemental Indenture, dated as of June 17, 2008, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A., as successor trustee, to the Indenture dated as of May 20, 2003, between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 9.25% Senior Secured Notes due 2013	Exhibit 4.10 to Form 10-Q, filed on July 10, 2008
4.8	Indenture, dated as of February 21, 2007, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 99.1 to Form 8-K, filed on February 26, 2007

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
4.9	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of February 21, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 4.12 to Form 10-Q, filed on January 9, 2008
4.10	Second Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Indenture, dated as of February 15, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 4.13 to Form 10-Q, filed on July 10, 2008
4.11	Indenture, dated as of February 21, 2007, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 8.625% Senior Notes due 2015	Exhibit 99.2 to Form 8-K, filed on February 26, 2007
4.12	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture, dated as of February 21, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Secured Notes due 2015	Exhibit 4.14 to Form 10-Q, filed on January 9, 2008
4.13	Second Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Indenture, dated as of February 15, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Notes due 2015	Exhibit 4.16 to Form 10-Q, filed on July 10, 2008

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
4.14	Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.375% Senior Notes due 2015	Exhibit 4.1 to Form 8-K, filed on June 7, 2007
4.15	First Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A. to the Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.375% Senior Notes due 2015	Exhibit 4.18 to Form 10-Q, filed on July 10, 2008
4.16	Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.5% Senior Notes due 2017	Exhibit 4.2 to Form 8-K, filed on June 7, 2007
4.17	First Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.5% Senior Notes due 2017	Exhibit 4.20 to Form 10-Q, filed on July 10, 2008
4.18	Indenture, dated as of May 29, 2008, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's Senior Debt Securities	Exhibit 4.1 to Form 8-K, filed on June 2, 2008

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
4.19	First Supplemental Indenture, dated as of May 29, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of May 29, 2008 between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.5% Convertible Notes due 2015	Exhibit 4.2 to Form 8-K, filed on June 2, 2008
4.20	Indenture, dated as of July 9, 2008, between Rite Aid Corporation, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 10.375% Senior Secured Notes due 2016	Exhibit 4.23 to Form 10-Q, filed on July 10, 2008
4.21	Indenture, dated as of June 12, 2009, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 9.750% Senior Secured Notes due 2016	Exhibit 4.1 to Form 8-K, filed on June 16, 2009
4.22	Indenture, dated as of October 26, 2009, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 10.25% Senior Secured Notes due 2019.	Exhibit 4.1 to Form 8-K, filed on October 29, 2009
4.23	Indenture, dated as of August 16, 2010, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 8.00% Senior Secured Notes due 2020	Exhibit 4.1 to Form 8-K, filed on August 19, 2010
11	Statement regarding computation of earnings per share (See Note 2 to the condensed consolidated financial statements).	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
32	Certification of CEO and CFO pursuant to 18 United States Code, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

Edgar Filing: RITE AID CORP - Form 10-Q

Table of Contents

Exhibit Numbers	Description	Incorporation By Reference To
101.	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at November 26, 2011 and February 26, 2011, (ii) Condensed Consolidated Statements of Operations for the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010, (iii) Condensed Consolidated Statements of Cash Flow for the thirty-nine week periods ended November 26, 2011 and November 27, 2010, and (iv) Notes to Condensed Consolidated Financial Statements tagged in detail.*	

*

Furnished, not filed

Table of Contents

SIGNATURES

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

Date: December 29, 2011

RITE AID CORPORATION

By: /s/ MARC A. STRASSLER

Marc A. Strassler
Executive Vice President and General Counsel

Date: December 29, 2011

By: /s/ FRANK G. VITRANO

Frank G. Vitrano
*Senior Executive Vice President, Chief Financial Officer and Chief
Administrative Officer*