

RITE AID CORP

FORM 10-K (Annual Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended March 4, 2017

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 **23-1614034**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

30 Hunter Lane, Camp Hill, Pennsylvania **17011**
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller reporting company ☐

(Do not check if a
smaller reporting company)

Emerging growth company ☐

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

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

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold on the New York Stock Exchange on August 27, 2016 was approximately \$7,769,703,679. For purposes of this calculation, only executive officers and directors are deemed to be affiliates of the registrant.

As of April 17, 2017 the registrant had outstanding 1,053,663,926 shares of common stock, par value \$1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's annual meeting of stockholders to be held on or before July 17, 2017 are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, as well as our other public filings or public statements, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will" and similar expressions and include references 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 credit facilities and other debt agreements;
- the continued impact of private and public third party payors reduction in prescription drug reimbursement rates and their ongoing efforts to limit access to payor networks, including through mail order;
- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs, and our ability to achieve drug pricing efficiencies;
- the inability to complete the proposed Merger (as defined below), due to the failure to obtain stockholder approval to adopt the Merger Agreement (as defined below) or failure to satisfy the remaining conditions to the completion of the Merger, including receipt of required regulatory approvals and other risks related to obtaining the requisite consents to the Merger;
- the inability to complete the proposed Sale (as defined below) to a wholly owned subsidiary of Fred's, Inc. (NASDAQ: FRED) ("Fred's") due to the failure to satisfy the conditions to the completion of the Sale, including receipt of required regulatory approvals, and other risks related to obtaining the requisite consents to the Sale;
- the likelihood that, if the Merger is completed, the per share merger consideration would be \$6.50 per share as a result of divestitures required to complete the Merger;
- the continuing effect of the pending Merger or Sale, including the effect of the announcement of the Amendment (as defined below), on our business relationships (including, without limitation, customers and suppliers), operating results and business generally, and the risk that there may be a material adverse change of Rite Aid as a result of uncertainty surrounding the transaction;
- our ability to continue to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to maintain or grow prescription count and realize front-end sales growth;
- our ability to hire and retain qualified personnel;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities (subject to the limitations in the Merger Agreement), which could result in charges to our operating statement;
- our ability to manage expenses and working capital;
- continued consolidation of the drugstore and the pharmacy benefit management ("PBM") industries;

- the risk that changes in federal or state laws or regulations, including the Health Care Education Affordability Reconciliation Act, the repeal of all or part of the Patient Protection and the Affordable Care Act (or "Patient Care Act") and any regulations enacted thereunder may occur;
- the risk that provider and state contract changes may occur;
- risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;
- our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration and early price renegotiations prior to contract expirations;
- the continued impact of declining gross margins in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings;
- our ability to maintain our current Medicare Part D business and obtain new Medicare Part D business, as a result of the annual Medicare Part D competitive bidding process;
- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments;
- the risk that the Merger Agreement may be terminated in certain limited circumstances that require us to pay WBA a termination fee of \$325 million;
- the amount of the costs, fees, expenses and charges related to the Merger Agreement, the Merger, the Asset Purchase Agreement (as defined below) or the Sale;
- the risk that our stock price may decline significantly if the Merger is not completed;
- the risk that a governmental entity may prohibit, delay or refuse to grant approval, including antitrust approval, for the completion of the Merger or may require conditions, limitations or restrictions in connection with such approvals, including the risk that the FTC may not approve the transaction despite the changes the parties to the Merger Agreement and to the Asset Purchase Agreement are willing to make;
- risks related to other business effects, including the effects of industry, market, economic, political (including as a result of the recent U.S. Presidential election) or regulatory conditions, future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies or competitive development including aggressive promotional activity from our competitors;
- the risk that we could experience deterioration in our current Star rating with the Centers of Medicare and Medicaid Services ("CMS") or incur CMS penalties and/or sanctions;
- the nature, cost and outcome of pending and future litigation and other legal proceedings or governmental investigations, including any such proceedings related to the Merger or Sale and instituted against us and others;
- the risk that there may be a material adverse change of the Company or the Acquired Stores (as defined below);
- there may be changes to our strategy in the event that the proposed transactions do not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital or incurring other costs associated with restructuring our business;

- 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 sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Factors Affecting Our Future Prospects" included in this Annual Report on Form 10-K.

PART I

Item 1. Business

Overview

Rite Aid is the third largest retail drugstore chain in the United States based on both revenues and number of stores. As of March 4, 2017, we operated 4,536 stores in 31 states across the country and in the District of Columbia.

Our headquarters are located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011, and our telephone number is (717) 761-2633. Our common stock is listed on the New York Stock Exchange under the trading symbol of "RAD." We were incorporated in 1968 and are a Delaware corporation.

In fiscal 2017, we continued reporting our business in two distinct segments. Our Retail Pharmacy Segment consists of Rite Aid stores, RediClinic and Health Dialog. Our Pharmacy Services Segment consists of EnvisionRx, our PBM that has been rebranded as EnvisionRxOptions ("EnvisionRx" or "EnvisionRxOptions").

Retail Pharmacy Segment—In our Rite Aid retail stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2017, prescription drug sales accounted for 68.3% of our total drugstore sales. We believe that pharmacy operations will continue to represent a significant part of our business due to industry trends such as an aging population, increased life expectancy, anticipated growth in the federally funded Medicare Part D prescription program as "baby boomers" continue to enroll and the discovery of new and better drug therapies. We carry a full assortment of front-end products, which accounted for the remaining 31.7% of our total drug store sales in fiscal 2017. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, food and beverages, greeting cards, seasonal merchandise and numerous other everyday and convenience products.

We differentiate our stores from other national chain drugstores, in part, through our **wellness+ with Plenti** loyalty program, our Wellness format stores, innovative merchandising, private brands and our strategic partnership with GNC, a leading retailer of vitamin and mineral supplements. We offer a wide variety of products through our portfolio of private brands, which contributed approximately 18.3% of our front-end sales in fiscal 2017.

The average size of each store in our chain is approximately 12,700 square feet, and average store size is larger for our locations in the western United States. As of March 4, 2017, 63% of our stores were freestanding; 56% of our stores included a drive-thru pharmacy; and 52% included a GNC store within a Rite Aid store.

RediClinic, based in Houston and acquired by Rite Aid in April 2014 as a 100 percent owned subsidiary, is a leading operator of retail clinics. RediClinics are staffed by board certified nurse practitioners and physician assistants, who are trained and licensed to treat common conditions and provide preventative services, in collaboration with local physicians who are affiliated with a leading health care system in each market. Patients can be treated for more than 30 common medical conditions and RediClinic's clinicians are able to write prescriptions for these conditions when appropriate. Additionally, RediClinics provide a broad range of preventive services, including screenings, medical tests, immunizations and basic physical exams.

Health Dialog, a Boston-based 100 percent owned subsidiary that Rite Aid acquired in April 2014, is a provider of healthcare coaching and disease management services to health plans and employers. Health Dialog provides these services using a call in line staffed by nurse practitioners and through an on-line platform.

Pharmacy Services Segment—EnvisionRxOptions, a 100 percent owned subsidiary of Rite Aid, is a national, full-service PBM that also offers a broad range of pharmacy-related services. Given its rapid, recent growth and integration with Rite Aid, EnvisionRx rebranded its parent company and family of brands under EnvisionRxOptions to better reflect the breadth of capabilities it offers its customers. As a Rite Aid subsidiary, EnvisionRxOptions is a fully integrated provider with a differentiated approach to pharmacy benefits. EnvisionRx provides both transparent and traditional PBM options through its EnvisionRx and MedTrak PBM's, respectively. EnvisionRx's LakerSoftware provides a modern, scalable adjudication platform that powers both EnvisionRx and MedTrakRx, as well as other PBM's across the country that license this system. EnvisionRxOptions also offers fully integrated mail, specialty and compounding pharmacy services through EnvisionPharmacies; provides discounts for under and uninsured patients through EnvisionSavings; and serves one of the fastest growing demographics in healthcare—seniors enrolled in Medicare Part D through EnvisionInsurance and its national prescription drug plan, EnvisionRxPlus.

Merger Agreement—On January 30, 2017, Walgreens Boots Alliance, Inc. (NASDAQ: WBA) ("WBA") and Rite Aid announced that they had entered into an amendment and extension of their previously announced definitive Agreement and Plan of Merger, dated as of October 27, 2015 (as amended by Amendment No. 1 thereto (the "Amendment") on January 29, 2017, the "Merger Agreement"), with Victoria Merger Sub, Inc., a Delaware corporation and a wholly owned direct subsidiary of WBA ("Victoria Merger Sub"). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid (the "Merger"), with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. The exact per share merger consideration will be determined based on the number of retail stores that WBA agrees to divest in connection with the parties' efforts to obtain the required regulatory approvals for the Merger, with the price set at \$7.00 per share if 1,000 stores or fewer retail stores are required to be divested and at \$6.50 per share if 1,200 retail stores are required to be divested (or more, if WBA agrees to sell more). If the required divestitures fall between 1,000 and 1,200 stores, then there will be a pro-rata adjustment of the price per share. While the exact per share merger consideration is not known as of the date of this report, based on discussions with the FTC regarding potential remedies after filing the preliminary proxy statement, if the Merger is completed, Rite Aid believes that the per share merger consideration would likely be \$6.50 per share. WBA and Rite Aid also agreed to extend the end date under the previously announced agreement to July 31, 2017 to allow the parties additional time to obtain regulatory approval.

Asset Purchase Agreement—Previously, WBA and Rite Aid announced on December 20, 2016 that they had entered into an Asset Purchase Agreement, dated as of December 19, 2016 (the "Asset Purchase Agreement"), with AFAE, LLC, a Tennessee limited liability company and wholly owned subsidiary of Fred's ("Buyer") and Fred's (solely for the purposes set forth in the Asset Purchase Agreement). Pursuant to the terms and subject to the conditions set forth in the Asset Purchase Agreement, Rite Aid agreed to sell 865 Rite Aid stores (the "Acquired Stores") and certain specified assets related to store operations to Buyer for a purchase price of \$950.0 million plus Buyer's assumption of certain liabilities of Rite Aid and its affiliates (the "Sale"). Should the divestiture of up to 1,200 stores be required to obtain regulatory approval, all parties to the Asset Purchase Agreement agree to negotiate in good faith to amend the Asset Purchase Agreement accordingly. Completion of the Sale is subject to various closing conditions, including but not limited to, the closing of the proposed acquisition of Rite Aid by WBA (the "Rite Aid Acquisition") and the Federal Trade Commission (the "FTC") having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Rite Aid Acquisition identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement.

Industry Trends

The rate of pharmacy sales growth in the United States has slowed in recent years, driven by a decline in new blockbuster drugs, a longer FDA approval process, drug safety concerns, higher copays and an increase in the use of generic (non-brand name) drugs, which are less expensive but generate higher gross margins. New drug development in the next few years is expected to be concentrated in specialty prescriptions, which are targeted toward a specific disease state. These drugs are often complex and expensive. We expect prescription usage to continue to grow in the coming years due to the aging U.S. population, increased life expectancy, "baby boomers" continuing to become eligible for the federally funded Medicare prescription program and new drug therapies. Additionally, rising U.S. healthcare costs and the shortage of primary care physicians are creating opportunities for pharmacists and drugstores to play a more active role in driving positive health outcomes for patients. Services such as immunizations, medication therapy management, chronic condition management, clinics and medication compliance counseling extend our efforts well beyond filling prescriptions. We believe that offerings such as these could gain additional momentum in a rapidly changing healthcare environment. Uncertainty regarding the Patient Protection and Affordable Care Act and the potential reduction of patients that have access to insured prescription drug coverage could have a negative impact on our business.

In terms of our traditional drug dispensing business, generic prescription drugs continue to help lower overall costs for customers and third party payors. We believe the utilization of existing generic pharmaceuticals will continue to increase, although the pace of introduction of new generic drugs is expected to slow. The gross profit from a generic drug prescription in the retail drugstore industry is generally greater than the gross profit from a brand drug prescription. However, the sale amount can be substantially less and can impact our overall revenues and same store sales.

The retail drugstore industry is highly competitive. We believe that the competitive advantages from the increasing trend toward vertical integration resulting from the combination of retail pharmacy companies with pharmacy benefit managers, such as CVS Health, and aggressive generic pricing programs at competitors such as Wal-Mart and various supermarket chains will further increase competitive pressures in the industry. Front end product pricing has continued to be highly promotional in the retail drugstore business, which contributes to additional competitive pressures.

The retail drugstore industry relies significantly on third party payors. Third party payors, including the Medicare Part D plans and the state-sponsored Medicaid and related managed care Medicaid agencies, at times change the eligibility requirements of participants or reduce certain reimbursement rates. These changes and reductions are expected to continue. Medicare Part D plans have also introduced plans that have restricted network options, under which a patient can elect a plan with a lower copay in exchange for the choice to use a limited number of pharmacies to fill their prescriptions. In order to participate in these restricted networks, retail pharmacies generally have to accept lower reimbursement rates. We expect the usage of these restricted network plans to continue to increase. When third party payors, including the Medicare Part D program and state-sponsored Medicaid agencies, reduce the number of participants and/or reduce their reimbursement rates, sales and margins in the industry could be reduced, and profitability of the industry adversely affected. These possible adverse effects can be partially offset by lowering our product cost, controlling expenses, dispensing more higher margin generics, finding new revenue streams through pharmacy services and dispensing more prescriptions overall.

Strategy

During fiscal 2017, we experienced an erosion of pharmacy margin due to reimbursement rate pressures, an inability to offset these pressures with generic drug purchasing efficiencies and declining prescription counts due primarily to our lack of participation in Medicare Part D restricted networks.

In fiscal 2018, as we work to complete our merger with WBA our strategy will be to offset what we expect to be further reimbursement rate pressure through initiatives to grow sales as well as cost control measures.

Following are descriptions of some of our key initiatives:

Expanded Healthcare Services —In fiscal 2017, we continued to expand the role of our Rite Aid pharmacists in delivering wellness services that go beyond filling prescriptions. A key area of focus has been our immunizations program, which has grown significantly in recent years. In fiscal 2017, our pharmacists administered more than 4.0 million immunizations, including more than 3.2 million flu shots and approximately 0.8 million other immunizations that protect against conditions like shingles, pneumonia and whooping cough. Immunizations will continue to be a key priority in fiscal 2018.

At the same time, helping our patients take their medications as prescribed continues to be a critical opportunity to improve their health and wellness while also lowering healthcare costs by avoiding illnesses and hospital visits. To support our ongoing efforts, we've launched One Trip Refills, which allows our patients to refill all of their monthly maintenance medications by making a single trip to the pharmacy. The program has been well received by our patients, and when combined with our existing services to send alerts via text message, e-mail or phone when a prescription is ready to be picked up, it creates a more patient-friendly experience for our Rite Aid customers.

An important part of our retail healthcare strategy continues to be finding ways to integrate our expanded suite of healthcare assets with our base of conveniently located retail pharmacies to deliver a higher level of care and service in our communities. This includes leveraging our store base and the capabilities of EnvisionRxOptions in our efforts to create compelling pharmacy offerings across retail, specialty and mail-order channels; deliver cost-effective solutions to employers and health plans; and drive growth. When combined with Rite Aid's retail platform, EnvisionRxOptions' comprehensive suite of services allows Rite Aid to provide additional value and broader choice to customers, patients and payors and will better position us to meet their needs. In fiscal 2017, Rite Aid and EnvisionRxOptions introduced Rx90, a program that gives EnvisionRx PBM patients the option to fill their 90-day prescriptions either through its mail order facility or at a comprehensive network of retail stores, including Rite Aid.

Our Pharmacy Services segment's business strategy centers on providing innovative pharmaceutical solutions and quality client service in order to help improve clinical outcomes for our clients' plan members while assisting our clients and their plan members in better managing overall health care costs. Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy services, retail pharmacy network management services, clinical services, disease management services, and other spend management.

RediClinic also represents a key component of our efforts to expand Rite Aid's retail healthcare offering. As of March 4, 2017, we had 63 RediClinics operating in Rite Aid stores throughout the Philadelphia, Seattle and Baltimore/Washington, D.C. markets and in New Jersey, through our recently announced joint venture with Hackensack Meridian Health. Including our locations in Texas, we operated a total of 99 RediClinics at the end of fiscal 2017.

wellness+ with Plenti —Since the launch of wellness+ in April 2010, this free loyalty program has provided customers and patients with the opportunity to earn significant discounts and wellness rewards in return for being loyal Rite Aid shoppers. Enrolled members earn rewards based on the accumulation of points for certain front-end and prescription purchases. The program has been well received by Rite

Aid customers and continues to provide significant value to members earning enough points to reach the Gold or Silver tier levels. Gold members, for example, receive a tiered discount of 20-percent off most items in the store for an entire year. In addition, all wellness+ members receive exclusive sale pricing and wellness rewards.

Plenti, which at Rite Aid has been incorporated into wellness+ to create **wellness+ with Plenti**, allows consumers to earn and use points across a range of well-known brands in different industries. Through **wellness+ with Plenti**, our customers can use one card and earn two kinds of points. Members continue to earn wellness+ points toward various benefits at Rite Aid including discounts of up to 20% off storewide, exclusive sale prices and 24/7 access to a pharmacist. Members are also able to earn Plenti points whenever they make qualifying purchases at Rite Aid and all other Plenti partners and these points can be used for savings at Rite Aid as well as certain other Plenti partners including AT&T, ExxonMobil, Macy's, Nationwide, Direct Energy, Hulu and American Express. Customers have at least two years to use their Plenti points.

We currently have over 30 million customers enrolled in **wellness+ with Plenti** and millions more enrolled by our partners throughout the coalition. In addition, 55% of transactions at Rite Aid now involve a **wellness+ with Plenti** card. We've also been highly successful in converting our gold and silver wellness+ members—our most loyal and valuable customers—to the enhanced program.

Wellness Store Remodels —In fiscal 2017, we continued to strengthen Rite Aid as a wellness destination by completing additional Wellness store remodels. As a result, our total number of Wellness stores reached 2,418 by the end of the fiscal year, which means that over 50% of all Rite Aid stores are now Wellness stores. We also opened 12 new stores and did 24 relocations, all in our groundbreaking Wellness format, which offers improved interior design, expanded clinical pharmacy services, innovative merchandising and new wellness product offerings. Our customers have responded favorably to this unique store format, with our Wellness stores continuing to outperform the rest of our chain in terms of both front-end same store sales and same store prescription count growth.

We plan to complete 200 additional Wellness remodels in fiscal 2018 along with 26 relocations and 5 new store openings. We believe these efforts represent a cost-effective way to strengthen our store base, grow sales and offer our customers an engaging wellness experience.

Prescription File Purchases —In fiscal 2017, we spent \$56.8 million on the purchase of prescription files. This represented a decrease in spend from previous years, as the pending merger with WBA limited our file buy opportunities. We will continue to purchase prescription files in fiscal 2018 as they typically deliver a strong return on investment.

Drug Purchasing and Distribution Efficiencies —In fiscal 2017, we continued to partner with McKesson for pharmaceutical purchasing and distribution. Under this arrangement, McKesson assumes responsibility for purchasing all of the brand and generic medications that we dispense in our stores as well as delivering those medications to our over 4,500 store locations. This drug purchasing and distribution arrangement helps us manage product costs and working capital while optimizing in-stock positions in our stores.

Cost Control —In fiscal 2018, we will continue to look for ways to control our costs in order to help mitigate the impact that declining reimbursement rates has on our business. Our cost control initiatives include the expansion of our central fill capabilities and our shared prescription quality assurance program, both of which are designed to utilize pharmacist labor in a more efficient manner. Our centralized indirect procurement group will continue to target not-for-resale purchasing opportunities.

Products and Services

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 68.3%, 69.1% and 68.8% of our total drugstore sales in fiscal years 2017, 2016 and 2015, respectively. In fiscal years 2017, 2016 and 2015, prescription drug sales were \$18.2 billion, \$18.4 billion and \$18.1 billion, respectively. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

We carry a full assortment of non-prescription, or front end, products. The types and number of front end products in each store vary, and selections are based on customer needs and preferences and available space. No single front end product category contributed significantly to our sales during fiscal 2017. Our Retail Pharmacy segment's principal classes of products in fiscal 2017 were the following:

<u>Product Class</u>	<u>Percentage of Sales</u>
Prescription drugs	68.3%
Over-the-counter medications and personal care	10.2%
Health and beauty aids	4.8%
General merchandise and other	16.7%

We offer a wide variety of products under our private brands in virtually every department. We intend to increase our private brand sales in fiscal 2018 by expanding our product lines and enhancing our marketing efforts. We believe that our assortment is differentiated and a compelling value to our customers based on our emphasis on high quality standards and everyday/promotional pricing.

We have a strategic alliance with GNC under which we have opened over 2,300 GNC stores within Rite Aid stores as of March 4, 2017 and have a contractual commitment to open at least 134 additional GNC stores within Rite Aid stores by December 2019. We incorporate the GNC stores within Rite Aid stores concept into many of our new and relocated stores and into many of our Wellness remodels. GNC is a leading nationwide retailer of vitamin and mineral supplements, personal care, fitness and other health-related products.

Through our 100 percent owned subsidiary, EnvisionRx, we offer a broad range of pharmacy-related services. In addition to its transparent and traditional PBM offerings through the EnvisionRx and MedTrak PBMs, EnvisionRx also offers fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies. Through its Envision Insurance Company, EnvisionRx also serves one of the fastest-growing demographics in healthcare: seniors enrolled in Medicare Part D. In addition, EnvisionRx, through its state of the art Laker Software, performs prescription adjudication services for its own as well as other PBM's.

The Company, through its Health Dialog subsidiary, provides health care coaching and disease management services to health plans and employers. Health Dialog provides these services using a call in line staffed by nurse practitioners and through an on-line platform.

Technology

All of our stores are integrated into a common information system, which enables our customers to fill or refill prescriptions in any of our stores throughout the country, reduces chances of adverse drug interactions, and enables our pharmacists to fill prescriptions more accurately and efficiently. Our customers may also order prescription refills over the Internet through our website, www.riteaid.com, our mobile app, or over the phone through our telephonic automated refill systems for pick up at a Rite Aid store. We have automated pharmacy dispensing units in high volume stores, which are linked to our pharmacists' computers that fill and label prescription drug orders. We developed central fill technology to facilitate the automated picking, packaging, and labeling of prescriptions in a central filling location, which are sent to certain retail stores for delivery to the customer. We have also

developed workload sharing technology within our stores, whereby stores within a close proximity can shift filling volume to stores with excess capacity. The efficiency of these processes allows our pharmacists to spend more time consulting with and answering our customers' questions and concerns about their prescription medications and health conditions. Additionally, each of our stores employs point-of-sale technology that supports sales analysis and recognition of customer trends. This same point-of-sale technology facilitates the maintenance of perpetual inventory records which, together with our sales analysis, drives our automated inventory replenishment process.

We continue to embrace technology as a way to enhance the customer experience. Our mobile app, which is available for download for both the Android and iPhone platforms, allows our customers to use their smartphones to manage their wellness + account, refill prescriptions, access the weekly circular to view sale items, order photo prints and locate a nearby Rite Aid store. We have continued to strengthen our presence on social media sites such as Facebook, Twitter and Pinterest through unique promotions and contests.

Sources and Availability of Raw Materials

Beginning in fiscal 2015, under our pharmaceutical purchasing and delivery arrangement ("Purchasing and Delivery Arrangement") with limited exceptions, we purchased all of our branded pharmaceutical products and almost all of our generic (non-brand name) pharmaceutical products from McKesson Corporation ("McKesson"). If our relationship with McKesson were disrupted, we could temporarily have difficulty filling prescriptions for branded and generic drugs until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes.

We purchase our non-pharmaceutical merchandise from numerous manufacturers and wholesalers. We believe that competitive sources are readily available for substantially all of the non-pharmaceutical merchandise we carry and that the loss of any one supplier would not have a material effect on our business.

We sell private brand and co-branded products that generally are supplied by numerous competitive sources. The Rite Aid and GNC co-branded PharmAssure vitamin and mineral supplement products and the GNC branded vitamin and mineral supplement products that we sell in our stores are developed by GNC, and along with our Rite Aid brand vitamin and mineral supplements, are manufactured by GNC.

Customers and Third Party Payors

During fiscal 2017, our stores filled approximately 302 million prescriptions and served an average of 2.0 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2017, 98.2% of our pharmacy sales were to customers covered by third party payors (such as insurance companies, prescription benefit management companies, government agencies, private employers or other managed care providers) that agree to pay for all or a portion of a customer's eligible prescription purchases based on negotiated and contracted reimbursement rates. During fiscal 2017, the top five third party payors accounted for approximately 75.6% of our pharmacy sales. The largest third party payor, Caremark, represented 27.3% of our pharmacy sales.

During fiscal 2017, Medicaid and related managed care Medicaid payors sales were approximately 19.8% of our pharmacy sales, of which the largest single Medicaid payor was approximately 1.2% of our pharmacy sales. During fiscal 2017, approximately 33.0% of our pharmacy sales were to customers covered by Medicare Part D.

Through our Pharmacy Services segment we provide innovative pharmaceutical solutions for our clients which are primarily employers, insurance companies, unions, government employee groups,

health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States.

Competition

The retail drugstore industry is highly competitive. We compete with, among others, retail drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, wellness offerings, dollar stores and mail order pharmacies. We compete on the basis of store location and convenient access, customer service, product selection and price. We believe continued consolidation of the drugstore industry, and the aggressive discounting of generic drugs by supermarkets and mass merchandisers will further increase competitive pressures in the industry.

Marketing and Advertising

In fiscal 2017, marketing and advertising expense was approximately \$289.9 million, which was spent primarily on weekly circular, digital, customer relationship, and Pharmacy advertising. Our marketing and advertising activities centered primarily on the following:

- Product price promotions to draw customers to our stores;
- Our **wellness + with Plenti** loyalty program, which benefits members based on accumulating wellness+ points for certain front end and prescription purchases that qualify for savings of up to 20% off every day for a year, and Plenti point rewards to provide members additional savings at Rite Aid and certain other Plenti partners like AT&T, ExxonMobil, Macy's, Nationwide, Direct Energy, Hulu and American Express;
- Emphasis on the value of our private brand products;
- Support of specific market wide initiatives and individual store programs such as competitor market intrusion, prescription file buys and grand openings for new and remodeled stores
- Our vision to be the customer's first choice for health and wellness products, services and information.

Under the umbrella of our "With Us It's Personal" positioning, we promote educational programs focusing on specific health conditions and pharmacy and clinical services to drive brand preference including our One Trip Refills, immunization and Quit For You smoking cessation programs. We believe all of these programs will help us improve customer satisfaction and grow profitable sales.

Associates

We believe that our relationships with our associates are good. As of March 4, 2017, we had approximately 87,000 Retail Pharmacy segment associates: 11% were pharmacists, 42% were part-time and 26% were represented by unions. Additionally, we have approximately 1,700 Pharmacy Services segment associates. Associate satisfaction is critical to our success. Annually we survey our associates to obtain feedback on various employment-related topics, including job satisfaction and their understanding of our core values and mission.

The number of graduates from U.S. Schools of Pharmacy is largely meeting our workforce demand. However, pharmacist employment opportunities still exist in certain areas.

Research and Development

We do not make significant expenditures for research and development.

Licenses, Trademarks and Patents

The Rite Aid name is our most significant trademark and the most important factor in marketing our stores and private brand products. We hold licenses to sell beer, wine and liquor, cigarettes and lottery tickets. As part of our strategic alliance with GNC, we have a license to operate GNC "stores-within-Rite Aid-stores." We also hold licenses to operate our pharmacies and our distribution facilities. Through our 100% owned subsidiary EnvisionRx, we hold a license to conduct Medicare Part D business with CMS.

Collectively, these licenses are material to our operations.

Seasonality

We experience moderate seasonal fluctuations in our results of operations concentrated in the first and fourth fiscal quarters as the result of the concentration of the cough, cold and flu season and the holidays. We tailor certain front end merchandise to capitalize on holidays and seasons. We increase our inventory levels during our third fiscal quarter in anticipation of the seasonal fluctuations described above. Our results of operations in the fourth and first fiscal quarters may fluctuate based upon the timing and severity of the cough, cold and flu season, both of which are unpredictable.

Regulation

Our business is subject to federal, state and local laws, regulations, and administrative practices concerning the provision of and payment for health care services, including, without limitation: federal, state and local licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy; Medicare, Medicaid and other publicly financed health benefit plan regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims; the Patient Protection and Affordable Care Act (the "ACA"); regulations of the U.S. Food and Drug Administration and the U.S. Drug Enforcement Administration, including regulations governing the purchase, sale, storing and dispensing of controlled substances and other products, as well as regulations promulgated by state and other federal agencies concerning automated outbound contacts such as phone calls, text messages and emails and the sale, advertisement and promotion of the products we sell, including tobacco and alcoholic beverages.

Our business is also subject to patient privacy and other obligations, including corporate, pharmacy and associate responsibility imposed by the Health Insurance Portability and Accountability Act. As a covered entity, we are required to implement privacy standards, train our associates on the permitted uses and disclosures of protected health information, provide a notice of privacy practice to our pharmacy customers and permit pharmacy customers to access and amend their records and receive an accounting of disclosures of protected health information. We are also subject to federal and state privacy and data security laws with respect to our receipt, use and disclosure by us of personally identifiable information, which laws require us to provide appropriate privacy and security safeguards for such information. In addition, we are also subject to the Payment Card Industry Data Security Standard promulgated by the payment card industry in connection with handling credit card data. This standard contains requirements devised to aid entities that process, store or transmit credit card information to maintain a secure environment.

We are also subject to laws governing our relationship with our associates, including health and safety, minimum wage requirements, overtime, working conditions, equal employment opportunity and unionizing efforts.

In addition, in connection with the ownership and operations of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites.

We are subject to federal, state, and local statutes and regulations, which govern PBM operations. In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as the National Committee for Quality Assurance ("NCQA") and the Utilization Review Accreditation Commission ("URAC") may establish voluntary standards regarding PBM or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact health plan clients and/or the services provided to them. PBMs also operate within the governance set forth by the Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers. This program regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, and continues to attract a high degree of legislative and regulatory scrutiny. The applicable government rules and regulations are expected to continue to evolve in the future.

Corporate Governance and Internet Address

We recognize that good corporate governance is an important means of protecting the interests of our stockholders, associates, customers and the community. We have closely monitored and implemented relevant legislative and regulatory corporate governance reforms, including provisions of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the rules of the SEC interpreting and implementing Sarbanes-Oxley and the corporate governance listing standards of the NYSE.

Our corporate governance information and materials, including our Certificate of Incorporation, Bylaws, Corporate Governance Guidelines, the charters of our Audit Committee, Compensation Committee and Nominating and Governance Committee, our Code of Ethics for the Chief Executive Officer and Senior Financial Officers, our Code of Ethics and Business Conduct and our Related Person Transaction Policy are posted on the corporate governance section of our website at www.riteaid.com and are available in print upon request to Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011, Attention: Corporate Secretary. Our Board will regularly review corporate governance developments and modify these materials and practices as warranted.

Our website also provides information on how to contact us and other items of interest to investors. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, Extensible Business Reporting Language ("XBRL") data files of our annual report and quarterly reports beginning with our fiscal 2015 first quarter 10-Q, current reports on Form 8-K and all amendments to these reports, as soon as reasonably practicable after we file these reports with, or furnish them to, the SEC. We do not intend for the information contained on our website to be part of this annual report on Form 10-K.

Item 1A. Risk Factors

Factors Affecting our Future Prospects

Set forth below is a description of certain risk factors which we believe may be relevant to an understanding of us and our business. Security holders are cautioned that these and other factors may affect future performance and cause actual results to differ from those which may be anticipated. See "Cautionary Statement Regarding Forward-Looking Statements."

Risks Related to our Financial Condition

Economic conditions may adversely affect our industry, business and results of operations.

Economic uncertainty has and could further lead to reduced consumer spending. If consumer spending decreases or does not grow, we may see further decline in our same store sales. In addition, reduced or flat consumer spending may drive us and our competitors to offer additional products at promotional prices, which would have a negative impact on our gross profit. We operate a number of stores in areas that are experiencing a lower or slower recovery than the economy on a national level. A continued softening or slow recovery in consumer spending may adversely affect our industry, business and results of operations. Reduced revenues as a result of decreased consumer spending may also reduce our liquidity and otherwise hinder our ability to implement our long term strategy.

We are highly leveraged. Our substantial indebtedness could limit cash flow available for our operations and could adversely affect our ability to service debt or obtain additional financing if necessary.

We had, as of March 4, 2017, \$7.3 billion of outstanding indebtedness and stockholders' equity of \$614.1 million. We also had additional borrowing capacity under our \$3.7 billion amended and restated senior secured revolving credit facility (the "Amended and Restated Senior Secured Credit Facility" or "revolver") of \$1,207.7 million, net of outstanding letters of credit of \$62.3 million. Our earnings were sufficient to cover fixed charges for fiscal 2017, 2016, 2015 and 2014 by \$48.3 million, \$278.2 million, \$426.7 million and \$233.4 million, respectively. However, our earnings were insufficient to cover fixed charges and preferred stock dividends for fiscal 2013 by \$14.0 million.

Our high level of indebtedness will continue to restrict our operations. Among other things, our indebtedness will:

- limit our flexibility in planning for, or reacting to, changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors with less indebtedness;
- limit our ability to reinvest in our business;
- render us more vulnerable to general adverse economic, regulatory and industry conditions; and
- require us to dedicate a substantial portion of our cash flow to service our debt.

Our ability to meet our cash requirements, including our debt service obligations, is dependent upon our ability to maintain our operating performance, which will be subject to general economic and competitive conditions and to financial, business and other factors, many of which are beyond our control. We cannot provide assurance that our business will generate sufficient cash flow from operations to fund our cash requirements and debt service obligations.

We believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal 2018 and have no significant debt maturities prior to January 2020. However, if our operating results, cash flow or capital resources prove inadequate, or if interest rates rise significantly, we could face liquidity constraints. If we are unable to service our debt or experience a significant reduction in our liquidity, we could be forced to reduce or delay planned capital expenditures and other initiatives, sell assets, restructure or refinance our debt or seek additional equity capital, and we may be unable to take any of these actions on satisfactory terms or in a timely manner. Further, any of these actions may not be sufficient to allow us to service our debt obligations or may have an adverse impact on our business. Our existing debt agreements limit our ability to take certain of these actions. Our failure to generate sufficient operating cash flow to pay our debts or refinance our indebtedness could have a material adverse effect on us.

Borrowings under our senior secured credit facility are based upon variable rates of interest, which could result in higher expense in the event of increases in interest rates.

As of March 4, 2017, \$3.4 billion of our outstanding indebtedness bore interest at a rate that varies depending upon the London Interbank Offered Rate ("LIBOR"). Borrowings under our Second Lien facilities (the \$470.0 million Tranche 1 Term Loan due August 2020 (the "Tranche 1 Term Loan") and the \$500.0 million Tranche 2 Term Loan due June 2021 (the "Tranche 2 Term Loan")) are subject to a minimum LIBOR floor of 100 basis points. Borrowings under our Amended and Restated Senior Secured Credit Facility are most sensitive because they are not subject to a minimum LIBOR floor. If LIBOR rises, the interest rates on outstanding debt will increase. Therefore an increase in LIBOR would increase our interest payment obligations under those loans and have a negative effect on our cash flow and financial condition. We currently do not maintain hedging contracts that would limit our exposure to variable rates of interest.

The covenants in the instruments that govern our current indebtedness may limit our operating and financial flexibility.

The covenants in the instruments that govern our current indebtedness limit our ability to:

- incur debt and liens;
- pay dividends;
- make redemptions and repurchases of capital stock;
- make loans and investments;
- prepay, redeem or repurchase debt;
- engage in acquisitions, consolidations, asset dispositions, sale-leaseback transactions and affiliate transactions;
- change our business;
- amend some of our debt and other material agreements;
- issue and sell capital stock of subsidiaries;
- restrict distributions from subsidiaries; and
- grant negative pledges to other creditors.

The Amended and Restated 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 Amended and Restated Senior Secured Credit Facility has a financial covenant which requires us to maintain a minimum fixed charge coverage ratio. The covenant requires that, if availability under the revolver (a) on any date is less than \$200.0 million, or (b) for three consecutive business days is less than \$250.0 million, we maintain a minimum fixed charge coverage ratio of 1.00 to 1.00. As of March 4, 2017, we had availability under our revolver of \$1,207.7 million, our fixed charge coverage ratio was greater than 1.00 to 1.00, and we were in compliance with the senior secured credit facility's financial covenant. Upon closing of the Merger, we expect that all amounts due under the Amended and Restated Senior Secured Credit Facility, Tranche 1 Term Loan and Tranche 2 Term Loan will be paid in accordance with the terms of the Merger Agreement (See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Liquidity").

Our stockholders will experience dilution if we issue additional common stock.

The Merger Agreement limits our ability to issue additional capital stock, subject to certain exceptions. However, any additional future issuances of common stock will reduce the percentage of our common stock owned by investors who do not participate in such issuances. In most circumstances, stockholders will not be entitled to vote on whether we issue additional shares of common stock. The market price of our common stock could decline as a result of issuances of a large number of shares of our common stock or the perception that such issuances could occur.

Risks Related to our Operations

We need to improve our operations in order to improve our financial condition, but our operations will not improve if we cannot effectively implement our business strategy or if our strategy is negatively affected by worsening economic conditions.

We have not yet achieved the sales productivity level of our major competitors. We believe that improving the sales of existing stores is important to improving profitability and operating cash flow. If we are not successful in implementing our strategies, including our efforts to increase sales and further reduce costs, or if our strategies are not effective, we may not be able to improve our operations. In addition, any further adverse change or continued weakness in general economic conditions or major industries can adversely affect drug benefit plans and reduce our pharmacy sales. Adverse changes in general economic conditions could affect consumer buying practices and consequently reduce our sales of front end products, and cause a decrease in our profitability. Failure to improve operations or weakness in major industries or general economic conditions would adversely affect our results of operations, financial condition and cash flows and our ability to make principal or interest payments on our debt.

We purchase all of our brand and generic drugs from a single wholesaler. A disruption in this relationship may have a negative effect on us.

We purchase all of our brand prescription and, with limited exceptions, all of our generic drugs from a single wholesaler, McKesson. Because McKesson acts as a wholesaler for drugs purchased from ultimate manufacturers worldwide, any disruption in the supply of a given drug, including supply shortages of key ingredients, or regulatory actions by domestic or foreign governmental agencies, or specific actions taken by drug manufacturers, could adversely impact McKesson's ability to fulfill our demands, which could adversely affect us. Pharmacy sales represented approximately 68.3% of our total drugstore sales during fiscal 2017. While we believe that alternative sources of supply for most generic and brand name pharmaceuticals are readily available, a significant disruption in our relationship with McKesson could make it difficult for us to continue to operate our business on a regular basis until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes. We believe we could obtain and qualify alternative sources, including through self-distribution, for substantially all of the prescription drugs we sell on an acceptable basis, and accordingly that the impact of any disruption would be temporary.

A significant disruption in our computer systems or a cyber security breach could adversely affect our operations.

We rely extensively on our computer systems, including those used by EnvisionRx, RediClinic, and Health Dialog, to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes. Our systems have been subject to attack by perpetrators of random or targeted malicious technology-related events, such as cyberattacks, computer viruses, worms, bot attacks or other destructive or disruptive software and attempts to misappropriate customer information, including credit card information. These sorts of attacks could subject our systems to damage or interruption

from power outages, computer and telecommunications failures, computer viruses, cyber security breaches, vandalism, coordinated cyber security attacks, severe weather conditions, catastrophic events and human error, and our disaster recovery planning cannot account for all eventualities. Although we deploy an information security program that is developed with a multi-layered approach to address information security threats and vulnerabilities, including ones from a cyber security standpoint, designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position and results of operations. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. We could also be adversely impacted by any significant disruptions in the systems of third parties we interact with, including key payors and vendors. If our systems are damaged, fail to function properly or otherwise become unavailable, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our business and results of operations. Any compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or our data could also result in a violation of applicable privacy, information security, and other laws, significant legal and financial exposure, fines or lawsuits, damage to our reputation, loss or misuse of the information and a loss of confidence in our security measures, which could harm our business. Although we maintain cyber security insurance, we cannot assure you that the coverage limits under our insurance program will be adequate to protect us against future claims. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards, gift cards and mobile payment technology, and we may accept new forms of payment over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

If we fail to protect the security of personal information about our customers and associates, we could be subject to costly government enforcement actions or private litigation.

Through our sales and marketing activities, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our web site, or otherwise communicate and interact with us. We also gather and retain information about our associates in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. We also participate in the Plenti coalition with American Express, in which we provide detailed customer information to allow them to administer the coalition program. Despite instituted safeguards for the protection of such information, security could be compromised and confidential customer or business information misappropriated, for which we have paid related penalties in the past. Loss of customer or business information could disrupt our operations, damage our reputation, and expose us to claims from customers, financial institutions, payment card associations and other persons, any of which could have an adverse effect on our business, financial condition and results of operations. In addition, compliance with more rigorous privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

Risks Related to the Retail Pharmacy and PBM Industries in which we Operate

The markets in which we operate are very competitive and further increases in competition could adversely affect us.

We face intense competition with local, regional and national companies, including other drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, dollar stores and internet pharmacies. Competition from discount stores has significantly increased during the past few years. Some of our competitors have or may merge with or acquire pharmaceutical services companies, pharmacy benefit managers, mail order facilities or enter into strategic partnership alliances with wholesalers or pharmacy benefit managers, which may further increase competition. We may not be able to effectively compete against them because our existing or potential competitors may have financial and other resources that are superior to ours. We also face competition from other PBMs, including large, national PBMs, PBMs owned by national health plans and smaller standalone PBMs. Certain of these competitors entered into the pharmacy benefit management industry before us, and there is no assurance that we will successfully compete with entities with more established pharmacy benefit management businesses. Further, we may be at a competitive disadvantage because we are more highly leveraged than our competitors. The ability of our stores to achieve profitability depends on their ability to achieve a critical mass of loyal, repeat customers. We cannot assure you that we will be able to continue to effectively compete in our markets or increase our sales volume in response to further increased competition.

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 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.

The availability of pharmacy drugs is subject to governmental regulations.

The continued conversion of various prescription drugs, including potential conversions of a number of popular medications, to over-the-counter medications may reduce our pharmacy sales and customers may seek to purchase such medications at non-pharmacy stores. Also, if the rate at which new prescription drugs become available slows or if new prescription drugs that are introduced into the market fail to achieve popularity, our pharmacy sales may be adversely affected. The withdrawal of certain drugs from the market or concerns about the safety or effectiveness of certain drugs or negative publicity surrounding certain categories of drugs may also have a negative effect on our pharmacy sales or may cause shifts in our pharmacy or front end product mix.

Changes in third party reimbursement levels for prescription drugs and changes in industry pricing benchmarks could reduce our margins and have a material adverse effect on our business.

Sales of prescription drugs reimbursed by third party payors, including the Medicare Part D plans and state sponsored Medicaid and related managed care Medicaid agencies, represented 98.2% of our pharmacy sales in our Retail Pharmacy segment in fiscal 2017.

The continued efforts of the Federal government, health maintenance organizations, managed care organizations, pharmacy benefit management companies, other State and local government entities, and other third-party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation relating to how drugs are priced, may impact our profitability. In addition, some of these entities may offer pricing terms that we may not be willing to accept or otherwise restrict our participation in their networks of pharmacy providers. Any significant loss of third-party business could have a material adverse effect on our business and results of operations. In particular, there has been a growth in the number of preferred Medicare Part D networks, many of which we are excluded from participating in. Decreased reimbursement payments to retail and mail order pharmacies for generic drugs has caused a reduction in our generic profit rate. Historically, the effect of this trend has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. Additionally, it has resulted in us providing contractual financial performance guarantees to certain of our PBM clients with respect to minimum generic drug price discounts for our retail pharmacy network and mail order pharmacy. Any inability to achieve guaranteed minimum generic drug price discounts provided to our PBM clients could have an adverse effect on our results of operations.

In addition, it is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace Average Wholesale Price ("AWP"), which is the pricing reference used for many of our PBM client contracts, pharmaceutical manufacturer rebate agreements, retail pharmacy network contracts, specialty payor agreements and other contracts with third party payors in connection with the reimbursement of drug payments. Future changes to the use of AWP or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare programs and Medicaid health plans, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates with pharmaceutical manufacturers, acquisition discounts with wholesalers and retail discounts with network pharmacies. The effect of these possible changes on our business cannot be predicted at this time.

During the past several years, the United States health care industry has been subject to an increase in governmental regulation, licensing, and audits at both the federal and state levels. Efforts to

control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability. Additionally, the results of the November 2016 elections have generated uncertainty with respect to, and could result in, significant changes in legislation, regulation and government policy that could significantly impact our business and the health care and retail industries. While it is not possible to predict whether and when any such changes will occur or what form any such changes may take, specific proposals discussed during and after the election that could have a material adverse effect on our business include, but are not limited to, the repeal of all or part of the Patient Protection and Affordable Care Act (the "Patient Care Act") and other significant changes to health care system legislation as well as changes with respect to tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries.

The repeal of all or part of the Patient Care Act, significant changes to Medicaid funding or even significant destabilization of the Health Insurance Marketplaces could impact the number of Americans with health insurance and, consequently, prescription drug coverage. Even if the Patient Care Act remains, significant provisions of the Patient Care Act have not yet been finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage) and it is uncertain whether or in what form these provisions will be finalized. We cannot predict the effect, if any, a repeal of all or part of the Patient Care Act, the implementation or failure to implement the outstanding provisions of the Patient Care Act, or the enactment of new health care system legislation to replace current legislation may have on our retail pharmacy, LTC pharmacy and pharmacy services operations.

A substantial portion of our pharmacy revenue is currently generated from a limited number of third party payors, and, if there is a loss of, or significant change to prescription drug reimbursement rates by, a major third party payor, our revenue will decrease and our business and prospects could be adversely impacted.

A substantial portion of our pharmacy revenue is currently generated from a limited number of third party payors. While we are not limited in the number of third party payors with which we can do business and results may vary over time, our top five third party payors accounted for 75.6%, 70.4%, and 69.7% of our pharmacy revenue during fiscal 2017, 2016 and 2015, respectively. The largest third party payor, Caremark, represented 27.3%, of pharmacy sales during fiscal 2017. The largest third party payor during fiscal 2016 and 2015, Express Scripts, represented 25.3% and 27.8% of fiscal 2016 and 2015 pharmacy sales, respectively. We expect that a limited number of third party payors will continue to account for a significant percentage of our pharmacy revenue, and the loss of, or a significant change to the prescription drug reimbursement rates by, a major third party payor could decrease our revenue and harm our business.

We are subject to governmental regulations, procedures and requirements; our noncompliance or a significant regulatory change could adversely affect our business, the results of our operations or our financial condition.

Our business is subject to numerous federal, state and local laws and regulations. Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable regulations could result in the imposition of civil and criminal penalties that could adversely affect the continued operation of our business, including: (i) suspension of payments from government programs; (ii) loss of required government certifications; (iii) loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; (iv) loss of licenses; or (v) significant fines or monetary penalties. The regulations to which we are subject include, but are not limited to, federal, state and local registration and regulation of pharmacies; dispensing and sale of controlled substances

and products containing pseudoephedrine; applicable Medicare and Medicaid Regulations; the Health Insurance Portability and Accountability Act or ("HIPAA"); regulations relating to the protection of the environment and health and safety matters, including those governing exposure to and the management and disposal of hazardous substances; regulations enforced by the U. S. Federal Trade Commission, the U. S. Department of Health and Human Services and the Drug Enforcement Administration as well as state regulatory authorities, governing the sale, advertisement and promotion of products we sell; anti-kickback laws; false claims laws and federal and state laws governing the practice of the profession of pharmacy. We are also governed by federal and state laws of general applicability, including laws regulating matters of wage and hour laws, working conditions, health and safety and equal employment opportunity.

Additionally, Congress passed the Patient Care Act in 2010, which is resulting in significant structural changes to the health insurance system. Although many of the structural changes enacted by Patient Care Act were implemented in 2014, some of the applicable regulations and sub-regulatory guidance have not yet been issued and/or finalized (e.g., nondiscrimination in health programs and activities, excise tax on high cost employer sponsored coverage). The results of the November 2016 elections have generated uncertainty with respect to, and could result in, significant changes in legislation, regulation and government policy, including, but not limited to, the repeal of all or part of the Patient Care Act. Therefore, we cannot predict what effect, if any, the repeal of all or part of the Patient Care Act or any subsequent replacement legislation may have on our retail pharmacy and pharmacy services businesses.

Certain risks are inherent in providing pharmacy services; our insurance may not be adequate to cover any claims against us.

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions, adequacy of warnings, unintentional distribution of counterfeit drugs and expiration of drugs. In addition, federal and state laws that require our pharmacists to offer counseling, without additional charge, to their customers about medication, dosage, delivery systems, common side effects and other information the pharmacists deem significant can impact our business. Our pharmacists may also have a duty to warn customers regarding any potential negative effects of a prescription drug if the warning could reduce or negate these effects. Although we maintain professional liability and errors and omissions liability insurance, from time to time, claims result in the payment of significant amounts, some portions of which are not funded by insurance. We cannot assure you that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will be able to maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self-insure or we suffer reputational harm as a result of an error or omission.

We may be subject to significant liability should the consumption of any of our products cause injury, illness or death.

Products that we sell could become subject to contamination, product tampering, mislabeling or other damage requiring us to recall our products. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability claims may be asserted against us with respect to any of the products or pharmaceuticals we sell and we may be obligated to recall our products. A product liability judgment against us or a product recall could have a material, adverse effect on our business, financial condition or results of operations.

Risks of declining gross margins in the PBM industry could adversely impact our profitability.

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, enhanced service offerings and/or better service levels, and higher rebate yields. With respect to rebate yields, we maintain contractual relationships with brand name pharmaceutical manufacturers that provide for rebates on drugs dispensed by pharmacies in our retail network and by our mail order pharmacy (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. If we lose our relationship with one or more pharmaceutical manufacturers, or if the rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the manufacturer rebates we receive.

We also maintain contractual relationships with participating pharmacies that provide for discounts on retail transactions for generic drugs and brand drugs dispensed by pharmacies in our retail network. If we lose our relationship with one or more of the larger pharmacies in our network, or if the retail discounts provided by network pharmacies decline, our business and financial results could be adversely affected. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to collect network administration and technology fees, could adversely impact our profitability.

The possibility of PBM client loss and/or the failure to win new PBM business could impact our ability to secure new business.

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM's client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. In addition, the reputational impact of a service-related incident could negatively affect our ability to grow and retain our client base. Further, the PBM industry has been impacted by consolidation activity that may continue in the future. In the event one or more of our PBM clients is acquired by an entity that obtains PBM services from a competitor, we may be unable to retain all or a portion of our clients' business. Because of the competitive nature of the business, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results.

Regulatory or business changes relating to our participation in Medicare Part D, the loss of Medicare Part D eligible members, or our failure to otherwise execute on our strategies related to Medicare Part D, may adversely impact our business and our financial results.

One of our subsidiaries, Envision Insurance Company ("EIC"), is an insurer domiciled in Ohio (with Ohio as its primary insurance regulator) and licensed in all 50 states, and is approved to function as a Medicare Part D Prescription Drug Plan ("PDP") plan sponsor for purposes of individual insurance products offered to Medicare-eligible beneficiaries and for purposes of making employer/union-only group waiver plans available for eligible clients. We also provide other products and services in support of our clients' Medicare Part D plans or the Federal Retiree Drug Subsidy program. We have made, and may be required to make further, substantial investments in the personnel and

technology necessary to administer our Medicare Part D strategy. There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program and we can give no assurance that these risks will not materially adversely impact our business and financial results in future periods.

EIC is subject to various contractual and regulatory compliance requirements associated with participating in Medicare Part D. EIC is subject to certain aspects of state laws regulating the business of insurance in all jurisdictions in which EIC offers its PDP plans. As a PDP sponsor, EIC is required to comply with Federal Medicare Part D laws and regulations applicable to PDP sponsors. Additionally, the receipt of Federal funds made available through the Part D program by us, our affiliates, or clients is subject to compliance with the Part D regulations and established laws and regulations governing the Federal government's payment for healthcare goods and services, including the Anti-Kickback Statute and the False Claims Act. Similar to our requirements with other clients, our policies and practices associated with operating our PDP are subject to audit. If material contractual or regulatory non-compliance was to be identified, monetary penalties and/or applicable sanctions, including suspension of enrollment and marketing or debarment from participation in Medicare programs, could be imposed. Further, the adoption or promulgation of new or more complex regulatory requirements associated with Medicare may require us to incur significant compliance-related costs which could adversely impact our business and our financial results.

In addition, due to the availability of Medicare Part D, some of our employer clients may decide to stop providing pharmacy benefit coverage to retirees, instead allowing the retirees to choose their own Part D plans, which could cause a reduction in demand for our Medicare Part D group insurance products. Extensive competition among Medicare Part D plans could also result in the loss of Medicare Part D members by our managed care customers, which would also result in a decline in our membership base. For example, if we were to lose our current Star rating with the Centers of Medicare and Medicaid Services, fewer customers may select our plans, which could have an adverse effect on our financial results. Like many aspects of our business, the administration of the Medicare Part D program is complex. Any failure to execute the provisions of the Medicare Part D program may have an adverse effect on our financial position, results of operations or cash flows. As discussed above, in March 2010, comprehensive healthcare reform was enacted into federal law through the passage of the Patient Care Act. Additionally, as described above, the Patient Care Act contains various changes to the Part D program and could have a financial impact on our PDP and our clients' demand for our other Part D products and services. Further, it is unclear what effect, if any, the repeal of all or part of the Patient Care Act may have on the Part D program.

Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our clients and customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services.

The success of our business depends in part on customer loyalty, superior customer service and our ability to persuade customers to purchase products in additional categories and our private label brands. Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our clients and customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services.

We offer our customers private label brand products that are available exclusively at our stores and through our online retail sites. The sale of private label products subjects us to unique risks including potential product liability risks and mandatory or voluntary product recalls, our ability to successfully protect our intellectual property rights and the rights of applicable third parties, and other risks generally encountered by entities that source, market and sell private-label products. Any failure to

adequately address some or all of these risks could have an adverse effect on our business, results of operations and financial condition. Additionally, an increase in the sales of our private label brands may negatively affect our sales of products owned by our suppliers which, consequently, could adversely impact certain of our supplier relationships. Our ability to locate qualified, economically stable suppliers who satisfy our requirements, and to acquire sufficient products in a timely and effective manner, is critical to ensuring, among other things, that customer confidence is not diminished. Any failure to develop sourcing relationships with a broad and deep supplier base could adversely affect our financial performance and erode customer loyalty.

Moreover, customer expectations and new technology advances from our competitors have required that our business evolve so that we are able to interface with our retail customers not only face-to-face in our stores but also online and via mobile and social media. Our customers are using computers, tablets, mobile phones and other electronic devices to shop in our stores and online, as well as to provide public reactions concerning each facet of our operation. If we fail to keep pace with dynamic customer expectations and new technology developments, our ability to compete and maintain customer loyalty could be adversely affected.

Finally, EnvisionRx's specialty pharmacy business focuses on complex and high-cost medications that serve a relatively limited universe of patients. As a result, the future growth of our specialty pharmacy business is dependent largely upon expanding our base of drugs or penetration in certain treatment categories. Any contraction of our base of patients or reduction in demand for the prescriptions we currently dispense could have an adverse effect on our business, financial condition and results of operations.

Risks Related to the Proposed WBA Merger and the Sale

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

There can be no assurance that the proposed Merger with WBA or the Sale will occur. Completion of the Merger is subject to certain conditions, including, among others, (i) receipt of the requisite vote of Rite Aid's stockholders approving the Merger Agreement; (ii) the absence of any order or law prohibiting the Merger; (iii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iv) the accuracy of the parties' respective representations and warranties, subject in some instances to materiality or "Material Adverse Effect" qualifiers, as of the date of the Merger Agreement and the closing date of the Merger; (v) the parties' respective performance in all material respects (or, with respect to Rite Aid's specified obligations relating to incurring indebtedness, in all respects) of their respective agreements and covenants contained in the Merger Agreement at or prior to the closing of the Merger; and (vi) the absence of a "Material Adverse Effect" with respect to us, since the execution of the Amendment and as defined in the Merger Agreement, including the absence of any event, development, circumstance, change, effect, condition or occurrence that results in, as of the earlier of the End Date (as such term is defined in the Merger Agreement) and closing, Rite Aid failing to satisfy the EBITDA threshold set forth in the Merger Agreement (the "EBITDA test"). Similarly, completion of the Sale is subject to various closing conditions, including but not limited to (i) the closing of the Rite Aid Acquisition, (ii) the FTC having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Rite Aid Acquisition identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement, (iii) filings with or receipt of approval from the applicable state boards of pharmacy, and (iv) the absence of a material adverse effect on the stores being acquired in the Sale. There can be no assurance that the requisite regulatory approvals will be obtained, that the other closing conditions will be satisfied, or that the Merger and/or

the Sale will be completed within the required time period pursuant to the Merger Agreement and Asset Purchase Agreement, as applicable. Satisfaction of the closing conditions may delay the completion of the Merger and the Sale, and if certain closing conditions are not satisfied prior to the End Date specified in the Merger Agreement or in the Asset Purchase Agreement, as applicable, the parties will not be obligated to complete the Merger or the Sale, as applicable. There also can be no assurance that, even if the Merger is completed, the per share merger consideration will exceed \$6.50 per share. While the exact per share merger consideration is not known as of the date of this report, based on discussions with the FTC regarding potential remedies after filing the preliminary proxy statement, if the Merger is completed, Rite Aid believes that the per share merger consideration would likely be \$6.50 per share.

If the Merger or Sale is not completed for any reason, we will have incurred substantial expenses. We have incurred substantial legal, accounting and financial advisory fees that are payable by us whether or not the Merger or Sale is completed, and our management has devoted considerable time and effort in connection with the pending Merger and Sale. If the Merger Agreement is terminated under certain limited circumstances, the Merger Agreement may require us to pay WBA a termination fee of \$325 million. In addition, the trading price of our common stock could be adversely affected to the extent that the current price reflects an assumption that the Merger and the Sale will be completed. Additionally, there may be changes to our strategy in the event that the Merger or Sale do not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital or incurring other costs associated with restructuring our business. Any of these event could cause us to incur significant charges. For these and other reasons, a failed Merger or Sale could materially adversely affect our business, operating results or financial condition.

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

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

- certain vendors may change their programs or processes which might adversely affect the supply or cost of the products, which then might adversely affect our stores sales or gross profit;
- negotiations with third party payors might be adversely affected which then might adversely affect our stores sales or gross profit;
- our current and prospective associates may experience uncertainty about their future roles, which might adversely affect our ability to attract and retain key personnel;
- key management and other employees may be difficult to retain or may become distracted from day-to-day operations because matters related to the Merger or the Sale may require substantial commitments of their time and resources, which could adversely affect our operations and financial results;
- our current and prospective customers may experience uncertainty about the ability of our stores to meet their needs, which might cause customers to make purchases or fill their prescriptions elsewhere;
- our ability to pursue alternative business opportunities, including strategic acquisitions, is limited by the terms of the Merger Agreement and the Asset Purchase Agreement. If the Merger or the Sale is not completed for any reason, there can be no assurance that any other transaction

acceptable to us will be offered or that our business, prospects or results of operations will not be adversely affected;

- our ability to make appropriate changes to our business may be restricted by covenants in the Merger Agreement or the Asset Purchase Agreement; these restrictions generally require us to conduct our business in the ordinary course and subject us to a variety of specified limitations absent WBA's or Buyer's prior written consent, as applicable. We may find that these and other contractual restrictions in the Merger Agreement or the Asset Purchase Agreement may delay or prevent us from responding, or limit our ability to respond, effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management believes they may be advisable; and
- the costs and potential adverse outcomes of litigation relating to the Merger or the Sale.

Item 1B. Unresolved SEC Staff Comments

None

Item 2. Properties

As of March 4, 2017, we operated 4,536 retail drugstores. The average selling square feet of each store in our chain is approximately 9,900 square feet. The average total square feet of each store in our chain is approximately 12,700. The stores in the eastern part of the U.S. average 8,900 selling square feet per store (11,200 average total square feet per store). The stores in the western part of the U.S. average 14,400 selling square feet per store (19,100 average total square feet per store).

The table below identifies the number of stores by state as of March 4, 2017:

<u>State</u>	<u>Store Count</u>
Alabama	93
California	582
Colorado	20
Connecticut	77
Delaware	42
District of Columbia	7
Georgia	176
Idaho	14
Indiana	10
Kentucky	116
Louisiana	55
Massachusetts	146
Maine	79
Maryland	140
Michigan	274
Mississippi	26
North Carolina	224
Nevada	1
New Hampshire	68
New Jersey	251
New York	599
Ohio	224
Oregon	73
Pennsylvania	538
Rhode Island	43
South Carolina	89
Tennessee	81
Utah	22
Vermont	37
Virginia	187
Washington	139
West Virginia	103
Total	4,536

Our stores have the following attributes at March 4, 2017:

<u>Attribute</u>	<u>Number</u>	<u>Percentage</u>
Freestanding	2,834	62.5%
Drive through pharmacy	2,532	55.8%
GNC stores within a Rite Aid store	2,367	52.2%

We lease 4,283 of our operating drugstore facilities under non-cancelable leases, many of which have original terms of 10 to 22 years. In addition to minimum rental payments, which are set at competitive market rates, certain leases require additional payments based on sales volume, as well as reimbursement for taxes, maintenance and insurance. Most of our leases contain renewal options, some of which involve rent increases. The remaining 253 drugstore facilities are owned.

We own our corporate headquarters, which is located in a 213,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease 558,000 square feet of space in various buildings near Harrisburg, Pennsylvania for document warehousing use and additional administrative personnel. We own additional buildings near Harrisburg, Pennsylvania which total 100,000 square feet and house our model store and additional administrative personnel.

We operate the following distribution centers and satellite distribution locations, which we own or lease as indicated:

<u>Location</u>	<u>Owned or Leased</u>	<u>Approximate Square Footage</u>
Poca, West Virginia	Owned	255,000
Perryman, Maryland	Owned	885,000
Perryman, Maryland(1)	Leased	262,000
Pontiac, Michigan	Owned	325,000
Woodland, California	Owned	513,000
Woodland, California(1)	Leased	200,000
Wilsonville, Oregon	Leased	547,000
Lancaster, California	Owned	914,000
Spartanburg, South Carolina	Leased	855,000
Dayville, Connecticut	Owned	460,000
Liverpool, New York	Owned	828,000
Philadelphia, Pennsylvania	Owned	245,000
Philadelphia, Pennsylvania(1)	Leased	415,000

(1) Satellite distribution locations.

The original terms of the leases for our distribution centers and satellite distribution locations range from 5 to 20 years. In addition to minimum rental payments, certain distribution centers require tax reimbursement, maintenance and insurance. Most leases contain renewal options, some of which involve rent increases. Although from time to time, we may be near capacity at some of our distribution facilities, particularly at our older facilities, we believe that the capacity of our facilities is adequate.

During fiscal 2017, our distribution center in Spartanburg, South Carolina (the "Southeast DC") began servicing stores. The Southeast DC lease agreement has an initial term of 15 years with subsequent renewal options. In addition to minimum rental payments, we are also required to reimburse the landlord for taxes, maintenance and insurance. We consolidated our Charlotte, North Carolina and Tuscaloosa, Alabama distribution centers into the Southeast DC during the current fiscal year. During fiscal 2018, we will begin consolidating our Poca, West Virginia distribution center into the Southeast DC. The new Southeast DC will service approximately 1,000 stores in the southeastern United States once all three distribution centers are consolidated.

We also own a 55,600 square foot ice cream manufacturing facility and lease a 32,000 square foot storage facility located in El Monte, California.

We lease approximately 20,100 square feet in 36 HEB grocery stores in Texas under a master lease agreement that contains various renewal options through 2024.

Our Pharmacy Services segment leases approximately 232,000 square feet of space in various buildings primarily in Twinsburg, Ohio for additional administrative personnel. In addition, we own approximately 53,000 square feet of space in North Canton, Ohio for our mail order and specialty drug facilities.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, underperforming or otherwise deemed unsuitable. We also evaluate strategic dispositions and acquisitions of facilities and prescription files. When we reduce in size, close or relocate a store or close distribution center facilities, we often continue to have leasing obligations or own the property. We attempt to sublease this space. As of March 4, 2017, we had 6,323,122 square feet of excess space, 3,288,290 square feet of which was subleased.

Item 3. Legal Proceedings

As of March 4, 2017, we were aware of ten (10) putative class action lawsuits that were filed by our purported stockholders, against us, our directors (the Individual Defendants, together with Rite Aid, the Rite Aid Defendants), WBA and Victoria Merger Sub Inc. ("Victoria") challenging the transactions contemplated by the Merger agreement. Eight (8) of these actions were filed in the Court of Chancery of the State of Delaware (*Smukler v. Rite Aid Corp., et al.* , *Hirschler v. Standley, et al.* , *Catelli v. Rite Aid Corp., et al.* , *Orr v. Rite Aid Corp., et al.* , *DePietro v. Standley, et al.* , *Abadi v. Rite Aid Corp., et al.* , *Mortman v. Rite Aid Corp., et al.* , *Sachs Investment Grp., et al v. Standley, et al.*). One (1) action was filed in Pennsylvania in the Court of Common Pleas of Cumberland County (*Wilson v. Rite Aid Corp., et al.*). The complaints in these nine (9) actions alleged primarily that the Individual Defendants breached their fiduciary duties by, among other things, agreeing to an allegedly unfair and inadequate price, agreeing to deal protection devices that allegedly prevented the directors from obtaining higher offers from other interested buyers for Rite Aid and allegedly failing to protect against certain purported conflicts of interest in connection with the Merger. The complaints further alleged that we, WBA and/or Victoria aided and abetted these alleged breaches of fiduciary duty. The complaints sought, among other things, to enjoin the closing of the Merger as well as money damages and attorneys' and experts' fees.

On December 23, 2015, the eight (8) Delaware actions were consolidated in an action captioned *In re Rite Aid Corporation Stockholders Litigation*, Consol. C.A. No. 11663-CB (the "Consolidated Action"). In addition to the claims asserted in the nine (9) complaints discussed above, the operative pleading in the Consolidated Action also included allegations that the preliminary proxy statement contained material omissions, including with respect to the process that resulted in the Merger agreement and the fairness opinion rendered by our banker. On December 28, 2015, the plaintiffs in the Consolidated Action filed a motion for expedited proceedings, which the Court orally denied at a hearing held on January 5, 2016. On March 11, 2016, the Court granted the plaintiffs' notice and proposed order voluntarily dismissing the Consolidated Action as moot, while retaining jurisdiction solely for the purpose of adjudicating plaintiffs' counsel's anticipated application for an award of attorneys' fees and reimbursement of expenses. On April 15, 2016, we reached a settlement in principle related to this matter for an immaterial amount. On May 11, 2016, the Court entered a stipulated order regarding notice of payment thereof and final dismissal of this matter.

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

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

We have been named in a collective and class action lawsuit, *Indergit v. Rite Aid Corporation, et al.*, pending in the United States District Court for the Southern District of New York, filed purportedly on behalf of current and former store managers working in our stores at various locations around the country. The lawsuit alleges that we failed to pay overtime to store managers as required under the FLSA and under certain New York state statutes. The lawsuit also seeks other relief, including liquidated damages, attorneys' fees, costs and injunctive relief arising out of state and federal claims for overtime pay. On April 2, 2010, the Court conditionally certified a nationwide collective group of individuals who worked for the us as store managers since March 31, 2007. The Court ordered that Notice of the *Indergit* action be sent to the purported members of the collective group (approximately 7,000 current and former store managers) and approximately 1,550 joined the *Indergit* action. Discovery as to certification issues has been completed. On September 26, 2013, the Court granted Rule 23 class certification of the New York store manager claims as to liability only, but denied it as to damages, and denied our motion for decertification of the nationwide collective action claims. We filed a motion seeking reconsideration of the Court's September 26, 2013 decision which motion was denied in June 2014. We subsequently filed a petition for an interlocutory appeal of the Court's September 26, 2013 ruling with the U. S. Court of Appeals for the Second Circuit which petition was denied in September 2014. Notice of the Rule 23 class certification as to liability only has been sent to approximately 1,750 current and former store managers in the state of New York. Discovery related to the merits of the claims is ongoing. On January 12, 2017, the parties reached a settlement in principle of this matter, for an immaterial amount of money, which is subject to preliminary and final approval by the court. On January 19, 2017, the court entered an order staying the case indefinitely pending preliminary and final court approval. In the event the settlement does not receive preliminary and/or final approval by the court, the litigation will resume. If such occurs, we presently are not able to either predict the outcome of this lawsuit or estimate a potential range of loss with respect to the lawsuit. Our management believes, however, that this lawsuit is without merit and is vigorously defending this lawsuit.

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

In the business expense class action (*Fenley v. Rite Aid Corporation, Santa Clara Superior Court*), the parties reached a settlement pursuant to which we will pay an immaterial amount to settle the class claims. The court granted final approval of the settlement on February 3, 2017.

In the employee seating case (*Hall v. Rite Aid Corporation, San Diego County Superior Court*), the Court, in October 2011, granted the plaintiff's motion for class certification. We filed our motion for decertification, which motion was granted in November 2012. Plaintiff subsequently appealed the Court's order which appeal was granted in May 2014. We filed a petition for review of the appellate court's decision with the California Supreme Court, which petition was denied in August 2014.

Proceedings in the *Hall* case were stayed pending a decision by the California Supreme Court in two similar cases. That decision was rendered on April 4, 2016. A status conference in the case was held on November 18, 2016, at which time the court lifted the stay and scheduled the case for trial on January 26, 2018.

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

We were served with a Civil Investigative Demand Subpoena Duces Tecum dated August 26, 2011 by the United States Attorney's Office for the Eastern District of Michigan. The subpoena requests records regarding the relationship of Rite Aid's Rx Savings Program to the reporting of usual and customary charges to publicly funded health programs. In connection with the same investigation, we were served with a Civil Subpoena Duces Tecum dated February 22, 2013 by the State of Indiana Office of the Attorney General requesting additional information regarding both Rite Aid's Rx Savings Program and usual and customary charges. We responded to both of the subpoenas. To enable the parties to discuss a possible resolution, the Medicaid Fraud Control Units of the several states, commonwealths, and the District of Columbia and Rite Aid entered into an agreement tolling the statute of limitations until October 7, 2015. The parties agreed to extend the tolling agreement and continue to exchange pertinent claims data in the near future. On January 19, 2017, the District Court for the Eastern District of Michigan unsealed Relator's Second Amended Complaint against us. In its Complaint, Relator alleges that we failed to report Rx Savings prices as its usual and customary charges under the Medicare Part D program and to federal and state Medicaid programs in 18 (eighteen) states and the District of Columbia; and that we are thus liable under the federal False Claims Act and similar False Claims Act statutes operative in the states named in the Complaint. The federal government and the 18 (eighteen) states and the District of Columbia named in the lawsuit have elected not to intervene in this action. At this stage of the proceedings, we are not able to either predict the outcome of this lawsuit or estimate a potential range of loss with respect to the lawsuit and is vigorously defending this lawsuit.

On April 26, 2012, we received an administrative subpoena from the U.S. Drug Enforcement Administration ("DEA"), Albany, New York District Office, requesting information regarding our sale of products containing pseudoephedrine ("PSE"). In April 2012, we also received a communication from the U.S. Attorney's Office ("USAO") for the Northern District of New York concerning an investigation of possible civil violations of the Combat Methamphetamine Epidemic Act of 2005 ("CMEA"). Additional subpoenas were issued in 2013, 2014, and 2015 seeking broader documentation regarding PSE sales and recordkeeping requirements. Assistant U.S. Attorneys from the Northern and Eastern Districts of New York and the Southern District of West Virginia are currently investigating, but no lawsuits or charges have been filed. Between September 2015 and January 2017, we received several grand jury subpoenas from the U.S. District Court for the Southern District of West Virginia seeking additional information in connection with the investigation of violations of the CMEA and/or the Controlled Substances Act ("CSA"). Violations of the CMEA or the CSA could result in the imposition of administrative, civil and/or criminal penalties against us. We are cooperating with the government and continue to provide information responsive to the subpoenas. We have entered into a tolling agreement with the USAOs in the Northern and Eastern Districts of New York and entered into a separate tolling agreement with the USAO in the Southern District of West Virginia. Discussions are underway to attempt to resolve these matters with those USAOs and the Department of Justice, but whether an agreement can be reached and on what terms is uncertain. While our management cannot predict the outcome of these matters, it is possible that our results of operations or cash flows could be materially affected by an unfavorable resolution. At this stage of the investigation, we are not able to predict the outcome of the investigation.

In January 2013, the DEA, Los Angeles District Office, served an administrative subpoena on us seeking documents related to prescriptions by a certain prescriber. The USAO, Central District of California, also contacted us about a related investigation into allegations that our pharmacies filled certain controlled substance prescriptions for a number of prescribers after their DEA registrations had expired or otherwise become invalid in violation of the federal Controlled Substances Act and DEA regulations. We responded to the administrative subpoena and subsequent informal requests for information from the USAO. We met with the USAO and DEA in January 2014 regarding this matter. We entered into a tolling agreement with the USAO. We recorded a legal accrual during the period ended March 1, 2014, which was revised during the period ending August 29, 2015. On February 28, 2017, the USAO, Central District of California, and Rite Aid entered into a settlement agreement resolving this matter for an immaterial amount. The settlement agreement is not an admission of liability by us.

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

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

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

Item 4. Mine Safety Disclosures

Not applicable

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is listed on the NYSE under the symbol "RAD." On April 17, 2017, we had approximately 18,240 stockholders of record. Quarterly high and low closing stock prices, based on the composite transactions, are shown below.

<u>Fiscal Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2018 (through April 17, 2017)	First	\$ 5.23	\$ 4.19
	First	8.19	7.63
	Second	7.84	6.82
	Third	8.21	6.43
	Fourth	8.70	5.25
2016	First	8.87	7.31
	Second	9.32	7.75
	Third	8.67	6.05
	Fourth	7.96	7.58

We have not declared or paid any cash dividends on our common stock since the third quarter of fiscal 2000 and we do not anticipate paying cash dividends on our common stock in the foreseeable future. Our senior secured credit facility, second priority secured term loan facilities and some of the indentures that govern our other outstanding indebtedness restrict our ability to pay dividends.

We have not sold any unregistered equity securities during the period covered by this report, nor have we repurchased any of our common stock, during the period covered by this report.

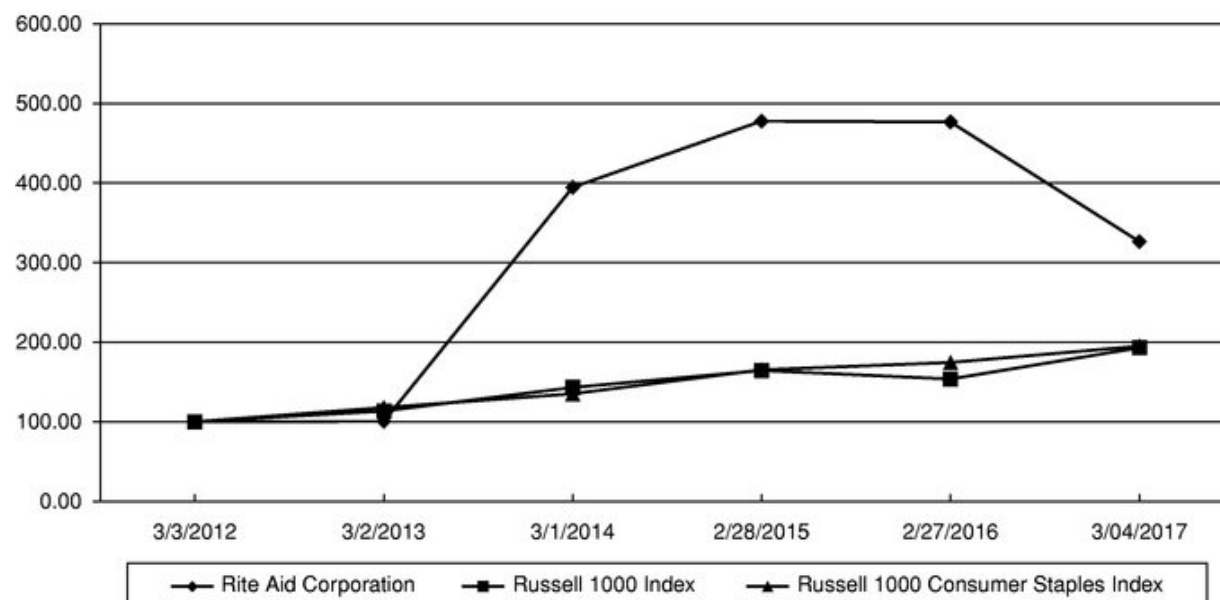
Pursuant to the terms of the acquisition agreement, we issued approximately 27.8 million shares of common stock in connection with the June 24, 2015 acquisition of EnvisionRx.

STOCK PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on our common stock for the last five fiscal years with the cumulative total return on (i) the Russell 1000 Consumer Staples Index, and (ii) the Russell 1000 Index, over the same period (assuming the investment of \$100.00 in our common stock and such indexes on March 3, 2012 and reinvestment of dividends).

For comparison of cumulative total return, we have elected to use the Russell 1000 Consumer Staples Index, consisting of 55 companies including the three largest drugstore chains, and the Russell 1000 Index. This allows comparison of the company to a peer group of similar sized companies. We are one of the companies included in the Russell 1000 Consumer Staples Index and the Russell 1000 Index. The Russell 1000 Consumer Staples Index is a capitalization-weighted index of companies that provide products directly to consumers that are typically considered nondiscretionary items based on consumer purchasing habits. The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index and represents the universe of large capitalization stocks from which many active money managers typically select.

STOCK PERFORMANCE GRAPH
Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100 on March 3, 2012
March 4, 2017



	2013	2014	2015	2016	2017
RITE AID CORP	100.60	394.61	477.84	476.65	326.35
Russell 1000 Index	113.50	143.12	164.42	153.71	193.07
Russell 1000 Consumer Staples Index	117.87	135.23	165.26	174.50	195.03

Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes.

	Fiscal Year Ended				
	March 4, 2017 (53 weeks)(*)	February 27, 2016 (52 weeks)(*)	February 28, 2015 (52 weeks)	March 1, 2014 (52 weeks)	March 2, 2013 (52 weeks)
(Dollars in thousands, except per share amounts)					
Summary of Operations:					
Revenues	\$ 32,845,073	\$ 30,736,657	\$ 26,528,377	\$ 25,526,413	\$ 25,392,263
Costs and expense:					
Cost of revenues	25,071,008	22,910,402	18,951,645	18,202,679	18,073,987
Selling, general and administrative expenses	7,242,359	7,013,346	6,695,642	6,561,162	6,600,765
Lease termination and impairment charges	55,294	48,423	41,945	41,304	70,859
Interest expense	431,991	449,574	397,612	424,591	515,421
Loss on debt retirements, net	—	33,205	18,512	62,443	140,502
(Gain) loss on sale of assets, net	(4,024)	3,303	(3,799)	(15,984)	(16,776)
Total costs and expenses	32,796,628	30,458,253	26,101,557	25,276,195	25,384,758
Income before income taxes	48,445	278,404	426,820	250,218	7,505
Income tax expense (benefit)	44,392	112,939	(1,682,353)	804	(110,600)
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173	\$ 249,414	\$ 118,105
Basic and diluted income per share:					
Basic income per share	\$ 0.00	\$ 0.16	\$ 2.17	\$ 0.23	\$ 0.12
Diluted income per share	\$ 0.00	\$ 0.16	\$ 2.08	\$ 0.23	\$ 0.12
Year-End Financial Position:					
Working capital	\$ 2,060,040	\$ 1,553,832	\$ 1,736,758	\$ 1,777,673	\$ 1,830,777
Property, plant and equipment, net	2,251,692	2,255,398	2,091,369	1,957,329	1,895,650
Total assets(1)	11,593,752	11,277,010	8,777,425	6,860,672	6,985,038
Total debt(1)	7,328,693	6,994,136	5,559,116	5,672,944	5,939,850
Stockholders' equity (deficit)	614,070	581,428	57,056	(2,113,702)	(2,459,434)
Other Data:					
Cash flows provided by (used in):					
Operating activities	225,863	997,402	648,959	702,046	819,588
Investing activities	(464,259)	(2,401,858)	(593,685)	(364,924)	(346,305)
Financing activities	359,335	1,413,028	(85,781)	(320,168)	(506,116)
Capital expenditures	481,111	669,995	539,386	421,223	382,980
Basic weighted average shares	1,044,427	1,024,377	971,102	922,199	889,562
Diluted weighted average shares	1,060,826	1,042,362	1,017,861	979,092	907,259
Number of retail drugstores	4,536	4,561	4,570	4,587	4,623
Number of associates	88,000	90,000	89,000	89,000	89,000

(*) Includes the results of the Pharmacy Services segment, which was acquired on June 24, 2015.

- (1) As of February 27, 2016, the Company early adopted Accounting Standard Update No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* issued by the Financial Accounting Standards Board in April 2015. The effect of the adoption on the Company's consolidated balance sheet is a reduction in other assets and long-term debt, net of current maturities of \$85,827, \$84,199, and \$93,681 as of February 28, 2015, March 1, 2014, and, March 2, 2013 respectively.

As a result of the Acquisition, and the related addition of the Pharmacy Services segment, we now refer to our cost of goods sold as our cost of revenues, as these costs are now inclusive of the cost of prescription drugs sold through the Pharmacy Services segment's retail pharmacy network under contracts where it is the principal.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a pharmacy retail healthcare company, providing our customers and communities with the highest level of care and service through various programs we offer through our two reportable business segments, our Retail Pharmacy segment and our Pharmacy Services segment. We accomplish our goal of delivering comprehensive care to our customers through our 4,536 retail drugstores, 99 RediClinic walk-in retail health clinics and transparent and traditional EnvisionRx and MedTrak pharmacy benefit managers with approximately 4.0 million plan members. We also offer fully integrated mail-order and specialty pharmacy services through EnvisionPharmacies. Additionally through EIC, EnvisionRx also serves one of the fastest-growing demographics in healthcare: seniors enrolled in Medicare Part D. When combined with our retail platform, this comprehensive suite of services allows us to provide value and choice to customers, patients and payors and allows us to succeed in today's evolving healthcare marketplace.

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

Retail Pharmacy Segment

Our Retail Pharmacy segment sells brand and generic prescription drugs, as well as an assortment of front-end products including health and beauty aids, personal care products, seasonal merchandise, and a large private brand product line. Our Retail Pharmacy segment generates the majority of its revenue through the sale of prescription drugs and front-end products at our 4,536 retail locations. In addition, the Retail Pharmacy segment includes 99 RediClinic walk-in retail clinics, of which 63 are located within Rite Aid retail stores in the Baltimore/Washington D.C, Philadelphia, Seattle and New Jersey markets.

Pharmacy Services Segment

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

Pending Merger with Walgreens Boots Alliance, Inc.

On October 27, 2015, we entered into the original Merger Agreement, which was subsequently amended by the Amendment on January 29, 2017. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid, with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. Completion of the Merger is subject to various closing conditions, including but not limited to (i) approval of the Merger Agreement by the holders of our common stock, (ii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of any law or order prohibiting the Merger, and (iv) the absence of a material adverse effect on us, as defined in the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of our common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time (other than shares owned by (i) WBA, Victoria Merger Sub or us (which will be cancelled), (ii) stockholders who have properly exercised and perfected appraisal rights under Delaware law, or (iii) any direct or indirect 100 percent owned subsidiary of ours or WBA (which will be converted into shares of common stock of the surviving corporation)) will be converted into the right to receive a maximum of \$7.00 in cash per share and a minimum of \$6.50 in cash per share, without interest. The exact per share merger consideration will be determined based on the number of retail stores that WBA agrees to divest in connection with the parties' efforts to obtain the required regulatory approvals for the Merger, with the price set at \$7.00 per share if 1,000 stores or fewer retail stores are required to be divested and at \$6.50 per share if 1,200 retail stores are required to be divested (or more, if WBA agrees to sell more). If the required divestitures fall between 1,000 and 1,200 stores, then there will be a pro-rata adjustment of the price per share. While the exact per share merger consideration is not known as of the date of this report, based on discussions with the FTC regarding potential remedies after filing the preliminary proxy statement, if the Merger is completed, we believe that the per share merger consideration would likely be \$6.50 per share.

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

Pursuant to the Amendment, we and WBA extended the "End Date" (as defined in the Merger Agreement) to July 31, 2017.

On December 19, 2016, we entered into the Asset Purchase Agreement. Pursuant to the terms and subject to the conditions set forth in the Asset Purchase Agreement, Buyer agreed to purchase from Rite Aid the Acquired Stores and certain specified assets related thereto for a purchase price of \$950.0 million plus Buyer's assumption of certain liabilities of ours and our affiliates.

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

The parties to the Asset Purchase Agreement have each made customary representations and warranties. We have agreed to various covenants and agreements, including, among others, our agreement to conduct our business at the Acquired Stores in the ordinary course during the period between the execution of the Asset Purchase Agreement and the closing of the Sale, subject to certain

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

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

Rite Aid expects that the Asset Purchase Agreement will be amended to, among other things, make certain changes contemplated by the Amendment.

While WBA and Rite Aid are actively engaged in discussions with the FTC regarding the transaction and are working towards a close of the Merger by July 31, 2017, there can be no assurance that the requisite regulatory approvals will be obtained, or that the Merger or the Sale will be completed within the time periods contemplated by the Merger Agreement and Asset Purchase Agreement on the current terms, if at all. In the event the Merger Agreement is terminated in certain circumstances involving a failure to obtain required regulatory approvals or if the Merger is not completed by July 31, 2017, WBA is required to pay us a \$325 million termination fee; provided that such termination fee is reduced to \$162.5 million if (i) on the termination date we fail to satisfy the EBITDA test or (ii) if WBA exercises its right to terminate the Merger Agreement as a result of our failure to satisfy the EBITDA test as of the End Date or as of the date on which closing is required to occur. Additionally, there may be changes to our strategy in the event that the Merger or Sale do not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital, or incurring other costs associated with restructuring our business.

Overview of Financial Results

Net Income: Our net income for fiscal 2017 was \$4.1 million or \$0.00 per basic and diluted share compared to net income for fiscal 2016 of \$165.5 million or \$0.16 per basic and diluted share. The operating results for fiscal 2017 include the operating results of EnvisionRx. The operating results for fiscal 2016 include the operating results of EnvisionRx subsequent to the June 24, 2015 acquisition date. The decline in our operating results was driven primarily by a decline in Adjusted EBITDA and an increase in the Pharmacy Services segment amortization expense, partially offset by lower income tax expense, a \$33.2 million loss on debt retirement in the prior year and lower interest expense.

Adjusted EBITDA: Our Adjusted EBITDA for fiscal 2017 was \$1,137.1 million or 3.5 percent of revenues, compared to \$1,402.3 million or 4.6 percent of revenues for fiscal year 2016. Adjusted EBITDA for fiscal 2017 includes the Adjusted EBITDA of EnvisionRx. Adjusted EBITDA for fiscal 2016 includes the Adjusted EBITDA of EnvisionRx subsequent to the June 24, 2015 acquisition date.

The decline in our Adjusted EBITDA was due primarily to a decrease of \$352.0 million in the Retail Pharmacy segment, resulting from lower pharmacy gross profit due to lower reimbursement rates. The decline in the Retail Pharmacy segment Adjusted EBITDA was partially offset by an increase of \$86.9 million of Pharmacy Services segment Adjusted EBITDA. This increase was due to strong operating results in the current year and the fact that prior year's Pharmacy Services segment results do not reflect a full year's ownership of EnvisionRx. Please see the sections entitled "Segment Analysis" and "Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures" below for additional details.

Consolidated Results of Operations

Revenue and Other Operating Data

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
	(Dollars in thousands except per share amounts)		
Revenues(a)	\$ 32,845,073	\$ 30,736,657	\$ 26,528,377
Revenue growth	6.9%	15.9%	3.9%
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Net income per diluted share	\$ 0.00	\$ 0.16	\$ 2.08
Adjusted EBITDA(b)	\$ 1,137,141	\$ 1,402,262	\$ 1,322,843
Adjusted Net Income(b)	\$ 66,817	\$ 255,236	\$ 273,044
Adjusted Net Income per Diluted Share(b)	\$ 0.06	\$ 0.24	\$ 0.27

- (a) Revenues for the fiscal years ended March 4, 2017 and February 27, 2016 exclude \$365,480 and \$232,787, respectively, of inter-segment activity that is eliminated in consolidation.
- (b) See "Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures" for additional details.

Revenues

Fiscal 2017 compared to Fiscal 2016: The 6.9% increase in revenues was due primarily to the increase in the Pharmacy Services segment, due to a full year of Pharmacy Services segment operating result being included in the current year as compared to a partial year in the prior year, partially offset by decreases in the Retail Pharmacy segment. Revenues for fiscal 2017 exclude \$365.5 million of inter-segment activity that is eliminated in consolidation. Same store sales trends for fiscal 2017 and fiscal 2016 are described in the "Segment Analysis" section below.

Fiscal 2016 compared to Fiscal 2015: The 15.9% increase in revenues were due primarily to the addition of the Pharmacy Services segment, which was acquired on June 24, 2015. Revenues for fiscal 2016 include revenues of \$4,103.5 million relating to our Pharmacy Services segment and exclude \$232.8 million of inter-segment activity that is eliminated in consolidation.

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

Costs and Expenses

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
	(Dollars in thousands)		
Costs of revenues(a)	\$ 25,071,008	\$ 22,910,402	\$ 18,951,645
Gross profit	7,774,065	7,826,255	7,576,732
Gross margin	23.7%	25.5%	28.6%
Selling, general and administrative expenses	\$ 7,242,359	\$ 7,013,346	\$ 6,695,642
Selling, general and administrative expenses as a percentage of revenues	22.1%	22.8%	25.2%
Lease termination and impairment charges	55,294	48,423	41,945
Interest expense	431,991	449,574	397,612
Loss on debt retirements, net	—	33,205	18,512
(Gain) loss on sale of assets, net	(4,024)	3,303	(3,799)

- (a) Cost of revenues for the fiscal years ended March 4, 2017 and February 27, 2016 exclude \$365,480 and \$232,787, respectively, of inter-segment activity that is eliminated in consolidation.

Gross Profit and Cost of Revenues

Gross profit decreased by \$52.2 million in fiscal 2017 compared to fiscal 2016. Gross profit for fiscal 2017 includes incremental gross profit of \$161.9 million relating to our Pharmacy Services segment due to a full year of Pharmacy Services segment operating results being included in the current year as compared to a partial year in the prior year and a decrease of \$214.1 million in Retail Pharmacy segment gross profit. Gross margin was 23.7% for fiscal 2017 compared to 25.5% in fiscal 2016, due primarily to lower reimbursement rates in the Retail Pharmacy segment that were not offset by lower prescription drug costs and revenue growth in our Pharmacy Services segment, which carries a lower gross margin as a percentage of revenue. Please see the section entitled "Segment Analysis" for a more detailed description of gross profit and gross margin results by segment.

Gross profit increased by \$249.5 million in fiscal 2016 compared to fiscal 2015. Gross profit for fiscal 2016 includes gross profit of \$230.8 million relating to our Pharmacy Services segment and an increase of \$18.7 million in Retail Pharmacy segment gross profit. Gross margin was 25.5% for fiscal 2016 compared to 28.6% in fiscal 2015, due to the inclusion of our Pharmacy Services segment in our fiscal 2016 results.

Selling, General and Administrative Expenses

SG&A increased by \$229.0 million in fiscal 2017 compared to fiscal 2016. The increase in SG&A includes an incremental increase of \$104.8 million relating to our Pharmacy Services segment due to a full year of Pharmacy Services segment operating results being included in the current year as compared to a partial year in the prior year and an increase of \$124.2 million relating to our Retail Pharmacy segment. Please see the section entitled "Segment Analysis" below for additional details regarding SG&A.

SG&A increased by \$317.7 million in fiscal 2016 compared to fiscal 2015. The increase in SG&A includes \$188.6 million relating to our Pharmacy Services segment and an increase of \$129.1 million relating to our Retail Pharmacy segment.

Lease Termination and Impairment Charges

Impairment Charges:

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, we evaluate individual stores for recoverability of assets. To determine if a store needs to be tested for recoverability, we consider items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

We monitor new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, we perform a recoverability analysis if they have experienced current-period and historical cash flow losses.

In performing the recoverability test, we compare the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to our future cash flow projections include expected sales, gross profit, and distribution expenses; expected costs such as payroll, occupancy costs and advertising expenses; and estimates for other significant selling, and general and administrative expenses. Additionally, we take into consideration that certain operating stores are executing specific improvement plans which are monitored quarterly to recoup recent capital investments, such as an acquisition of an independent pharmacy, which we have made to respond to specific competitive or local market conditions, or have specific programs tailored towards a specific geography or market.

We recorded impairment charges of \$32.1 million in fiscal 2017, \$17.2 million in fiscal 2016 and \$14.4 million in fiscal 2015. Our methodology for recording impairment charges has been consistently applied in the periods presented.

At March 4, 2017, approximately \$2.0 billion of our long-lived assets, including intangible assets, were associated with 4,536 active operating stores.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value which is its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset.

An impairment charge is recorded in the period that the store does not meet its original return on investment and/or has an operating loss for the last two years and its projected cash flows do not exceed its current asset carrying value. The amount of the impairment charge is the entire difference between the current carrying asset value and the estimated fair value of the assets using discounted future cash flows. Most stores are fully impaired in the period that the impairment charge is originally recorded.

We recorded impairment charges for active stores of \$30.1 million in fiscal 2017, \$16.1 million in fiscal 2016 and \$12.1 million in fiscal 2015.

We review key performance results for active stores on a quarterly basis and approve certain stores for closure. Impairment for closed stores, if any (many stores are closed on lease expiration), are recorded in the quarter the closure decision is approved. Closure decisions are made on an individual store or regional basis considering all of the macro-economic, industry and other factors, in addition to, the operating store's individual operating results. We currently have no plans to close a significant number of active stores in future periods. We recorded impairment charges for closed facilities of \$2.0 million in fiscal 2017, \$1.1 million in fiscal 2016 and \$2.3 million in fiscal 2015.

The following table summarizes the impairment charges and number of locations, segregated by closed facilities and active stores that have been recorded in fiscal 2017, 2016 and 2015:

(in thousands, except number of stores)	Year Ended					
	March 4, 2017		February 27, 2016		February 28, 2015	
	Number	Charge	Number	Charge	Number	Charge
Active stores:						
Stores previously impaired(1)	428	\$ 9,426	357	\$ 9,183	376	\$ 6,949
New, relocated and remodeled stores(2)	22	13,232	3	1,649	2	1,108
Remaining stores not meeting the recoverability test(3)	50	7,451	29	5,274	16	4,069
Total impairment charges-active stores	500	30,109	389	16,106	394	12,126
Total impairment charges-closed facilities	53	2,038	27	1,113	35	2,312
Total impairment charges-all locations	553	\$ 32,147	416	\$ 17,219	429	\$ 14,438

- (1) These charges are related to stores that were impaired for the first time in prior periods. Most active stores, requiring an impairment charge, are fully impaired in the first period that they do not meet their asset recoverability test. However, we do often make ongoing capital additions to certain stores to improve their operating results or to meet geographical competition, which if later are deemed to be unrecoverable, will be impaired in future periods. Of this total, 424, 351 and 369 stores for fiscal years 2017, 2016 and 2015, respectively have been fully impaired. Also included in these charges are an insignificant number of stores, which were only partially impaired in prior years based on our analysis that supported a reduced net book value greater than zero, but now require additional charges.
- (2) These charges are related to new stores (open at least 3 years) and relocated stores (relocated in the last 2 years) and significant strategic remodels (remodeled in the last year) that did not meet their recoverability test during the current period. These stores have not met our original return on investment projections and have a historical loss of at least 2 years. Their future cash flow projections do not recover their current carrying value. Of this total, 18, 3 and 1 stores for fiscal years 2017, 2016 and 2015, respectively have been fully impaired.
- (3) These charges are related to the remaining active stores that did not meet the recoverability test during the current period. These stores have a historical loss of at least 2 years. Their future cash flow projections do not recover their current carrying value. Of this total, 48, 27 and 14 stores for fiscal years 2017, 2016 and 2015, respectively have been fully impaired.

The primary drivers of our impairment charges are each store's current and historical operating performance and the assumptions that we make about each store's operating performance in future periods. Projected cash flows are updated based on the next year's operating budget which includes the qualitative factors noted above. We are unable to predict with any degree of certainty which individual stores will fall short or exceed future operating plans. Accordingly, we are unable to describe future trends that would affect our impairment charges, including the likely stores and their related asset values that may fail their recoverability test in future periods.

To the extent that actual future cash flows may differ from our projections materially certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods. A 50 basis point decrease in our future sales assumptions as of March 4, 2017 would have resulted in an additional fiscal 2017 impairment charge of \$2.7 million. A 50 basis point increase in our future sales assumptions as of March 4, 2017 would have reduced the fiscal 2017 impairment charge by \$0.5 million. A 100 basis point decrease in our future sales assumptions as of March 4, 2017 would have resulted in an additional fiscal 2017 impairment charge of \$3.3 million. A 100 basis point

increase in our future sales assumptions as of March 4, 2017 would have reduced the fiscal 2017 impairment charge by \$0.9 million.

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

In fiscal 2017, 2016 and 2015, we recorded lease termination charges of \$23.1 million, \$31.2 million and \$27.5 million, respectively. These charges related to changes in future assumptions, interest accretion and provisions for 17 stores in fiscal 2017, 23 stores in fiscal 2016 and 10 stores in fiscal 2015. We have no plans to close a significant number of stores in future periods.

Interest Expense

In fiscal 2017, 2016, and 2015, interest expense was \$432.0 million, \$449.6 million and \$397.6 million, respectively. The decrease in interest expense in fiscal 2017 was the result of the cycling of the amortization of the bridge loan commitment fee from the EnvisionRx acquisition in the prior year. The increase in interest expense in fiscal 2016 was a result of the \$1.8 billion aggregate principal amount borrowings from the issuance of our 6.125% Notes, which were used to finance the majority of the cash portion of our acquisition of EnvisionRx and the amortization of the bridge loan commitment fee from the EnvisionRx acquisition, partially offset by interest expense reductions from the August 2015 redemption of the outstanding \$650.0 million aggregate principal amount of our 8.00% Notes, and the refinancing of our senior secured credit facility during the fourth quarter of fiscal 2015.

The annual weighted average interest rates on our indebtedness in fiscal 2017, 2016 and 2015 were 5.4%, 5.4% and 5.8%, respectively.

Income Taxes

Income tax expense of \$44.4 million, income tax expense of \$112.9 million and income tax benefit of \$1,682.4 million, has been recorded for fiscal 2017, 2016 and 2015, respectively. Net income for fiscal 2017 included a provision for income tax based on an overall tax rate of 91.6%. The Company's effective tax rate is disproportionately high in fiscal 2017 from comparative periods due to low income before taxes relative to items that impact the effective tax rate. Net income for fiscal 2016 included a provision for income tax based on an overall tax rate of 40.6%.

ASC 740, "Income Taxes" requires a company to evaluate its deferred tax assets on a regular basis to determine if a valuation allowance against the net deferred tax assets is required. We take into account all available positive and negative evidence with regard to the recognition of a deferred tax asset including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect recognition of a deferred tax asset, carryback and carryforward periods and tax planning strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income generated in the carryforward periods. Accordingly, changes in the valuation allowance from period to period are included in the tax provision in the period of change.

Net income for fiscal 2015 included income tax benefit of \$1,841.3 million attributable to the reduction of the deferred tax valuation allowance. The reduction of the valuation allowance is the result of an accumulation of objective and verifiable positive evidence out weighing the negative evidence. Through fiscal 2014, we had a cumulative loss over a three year window. Our positive evidence of sustained profitability includes the following: the achievement of cumulative profitability in fiscal 2015, reported earnings for ten consecutive quarters, established a pattern of utilization of federal and state net operating losses against taxable income over the last three years and demonstrated the Company's historical ability of predicting earnings such that management concluded that forecasts can be used to estimate the future utilization of our loss carryforwards. Based upon the Company's projections of future taxable income over the periods in which the deferred tax assets are recoverable, management believes that it is more likely than not that the Company will realize the benefits of substantially all the net deferred tax assets existing at February 28, 2015.

We maintained a valuation allowance of \$226.7 million and \$212.0 million against remaining net deferred tax assets at fiscal year-end 2017 and 2016, respectively.

Dilutive Equity Issuances

On March 4, 2017, 1,053.7 million shares of common stock, which includes unvested restricted shares, were outstanding and an additional 33.9 million shares of common stock were issuable related to outstanding stock options.

On March 4, 2017, our 33.9 million shares of potentially issuable common stock consisted of the following (shares in thousands):

Strike price	Outstanding Stock Options(a)
\$0.99 and under	461
\$1.00 to \$1.99	22,670
\$2.00 to \$2.99	3,741
\$3.00 to \$3.99	—
\$4.00 to \$4.99	2
\$5.00 to \$5.99	1
\$6.00 to \$6.99	1,324
\$7.00 to \$7.99	2,490
\$8.00 and over	3,201
Total issuable shares	33,890

(a) The exercise of these options would provide cash of \$93.1 million.

Segment Analysis

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

	<u>Retail Pharmacy</u>	<u>Pharmacy Services</u>	<u>Intersegment Eliminations(1)</u>	<u>Consolidated</u>
	(Dollars in thousands)			
March 4, 2017:				
Revenues	\$ 26,816,669	\$ 6,393,884	\$ (365,480)	\$ 32,845,073
Gross Profit	7,381,333	392,732	—	7,774,065
Adjusted EBITDA(*)	948,906	188,235	—	1,137,141
February 27, 2016:				
Revenues	\$ 26,865,931	\$ 4,103,513	\$ (232,787)	\$ 30,736,657
Gross Profit	7,595,429	230,826	—	7,826,255
Adjusted EBITDA(*)	1,300,905	101,357	—	1,402,262
February 28, 2015:				
Revenues	\$ 26,528,377	\$ —	\$ —	\$ 26,528,377
Gross Profit	7,576,732	—	—	7,576,732
Adjusted EBITDA(*)	1,322,843	—	—	1,322,843

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

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

Retail Pharmacy Segment Results of Operations

Revenues and Other Operating Data

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
	(Dollars in thousands)		
Revenues	\$ 26,816,669	\$ 26,865,931	\$ 26,528,377
Revenue (decline) growth	(0.2)%	1.3%	3.9%
Same store sales (decline) growth	(2.2)%	1.3%	4.3%
Pharmacy sales (decline) growth	(3.3)%	1.8%	5.1%
Same store prescription count growth, adjusted to 30-day equivalents	0.1%	1.5%	4.4%
Same store pharmacy sales (decline) growth	(3.2)%	1.8%	5.8%
Pharmacy sales as a % of total retail sales	68.3%	69.1%	68.8%
Third party sales as a % of total pharmacy sales	98.2%	97.8%	97.5%
Front-end sales growth	0.3%	0.1%	0.8%
Same store front-end sales growth	0.2%	0.2%	1.2%
Front-end sales as a % of total retail sales	31.7%	30.9%	31.2%
Adjusted EBITDA(*)	\$ 948,906	\$ 1,300,905	\$ 1,322,843
Store data:			
Total stores (beginning of period)	4,561	4,570	4,587
New stores	12	5	2
Store acquisitions	3	6	9
Closed stores	(40)	(20)	(28)
Total stores (end of period)	4,536	4,561	4,570
Relocated stores	24	20	14
Remodeled and expanded stores	350	414	445

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

Revenues

Fiscal 2017 compared to Fiscal 2016: The 0.2% decrease in revenue was due primarily to a decrease in pharmacy same store sales, partially offset by the extra week in fiscal 2017. Same store sales trends for fiscal 2017 and fiscal 2016 are described in the following paragraphs. We include in same store sales all stores that have been open at least one year. Stores in liquidation are considered closed. Relocation stores are not included in same store sales until one year has lapsed.

Pharmacy same store sales decreased 3.2%. Pharmacy same store sales were negatively impacted by continued reimbursement rate pressures and the continued impact of increases in generic drugs, which have a substantially lower selling price than their brand counterparts but higher gross profit. We expect lower reimbursement rates to continue to have a negative impact on our revenues.

Front end same store sales increased 0.2%. The increase in same store front end sales was impacted by incremental sales from our 2,418 Wellness format stores, and other management initiatives to increase front end sales.

Fiscal 2016 compared to Fiscal 2015: The 1.3% increase in revenue was due primarily to an increase in pharmacy and front end same store sales.

Pharmacy same store sales increased 1.8%. Pharmacy same store sales were positively impacted by an increase of 1.49% in same store prescription count, which reflects higher utilization in Medicaid expansion states and an increase in immunizations, and brand drug inflation. The increases were partially offset by the continued impact of increases in generic drugs, which have a substantially lower selling price than their brand counterparts but higher gross profit. Pharmacy same store sales were also negatively impacted by continued reimbursement rate pressures.

Front end same store sales increased 0.2%. The increase in same store front end sales was impacted by incremental sales from our 2,042 Wellness format stores, and other management initiatives to increase front end sales.

Costs and Expenses

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
	(Dollars in thousands)		
Costs of revenues	\$ 19,435,336	\$ 19,270,502	\$ 18,951,645
Gross profit	7,381,333	7,595,429	7,576,732
Gross margin	27.5%	28.3%	28.6%
FIFO gross profit(*)	7,374,713	7,606,592	7,557,875
FIFO gross margin(*)	27.5%	28.3%	28.5%
Selling, general and administrative expenses	\$ 6,948,860	\$ 6,824,698	\$ 6,695,642
Selling, general and administrative expenses as a percentage of revenues	25.9%	25.4%	25.2%

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

Gross Profit and Cost of Revenues

Gross profit decreased by \$214.1 million in fiscal 2017 compared to fiscal 2016. The decrease in gross profit is due to lower pharmacy gross profit driven by reductions in reimbursement rates that we could not offset through generic purchasing efficiencies, partially offset by the extra week in fiscal 2017.

Overall gross margin was 27.5% for fiscal 2017 compared to 28.3% in fiscal 2016. Gross margin was lower due primarily to continued pharmacy reimbursement rate pressures that we could not offset through generic purchasing efficiencies, partially offset by a LIFO credit as compared to a LIFO charge in the prior year. We expect lower reimbursement rates to continue to have a negative impact on our gross margin.

Gross profit increased by \$18.7 million in fiscal 2016 compared to fiscal 2015. The increase in gross profit was due to an increase in front end gross profit, partially offset by lower pharmacy gross profit and a LIFO charge of \$11.2 million in fiscal 2016 versus a LIFO credit of \$18.9 million in fiscal 2015. The fiscal 2016 LIFO charge was primarily due to lower deflation on pharmacy generics, than in fiscal 2015. Overall gross margin was 28.3% for fiscal 2016 compared to 28.6% in fiscal 2015.

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 LIFO credit for fiscal 2017 was \$6.6 million compared to a LIFO charge of \$11.2 million in fiscal 2016 and a LIFO credit of \$18.9 million in fiscal 2015. The LIFO credit for fiscal 2017 as compared to the prior year LIFO charge is due primarily to lower brand drug inflation and deflation in generic prescription drug costs.

During fiscal 2015, we experienced higher generic deflation and lower pharmacy inventory in our distribution centers resulting from our Purchasing and Delivery Arrangement, which contributed to a LIFO credit of \$18.9 million.

Selling, General and Administrative Expenses

SG&A as a percentage of revenue was 25.9% in fiscal 2017 compared to 25.4% in fiscal 2016, an increase of \$124.2 million. The increase in SG&A for fiscal 2017 was a result of the extra week in fiscal 2017 and declining Retail Pharmacy segment sales leverage.

SG&A as a percentage of revenue was 25.4% in fiscal 2016 compared to 25.2% in fiscal 2015, an increase of \$129.1 million. The increase in SG&A for fiscal 2016 was a result of increased payroll and benefit costs, higher depreciation and amortization related to our increased capital spending, and expenses relating to our acquisition of EnvisionRx and our pending Merger with WBA.

Pharmacy Services Segment Results of Operations

Acquisition of EnvisionRx

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

Pharmacy Services Segment Results of Operations

Pharmacy Services segment revenue for fiscal 2017 was \$6,393.9 million as compared to fiscal 2016 revenue of \$4,103.5 million. The increase in the fiscal 2017 revenue for the segment is primarily due to a full year of Pharmacy Services segment operations being included in the current year as compared to a partial year in the prior year. In addition, revenues for fiscal 2017 were positively impacted by revenue growth at EnvisionPharmacies and DesignRx.

Gross profit for fiscal 2017 was \$392.7 million as compared to gross profit of \$230.8 million for fiscal 2016. The increase in the fiscal 2017 gross profit for the segment is primarily due to a full year of Pharmacy Services segment operating results being included in the current year as compared to a partial year in the prior year. In addition, gross profit for fiscal 2017 was positively impacted by customer additions and growth at EnvisionPharmacies and DesignRx.

Pharmacy Services segment selling, general and administrative expenses for fiscal 2017 was \$293.5 million as compared to \$188.6 million of selling, general and administrative expenses for fiscal 2016. The increase in the selling, general and administrative expenses for fiscal 2017 is primarily the result of a full period of operating results in the current year as compared to a partial period of operating results in the prior year, as well as from additional costs to service new Pharmacy Services customers. Selling, general and administrative expenses as a percentage of Pharmacy Services segment revenue was 4.6% in fiscal 2017 and fiscal 2016.

Pharmacy Services Adjusted EBITDA for fiscal 2017 was \$188.2 million or 2.9 percent of Pharmacy Services revenue as compared to \$101.4 million or 2.5 percent of Pharmacy Services revenue for fiscal 2016. The increase in fiscal 2017 Adjusted EBITDA for the segment is primarily due to an increase in revenues and the fact that prior year's Pharmacy Services segment results do not reflect a full year's ownership of EnvisionRx.

Liquidity and Capital Resources

General

We have two primary sources of liquidity: (i) cash provided by operating activities and (ii) borrowings under our Amended and Restated Senior Secured Credit Facility. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt and to fund capital expenditures. Total liquidity as of March 4, 2017 was \$1,288.0 million, which consisted of revolver borrowing capacity of \$1,207.7 million and invested cash of \$80.3 million.

Credit Facilities

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

Our ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At March 4, 2017, we had \$2,430.0 million of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$62.3 million, which resulted in additional borrowing capacity of \$1,207.7 million. If at any time the total credit exposure outstanding under our Amended and Restated Senior Secured Credit Facility and the principal amount of our other senior obligations exceeds the borrowing base, we will be required to make certain other mandatory prepayments to eliminate such shortfall. Additionally, the Merger Agreement limits our ability to incur additional indebtedness for borrowed money, including a requirement that borrowings under the revolver not exceed \$3.0 billion in the aggregate immediately prior to the closing of the Merger.

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

account is less than \$275.0 million for three consecutive business days or less than or equal to \$200.0 million on any day (a "cash sweep period"), the funds in our deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the Amended and Restated Senior Secured Credit Facility, and then held as collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of our Amended and Restated Senior Secured Credit Facility.

The Amended and Restated Senior Secured Credit Facility allows us to have outstanding, at any time, up to \$1.5 billion in secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Amended and Restated Senior Secured Credit Facility and existing indebtedness, provided that not in excess of \$750.0 million of such secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (a) the fifth anniversary of the effectiveness of the Amended and Restated Senior Secured Credit Facility and (b) the latest maturity date of any Term Loan or Other Revolving Loan (each as defined in the Amended and Restated Senior Secured Credit Facility) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date and, with respect to any escrow notes issued by Rite Aid, excluding any special mandatory redemption of the type described in clause (iii) of the definition of "Escrow Notes" in the Amended and Restated Senior Secured Credit Facility). Subject to the limitations described in clauses (a) and (b) of the immediately preceding sentence, the Amended and Restated Senior Secured Credit Facility additionally allows us to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Amended and Restated Senior Secured Credit Facility) is not in effect; provided, however, that certain of our other outstanding indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Amended and Restated Senior Secured Credit Facility also contains certain restrictions on the amount of secured first priority debt we are able to incur. The Amended and Restated Senior Secured Credit Facility also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Amended and Restated Senior Secured Credit Facility is not in default and we maintain availability under our revolver of more than \$365.0 million.

The Amended and Restated Senior Secured Credit Facility has a financial covenant that requires us to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (a) on any date on which availability under the revolver is less than \$200.0 million or (b) on the third consecutive business day on which availability under the revolver is less than \$250.0 million and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolver is equal to or greater than \$250.0 million. As of March 4, 2017, we had availability under our revolver of \$1,207.7 million, our fixed charge coverage ratio was greater than 1.00 to 1.00, and we were in compliance with the senior secured credit facility's financial covenant. The Amended and Restated Senior Secured Credit Facility also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens.

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

We also have two second priority secured term loan facilities, the Tranche 1 Term Loan and the Tranche 2 Term Loan. The Tranche 1 Term Loan matures on August 21, 2020 and currently bears

interest at a rate per annum equal to LIBOR plus 4.75% with a LIBOR floor of 1.00%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 3.75%. The Tranche 2 Term Loan matures on June 21, 2021 and currently bears interest at a rate per annum equal to LIBOR plus 3.875% with a LIBOR floor of 1.00%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 2.875%.

The second priority secured term loan facilities and the indentures that govern our secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by us. As of March 4, 2017, the amount of additional secured debt that could be incurred under the most restrictive covenant of the second priority secured term loan facilities and these indentures was approximately \$1.6 billion (which amount does not include the ability to enter into certain sale and leaseback transactions). Assuming a fully drawn revolver and the outstanding letters of credit, we could incur an additional \$350.0 million in secured debt. The ability to issue additional unsecured debt under these indentures is generally governed by an interest coverage ratio test. As of March 4, 2017, we had the ability to issue additional unsecured debt under the second lien credit facilities and other indentures.

2016 Transactions

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

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

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

2015 Transactions

On October 15, 2014, we completed the redemption of all of the outstanding \$270.0 million aggregate principal amount of 10.25% senior notes due October 2019 at their contractually determined early redemption price of 105.125% of the principal amount, plus accrued interest. We funded this redemption with borrowings under our revolver. We recorded a loss on debt retirement of \$18.5 million related to this transaction.

Off-Balance Sheet Arrangements

As of March 4, 2017, we had no material off balance sheet arrangements, other than operating leases as included in the table below.

Contractual Obligations and Commitments

The following table details the maturities of our indebtedness and lease financing obligations as of March 4, 2017, as well as other contractual cash obligations and commitments.

	Payment due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
(Dollars in thousands)					
Contractual Cash Obligations					
Long term debt(1)	\$ 390,681	\$ 3,203,220	\$ 3,136,487	\$ 2,526,800	\$ 9,257,188
Capital lease obligations(2)	26,184	26,116	11,837	25,743	89,880
Operating leases(3)	1,050,834	1,857,661	1,383,671	3,054,697	7,346,863
Open purchase orders	201,685	—	—	—	201,685
Other, primarily self insurance and retirement plan obligations(4)	98,669	86,271	25,113	69,632	279,685
Minimum purchase commitments(5)	168,723	341,643	26,191	—	536,557
Total contractual cash obligations	<u>\$ 1,936,776</u>	<u>\$ 5,514,911</u>	<u>\$ 4,583,299</u>	<u>\$ 5,676,872</u>	<u>\$ 17,711,858</u>
Commitments					
Lease guarantees(6)	\$ 16,624	\$ 22,604	\$ 4,823	\$ 1,371	\$ 45,422
Outstanding letters of credit	56,678	5,594	—	—	62,272
Total commitments	<u>\$ 2,010,078</u>	<u>\$ 5,543,109</u>	<u>\$ 4,588,122</u>	<u>\$ 5,678,243</u>	<u>\$ 17,819,552</u>

- (1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of March 4, 2017.
- (2) Represents the minimum lease payments on non-cancelable leases, including interest, net of sublease income.
- (3) Represents the minimum lease payments on non-cancelable leases, including interest, net of sublease income.
- (4) Includes the undiscounted payments for self-insured medical coverage, actuarially determined undiscounted payments for self-insured workers' compensation and general liability, and actuarially determined obligations for defined benefit pension and nonqualified executive retirement plans.
- (5) Represents commitments to purchase products and licensing fees from certain vendors.
- (6) Represents lease guarantee obligations for 67 former stores related to certain business dispositions. The respective purchasers assume the obligations and are, therefore, primarily liable for these obligations.

Obligations for income tax uncertainties pursuant to ASC 740, "Income Taxes" of approximately \$0.9 million are not included in the table above as we are uncertain as to if or when such amounts may be settled.

Net Cash Provided By (Used In) Operating, Investing and Financing Activities

Cash flow provided by operating activities was \$225.9 million in fiscal 2017. Cash flow was negatively impacted by cash used by other assets and liabilities, which relates primarily to increased prepaid rent and decreases in various accrued liabilities, cash used by accounts receivable, which relates primarily to our Pharmacy Services segment accounts receivable growth, and cash used by inventory, which relates primarily to increasing store pharmacy inventory following a period of inventory reductions.

Cash flow provided by operating activities was \$997.4 million in fiscal 2016. Cash flow was positively impacted by net income and a decrease in inventory. The cash provided by accounts receivable and used by other assets and liabilities, relate primarily to the receipt of amounts due from CMS and the corresponding payment of amounts due under certain reinsurance contracts, as well as residual amounts due to TPG under the Acquisition agreement, which relate to the December 31, 2014 CMS plan year.

Cash flow provided by operating activities was \$649.0 million in fiscal 2015. Cash flow was positively impacted by net income and a decrease in inventory. These cash inflows were partially offset by a reduction of accounts payable resulting from the inventory reduction and the timing of payments, cash used in other assets and liabilities, net, due primarily to lower closed store reserves and self-insurance liability and higher accounts receivable due primarily to increased pharmacy sales and the timing of payments.

Cash used in investing activities was \$464.3 million in fiscal 2017. Cash used in investing activities decreased as compared to the prior year due to expenditures of \$1,778.4 million, net of cash acquired, related to the acquisition of EnvisionRx in the prior year. Cash used for the purchase of property, plant, and equipment was also lower than in the prior year due to fewer Wellness store remodels in the current year.

Cash used in investing activities was \$2,401.9 million in fiscal 2016. Cash used in investing activities increased due to expenditures of \$1,778.4 million, net of cash acquired, related to the acquisition of EnvisionRx compared to the fiscal 2015 expenditures of \$69.8 million, net of cash acquired, related to the acquisitions of Health Dialog and RediClinic in April 2014. Cash used for the purchase of property, plant, and equipment was higher than in fiscal 2015 due to a higher investment in Wellness store remodels.

Cash used in investing activities was \$593.7 million in fiscal 2015. Cash used for the purchase of property, plant, and equipment and prescription files was higher than in fiscal 2014 due to a higher investment in Wellness store remodels and prescription file buys. Proceeds from the sale of assets were lower as compared to fiscal 2014. Also reflected in investing activities are expenditures of \$69.8 million, net of cash acquired, related to the acquisitions of Health Dialog and RediClinic.

Cash provided by financing activities was \$359.3 million in fiscal 2017, which reflects net proceeds from the revolver of \$330.0 million. We also made scheduled payments of \$21.2 million on our capital lease obligations. Cash provided by financing activities also reflects an increase in our zero balance bank accounts and proceeds from the issuance of common stock.

Cash provided by financing activities was \$1,413.0 million in fiscal 2016, which reflects \$1.8 billion in proceeds from our 6.125% Notes, which was used to finance the majority of the cash portion of our acquisition of EnvisionRx, which is included in investing activities, as well as net proceeds from the revolver of \$375.0 million. We also redeemed \$650.0 million of our 8.0% senior secured notes and made scheduled payments of \$22.7 million on our capital lease obligations. Additionally, we paid an early redemption premium of \$26.0 million in connection with the redemption of our 8.0% senior secured notes and deferred financing costs paid in connection with the January 2015 senior secured credit facility refinancing and 6.125% Notes proceeds. Cash provided by financing activities also reflects proceeds from the issuance of common stock and excess tax benefit on stock options, partially offset by a reduction in our zero balance bank accounts.

Cash used in financing activities was \$85.8 million in fiscal 2015, which reflects proceeds from the issuance of our \$1,152.3 million Tranche 7 Term Loan due 2020 ("Tranche 7 Term Loan"), net proceeds from our revolver of \$1,325.0 million (which includes borrowings for the repayment and retirement of our \$1,143.7 million Tranche 7 Term Loan), the repayment of our \$1,152.3 million Tranche 6 Term Loan due 2020 and the redemption of \$270.0 million of our 10.25% Senior Secured Notes due 2019.

We also made scheduled payments of \$21.1 million on our capital lease obligations and \$8.6 million on our Tranche 7 Term Loan. Additionally, we paid an early redemption premium of \$13.8 million in connection with the redemption of our 10.25% Senior Secured Notes due 2019 and deferred financing costs of \$1.5 million and \$18.8 million in connection with our Tranche 7 Term Loan due 2020 and January 2015 Senior Secured Credit Facility refinancing, respectively. Cash provided by financing activities also reflects proceeds from the issuance of common stock and excess tax benefit on stock options and an increase in our zero balance bank accounts.

Capital Expenditures

During the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015 capital expenditures were as follows:

	Year Ended		
	March 4, 2017 (53 weeks)	February 27, 2016 (52 weeks)	February 28, 2015 (52 weeks)
	(Dollars in thousands)		
New store construction, store relocation and store remodel projects	\$ 248,624	\$ 311,820	\$ 280,679
Technology enhancements, improvements to distribution centers and other corporate requirements	175,665	229,527	146,149
Purchase of prescription files from other retail pharmacies	56,822	128,648	112,558
Total capital expenditures	<u>\$ 481,111</u>	<u>\$ 669,995</u>	<u>\$ 539,386</u>

Future Liquidity

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

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventory shrink, goodwill impairment, impairment of long-lived assets, revenue recognition, vendor discounts and purchase discounts, self insurance liabilities, lease exit liabilities, income taxes and litigation. Additionally, we have critical accounting policies regarding revenue recognition and vendor allowances and purchase discounts for our Pharmacy Services segment. We base our estimates on historical experience, current and anticipated business conditions, the condition of the financial markets and various other assumptions that are believed to be reasonable under existing conditions. Variability reflected in the sensitivity analyses presented below is based on our recent historical experience. Actual results may differ materially from these estimates and sensitivity analyses.

The following critical accounting policies require the use of significant judgments and estimates by management:

Inventory shrink: The carrying value of our inventory is reduced by a reserve for estimated shrink losses that occur between physical inventory dates. When estimating these losses, we consider historical loss results at specific locations, as well as overall loss trends as determined during physical inventory procedures. The estimated shrink rate is calculated by dividing historical shrink results for stores inventoried in the most recent six months by the sales for the same period. Shrink expense is recognized by applying the estimated shrink rate to sales since the last physical inventory. There have been no significant changes in the assumptions used to calculate our shrink rate over the last three years. Although possible, we do not expect a significant change to our shrink rate in future periods. A 10 basis point difference in our estimated shrink rate for the year ended March 4, 2017, would have affected pre-tax income by approximately \$9.8 million.

Goodwill Impairment: Our policy is to perform an impairment test of goodwill at least annually, and more frequently if events or circumstances occurred that would indicate a reduced fair value in our reporting units could exist. Typically, we perform a qualitative assessment in the fourth quarter of the fiscal year to determine if it is more likely than not that the carrying value of the goodwill exceeds the fair value of the goodwill. However, as part of this qualitative assessment, we do perform a quantitative assessment at least once every three years to re-establish a baseline fair value that can be used in our current and future qualitative assessments. During our qualitative assessment we make significant estimates, assumptions, and judgments, including, but not limited to, the overall economy, industry and market conditions, financial performance of the Company, changes in our share price, and forecasts of revenue, profit, working capital requirements, and cash flows. We consider each reporting unit's historical results and operating trends when determining these assumptions; however, our estimates and projections can be affected by a number of factors and it is possible that actual results could differ from the assumptions used in our impairment assessment. If we determine that it is more likely than not that the carrying value of the goodwill exceeds the fair value of the goodwill, we perform the first step of the impairment process, which compares the fair value of the reporting unit to its carrying amount, including the goodwill. Fair value estimates used in the quantitative impairment test are calculated using an average of an income and market approaches. The income approach is based on

the present value of future cash flows of each reporting unit, while the market approach is based on certain multiples of selected guideline public companies or selected guideline transactions. The approaches incorporate a number of assumptions including future growth rates, discount rates, income tax rates and market activity in assessing fair value and are reporting unit specific. If the carrying value of the reporting unit exceeds the fair value, the second step of the impairment process is performed and the implied fair value of the reporting unit is compared to the carrying amount of the goodwill. The implied fair value of the goodwill is determined the same way as the goodwill recognized in a business combination. We assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including unrecognized intangible assets) and any excess goes to the goodwill (its implied fair value). Any excess carrying amount of the goodwill over the implied fair value of the goodwill, is the amount of the impairment loss recognized.

Impairment of long-lived assets: We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, we evaluate individual stores for recoverability. To determine if a store needs to be tested for recoverability, we consider items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

We monitor new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, we perform a recoverability analysis if they have experienced current-period and historical cash flow losses.

In performing the recoverability test, we compare the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to our future cash flow projections include: expected sales and gross profit, pharmacy reimbursement rates, expected costs such as payroll, and estimates for other significant selling, general and administrative expenses.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value which is its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset.

We regularly approve certain stores for closure. Impairment charges for closed stores, if any, are evaluated and recorded in the quarter the closure decision is approved.

We also evaluate assets to be disposed of on a quarterly basis to determine if an additional impairment charge is required. Fair value estimates are provided by independent brokers who operate in the local markets where the assets are located.

If our actual future cash flows differ from our projections materially, certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods. A 50 basis point decrease in our future sales assumptions as of March 4, 2017 would have resulted in an additional fiscal 2017 impairment charge of \$2.7 million. A 50 basis point increase in our future sales assumptions as of March 4, 2017 would have reduced the fiscal 2017 impairment charge by \$0.5 million. A 100 basis point decrease in our future sales assumptions as of March 4, 2017 would have resulted in an additional fiscal 2017 impairment charge of \$3.3 million. A 100 basis point increase in our future sales assumptions as of March 4, 2017 would have reduced the fiscal 2017 impairment charge by \$0.9 million.

Revenue recognition for our loyalty program: We offer a chain wide customer loyalty program, "wellness+". Members participating in our wellness+ loyalty card program earn points on a calendar year basis for eligible front end merchandise purchases and qualifying prescriptions. One point is awarded for each dollar spent towards front end merchandise and 25 points are awarded for each qualifying prescription.

Members reach specific wellness+ tiers based on the points accumulated during the calendar year, which entitle them to certain future discounts and other benefits upon reaching that tier. For example, any customer that reaches 1,000 points in a calendar year achieves the "Gold" tier, enabling the customer to receive a 20% discount on qualifying purchases of front end merchandise for the remaining portion of the calendar year and the next calendar year. There is also a similar "Silver" level with a lower threshold and benefit level.

As wellness+ customers accumulate points, we defer the value of the points earned as deferred revenue based on the expected usage. The amount deferred is based on historic and projected customer activity (e.g., tier level, spending level). As customers receive discounted front end merchandise, we recognize an allocable portion of the deferred revenue. If the achieved combined Gold and Silver levels differ from the assumptions by 5.0% it would have affected pretax income by \$1.3 million. If the assumed spending levels, which are the drivers of future discounts, differ by 5.0% it would have affected pretax income by \$1.3 million.

Rite Aid has partnered with American Express Travel Related Services Company, Inc. to be part of a coalition loyalty program titled Plenti. This awards program allows a customer to earn points based on qualifying purchases at participating retailers. Each Plenti point is worth the equivalent of \$0.01. The customer has the opportunity to redeem their accumulated points on a future purchase at any of the participating retailers. All points are redeemed using a FIFO methodology (e.g., first points earned are the first to be redeemed). Points expire on December 31st of each year for any point that has aged a minimum of two years that has not been redeemed by the customer.

For a majority of the Plenti point issuances, funding is provided by our vendors through contractual arrangements. This funding is treated as deferred revenue and remains in deferred revenue until a customer redeems their points. Upon redemption, the deferred revenue account is decremented with an offsetting credit to sales. For Plenti point redemptions that are not vendor funded, deferred revenue is recorded and not recognized until the points are redeemed.

Self-insurance liabilities: We expense claims for self-insured workers' compensation and general liability insurance coverage as incurred including an estimate for claims incurred but not paid. The expense for self-insured workers' compensation and general liability claims incurred but not paid is determined using several factors, including historical claims experience and development, severity of claims, medical costs and the time needed to settle claims. We discount the estimated expense for workers' compensation to present value as the time period from incurrence of the claim to final settlement can be several years. We base our estimates for such timing on previous settlement activity. The discount rate is based on the current market rates for Treasury bills that approximate the average time to settle the workers' compensation claims. These assumptions are updated on an annual basis. A 30 basis point difference in the discount rate for the year ended March 4, 2017, would have affected pretax income by approximately \$2.6 million.

Lease termination charges: We record reserves for closed stores based on future lease commitments, anticipated ancillary occupancy costs and anticipated future subleases of properties. The reserves are calculated at the individual location level and the assumptions are assessed at that level. The reserve for lease exit liabilities is discounted using a credit adjusted risk free interest rate. Reserve estimates and related assumptions are updated on a quarterly basis.

Changes in the real estate leasing markets can have an impact on the closed store reserve. Additionally, some of our closed stores were closed prior to our adoption of ASC 420, "Exit or Disposal Cost Obligations." Therefore, if interest rates change, reserves may be increased or decreased. As of March 4, 2017, a 50 basis point variance in the credit adjusted risk free interest rate would have affected pretax income by approximately \$0.6 million for fiscal 2017.

Income taxes: We currently have net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate significant deferred tax assets. Realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards.

We regularly review the deferred tax assets for recoverability considering the relative impact of negative and positive evidence including our historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The weight given to the potential effect of the negative and positive evidence is commensurate with the extent to which it can be objectively verified. In evaluating the objective evidence that historical results provide, we consider three years of cumulative pretax book income (loss).

We establish a valuation allowance against deferred tax assets when we determine that it is more likely than not that some portion of our deferred tax assets will not be realized. There have been no significant changes in the assumptions used to calculate our valuation allowance over the last three years.

On an ongoing basis, we will continue to monitor our deferred tax assets to ensure their utilization prior to their expiration. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would impact the provision for income taxes.

We recognize tax liabilities in accordance with ASC 740, "Income Taxes" and we adjust these liabilities when our judgment changes 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 our current estimate of the tax liabilities.

Litigation reserves: We are involved in litigation on an on-going basis. We accrue our best estimate of the probable loss related to legal claims. Such estimates are based upon a combination of litigation and settlement strategies. These estimates are updated as the facts and circumstances of the cases develop and/or change. To the extent additional information arises or our strategies change, it is possible that our best estimate of the probable liability may also change. Changes to these reserves during the last three fiscal years were not material.

Revenue recognition for our Pharmacy Services segment: Our Pharmacy Services segment sells prescription drugs indirectly through our retail pharmacy network and directly through our mail service dispensing pharmacy. We recognize revenues in our Pharmacy Services segment from (i) our mail service dispensing pharmacy and (ii) prescription drugs sold under retail pharmacy network contracts where we are the principal using the gross method at the contract prices negotiated with our clients, primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States. Revenue from our Pharmacy Services segment includes: (i) the portion of the price the client pays directly to us, net of any volume-related or other discounts paid back to the client, (ii) the price paid to us ("Mail Co-Payments") by individuals included in our clients' benefit plans, (iii) customer copayments made directly to the retail pharmacy network, and (iv) administrative fees. Sales taxes are not included in revenue.

We recognize revenue in the Pharmacy Services segment when: (i) persuasive evidence that the prescription drug sale has occurred or a contractual arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. The following revenue recognition policies have been established for the Pharmacy Services segment.

- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services segment's online claims processing system.
- Revenues generated from prescription drugs sold by our mail service dispensing pharmacy are recognized when the prescription is delivered. At the time of delivery, the Pharmacy Services segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.
- Revenues generated from administrative fees based on membership or claims volume are recognized monthly based upon active membership in the plan or actual claims volume.

In the majority of its contracts, the Pharmacy Services segment has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) latitude in establishing price, (iii) performs part of the service, (iv) having discretion in supplier selection and v) having involvement in the determination of product or service specifications. The Pharmacy Services segment's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the Pharmacy Services segment is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold after payment is received from its clients. The Pharmacy Services segment's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically appropriate and approving the prescription for dispensing. Although the Pharmacy Services segment does not have credit risk with respect to its pharmacy benefit manager operations and retail co-payments, management believes that all of the other applicable indicators of gross revenue reporting are present.

We deduct from our revenues that are generated from prescription drugs sold by third party pharmacies the manufacturers' rebates that are earned by our clients based on their members' utilization of brand-name formulary drugs. For the majority of our clients, we pass these rebates to clients at point-of-sale based on actual claims data and our estimates of the manufacturers' rebates earned by our clients. We base our estimates on the best available data and recent history for the various factors that can affect the amount of rebates earned by the client. We also deduct from our revenues pricing guarantees and guarantees regarding the level of service we will provide to the client or member as well as other payments made to our clients. Because the inputs to most of these estimates are not subject to a high degree of subjectivity or volatility, the effect of adjustments between estimated and actual amounts have not been material to our results of operations or financial condition.

We participate in the federal government's Medicare Part D program as a PDP through our EIC subsidiary. Our net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS. The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums

collected in advance are initially deferred as accrued expenses and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor (iii) estimates for claims that have been reported and are in the process of being paid or contested and (iv) our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Vendor allowances and purchase discounts for our Pharmacy Services segment: Our Pharmacy Services segment receives purchase discounts on products purchased. Contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the Pharmacy Services segment to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase or (ii) a discount (or rebate) paid subsequent to dispensing when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy). These rebates are recognized based on estimates when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the results of operations. We account for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The Pharmacy Services segment also receives additional discounts under its wholesaler contract. In addition, the Pharmacy Services segment receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of cost of revenues.

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

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

The following is a reconciliation of our net income to Adjusted EBITDA for fiscal 2017, 2016 and 2015:

	March 4, 2017 (53 weeks)	February 27, 2016 (52 weeks)	February 28, 2015 (52 weeks)
	(Dollars in thousands)		
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Interest expense	431,991	449,574	397,612
Income tax expense	29,689	139,297	158,951
Income tax valuation allowance increase (release)	14,703	(26,358)	(1,841,304)
Depreciation and amortization expense	568,231	509,212	416,628
LIFO (credit) charge	(6,620)	11,163	(18,857)
Lease termination and impairment charges	55,294	48,423	41,945
Loss on debt retirements, net	—	33,205	18,512
Other	39,800	72,281	40,183
Adjusted EBITDA	<u>\$ 1,137,141</u>	<u>\$ 1,402,262</u>	<u>\$ 1,322,843</u>

The following is a reconciliation of our net income to Adjusted Net Income and Adjusted Net Income per Diluted Share for fiscal 2017, 2016 and 2015. Adjusted Net Income is defined as net income excluding the impact of amortization of EnvisionRx intangible assets, merger and acquisition-related costs, loss on debt retirements and LIFO adjustments. We calculate Adjusted Net Income per Diluted Share using our above-referenced definition of Adjusted Net Income. We believe Adjusted Net Income and Adjusted Net Income per Diluted Share serve as appropriate measures to be used in evaluating the performance of our business and help our investors better compare our operating performance over multiple periods. The following is a reconciliation of our net income to our Adjusted Net Income for fiscal 2017, 2016 and 2015:

	March 4, 2017 (53 weeks)	February 27, 2016 (52 weeks)	February 28, 2015 (52 weeks)
	(Dollars in thousands)		
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Add back—Income tax expense (benefit)	44,392	112,939	(1,682,353)
Income before income taxes	48,445	278,404	426,820
Adjustments:			
Amortization of EnvisionRx intangible assets	83,022	55,527	—
LIFO (credit) charge	(6,620)	11,163	(18,857)
Loss on debt retirements, net	—	33,205	18,512
Merger and Acquisition-related costs	14,066	27,482	8,309
Adjusted income before income taxes	138,913	405,781	434,784
Adjusted income tax expense(a)	72,096	150,545	161,740
Adjusted net income	<u>\$ 66,817</u>	<u>\$ 255,236</u>	<u>\$ 273,044</u>
Net income per diluted share	\$ 0.00	\$ 0.16	\$ 2.08
Adjusted net income per diluted share	<u>\$ 0.06</u>	<u>\$ 0.24</u>	<u>\$ 0.27</u>

- (a) The fiscal year 2017 and 2016 annual effective tax rates, adjusted to exclude amortization of EnvisionRx intangible assets, LIFO (credits) charges, loss on debt retirements and Merger and Acquisition-related costs from book income, are used for the fifty-three weeks ended March 4, 2017 and the fifty-two weeks ended February 27, 2016, respectively. The estimated annualized effective tax rate used for the fifty-two weeks ended February 28, 2015 is adjusted for the income tax valuation allowance reduction of \$1.841 billion.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of March 4, 2017.

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value at March 4, 2017
	(Dollars in thousands)							
Long-term debt, including current portion, excluding capital lease obligations								
Fixed Rate	\$ 90	\$ —	\$ —	\$902,000	\$810,000	\$2,223,000	\$3,935,090	\$4,152,374
Average Interest Rate	7.61%	0.00%	0.00%	9.25%	6.75%	6.38%	7.11%	
Variable Rate	\$ —	\$ —	\$2,430,000	\$470,000	\$500,000	\$ —	\$3,400,000	\$3,404,225
Average Interest Rate	0.00%	0.00%	2.44%	5.75%	4.88%	0.00%	3.26%	

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

The interest rate on our variable rate borrowings, which include our revolving credit facility, Tranche 1 Term Loan and our Tranche 2 Term Loan, are all based on LIBOR. However, the interest

rate on our Tranche 1 Term Loan and Tranche 2 Term Loan have a LIBOR floor of 100 basis points. If the market rates of interest for LIBOR changed by 100 basis points as of March 4, 2017, our annual interest expense would change by approximately \$32.4 million.

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

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto are included elsewhere in this report and are incorporated by reference herein. See Item 15 of Part IV.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable

Item 9A. 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) Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control —Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that, as of March 4, 2017, we did not have any material weaknesses in our internal control over financial reporting and our internal control over financial reporting was effective.

Attestation Report of the Independent Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm, Deloitte & Touche LLP, on our internal control over financial reporting is included after the next paragraph.

(c) 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 our fourth fiscal quarter ended March 4, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Rite Aid Corporation
Camp Hill, Pennsylvania

We have audited the internal control over financial reporting of Rite Aid Corporation and subsidiaries (the "Company") as of March 4, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 4, 2017, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule

as of and for the year ended March 4, 2017 of the Company and our report dated May 3, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Philadelphia, Pennsylvania
May 3, 2017

Item 9B. Other Information

None

PART III

We intend to file with the SEC a definitive proxy statement for our 2017 Annual Meeting of Stockholders, to be held on or before July 17, 2017, pursuant to Regulation 14A not later than 120 days after March 4, 2017. The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference from that proxy statement.

PART IV**Item 15. Exhibits and Financial Statement Schedule**

(a) The consolidated financial statements of the Company and report of the independent registered public accounting firm identified in the following index are included in this report from the individual pages filed as a part of this report:

1. Financial Statements

The following financial statements, report of the independent registered public accounting firm and supplementary data are included herein:

Report of Independent Registered Public Accounting Firm	78
Consolidated Balance Sheets as of March 4, 2017 and February 27, 2016	79
Consolidated Statements of Operations for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015	80
Consolidated Statements of Comprehensive Income for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015	81
Consolidated Statements of Stockholders' Equity for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015	82
Consolidated Statements of Cash Flows for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015	83
Notes to Consolidated Financial Statements	84

2. Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable, not required or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Agreement and Plan of Merger, dated as of October 27, 2015, among Rite Aid Corporation, Walgreens Boots Alliance, Inc. and Victoria Merger Sub, Inc.	Exhibit 2.1 to Form 8-K, filed on October 29, 2015
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of January 29, 2017, by and among Rite Aid Corporation, Walgreens Boots Alliance, Inc. and Victoria Merger Sub, Inc.	Exhibit 2.1 to Form 8-K filed on January 30, 2017
2.3	Asset Purchase Agreement, dated as of December 19, 2016, by and among Rite Aid Corporation, Walgreens Boots Alliance, Inc., Fred's, Inc. and AFAE, LLC***	Filed herewith
3.1	Amended and Restated Certificate of Incorporation, dated January 22, 2014	Exhibit 3.1 to Form 10-K, filed on April 23, 2014
3.2	Amended and Restated By-Laws	Exhibit 3.2 to Form 10-Q, filed on January 6, 2016
4.1	Indenture, dated as of February 27, 2012, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 9.25% Senior Notes due 2020	Exhibit 4.1 to Form 8-K, filed on February 27, 2012
4.2	First Supplemental Indenture, dated as of May 15, 2012, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A. to the Indenture, dated as of February 27, 2012, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.25% Senior Notes due 2020	Exhibit 4.23 to the Registration Statement on Form S-4, File No. 181651, filed on May 24, 2012
4.3	Indenture, dated as of August 1, 1993, between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 7.70% Notes due 2027	Exhibit 4A to Registration Statement on Form S-3, File No. 033-63794, filed on June 3, 1993
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and U.S. Bank Trust National Association (as successor trustee to Morgan Guaranty Trust Company of New York) to the Indenture dated as of August 1, 1993, between Rite Aid Corporation and Morgan Guaranty Trust Company of New York, relating to the Company's 7.70% Notes due 2027	Exhibit 4.1 to Form 8-K filed on February 7, 2000

Exhibit Numbers	Description	Incorporation By Reference To
4.5	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.6	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K, filed on February 7, 2000
4.7	Indenture, dated as of July 2, 2013, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.75% Senior Notes due 2021	Exhibit 4.1 to Form 8-K, filed on July 2, 2013
4.8	Registration Rights Agreement, dated as of February 10, 2015, by and among Rite Aid Corporation, TPG VI Envision, L.P., TPG VI DE BDH, L.P. and Envision Rx Options Holdings Inc.	Exhibit 10.3 to Form 8-K, filed on February 13, 2015
4.9	Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023	Exhibit 4.1 to Form 8-K, filed on April 2, 2015
4.10	Registration Rights Agreement, dated as of April 2, 2015, among Rite Aid Corporation, the subsidiary guarantors named therein and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co., as the initial purchasers of the Company's 6.125% Senior Notes due 2023	Exhibit 10.1 to Form 8-K, filed on April 2, 2015
10.1	2000 Omnibus Equity Plan*	Included in Proxy Statement dated October 24, 2000
10.2	2001 Stock Option Plan*	Exhibit 10.3 to Form 10-K, filed on May 21, 2001
10.3	2004 Omnibus Equity Plan*	Exhibit 10.4 to Form 10-K, filed on April 29, 2005
10.4	2006 Omnibus Equity Plan*	Exhibit 10 to Form 8-K, filed on January 22, 2007
10.5	2010 Omnibus Equity Plan*	Exhibit 10.1 to Form 8-K, filed on June 25, 2010
10.6	Amendment No. 1, dated September 21, 2010, to the 2010 Omnibus Equity Plan*	Exhibit 10.7 to Form 10-Q, filed on October 7, 2010

Exhibit Numbers	Description	Incorporation By Reference To
10.7	Amendment No. 2, dated January 16, 2013, to the 2010 Omnibus Equity Plan*	Exhibit 10.8 to Form 10-K, filed on April 23, 2013
10.8	2012 Omnibus Equity Plan*	Exhibit 10.1 to Form 8-K, filed on June 25, 2012
10.9	Amendment No. 1, dated January 16, 2013, to the 2012 Omnibus Equity Plan*	Exhibit 10.10 to Form 10-K, filed on April 23, 2013
10.10	2014 Omnibus Equity Plan*	Exhibit 10.1 to Form 8-K, filed on June 23, 2014
10.11	Form of Award Agreement*	Exhibit 10.2 to Form 8-K, filed on May 15, 2012
10.12	Supplemental Executive Retirement Plan*	Exhibit 10.6 to Form 10-K, filed on April 28, 2010
10.13	Executive Incentive Plan for Officers of Rite Aid Corporation*	Exhibit 10.1 to Form 8-K, filed on February 24, 2012
10.14	Amended and Restated Employment Agreement by and between Rite Aid Corporation and John T. Standley, dated as of January 21, 2010*	Exhibit 10.7 to Form 10-K, filed on April 28, 2010
10.15	Employment Agreement by and between Rite Aid Corporation and Douglas E. Donley, dated as of August 1, 2000*	Exhibit 10.1 to Form 10-Q, filed on December 22, 2005
10.16	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Douglas E. Donley, dated as of December 18, 2008*	Exhibit 10.4 to Form 10-Q, filed on January 7, 2009
10.17	Rite Aid Corporation Special Executive Retirement Plan*	Exhibit 10.15 to Form 10-K, filed on April 26, 2004
10.18	Employment Agreement by and between Rite Aid Corporation and Ken Martindale, dated as of December 3, 2008*	Exhibit 10.7 to Form 10-Q, filed on January 7, 2009
10.19	Letter Agreement, dated July 27, 2010, to the Employment Agreement by and between Rite Aid Corporation and Ken Martindale, dated as of December 3, 2008*	Exhibit 10.6 to Form 10-Q, filed on October 7, 2010
10.20	Amendment to Employment Agreement by and between Rite Aid Corporation and Kenneth Martindale dated as of October 26, 2015*	Exhibit 10.4 to Form 10-Q, filed on January 6, 2016
10.21	Amended and Restated Employment Agreement, dated as of June 23, 2011, between Rite Aid Corporation and Enio A. Montini, Jr.*	Exhibit 10.1 to Form 10-Q, filed on October 5, 2011
10.22	Employment Agreement, dated as of March 24, 2014, by and between Rite Aid Corporation and Dedra N. Castle	Exhibit 10.2 to Form 10-Q, filed on July 3, 2014

Exhibit Numbers	Description	Incorporation By Reference To
10.23	Employment Agreement, dated as of July 24, 2014, by and between Rite Aid Corporation and Darren W. Karst	Exhibit 10.2 to Form 10-Q, filed on October 2, 2014
10.24	Letter Agreement, dated October 26, 2015, to the Employment Agreement by and between Rite Aid Corporation and Darren W. Karst, dated as of July 24, 2014*	Exhibit 10.1 to Form 8-K, filed on October 28, 2015
10.25	Employment Agreement by and between Rite Aid Corporation and Jocelyn Konrad dated as of August 18, 2015*	Exhibit 10.1 to Form 10-Q, filed on January 6, 2016
10.26	Employment Agreement by and between Rite Aid Corporation and Bryan Everett dated as of June 22, 2015*	Exhibit 10.2 to Form 10-Q, filed on January 6, 2016
10.27	Employment Agreement by and between Rite Aid Corporation and David Abelman dated as of August 3, 2015*	Exhibit 10.3 to Form 10-Q, filed on January 6, 2016
10.28	Form of Retention Award Agreement	Exhibit 10.1 to Form 8-K, filed on January 7, 2016
10.29	Form of December 31, 2015 Retention Award Agreement	Exhibit 10.2 to Form 8-K, filed on January 7, 2016
10.30	Amended and Restated Credit Agreement, dated as of June 27, 2001, as amended and restated as of January 13, 2015, among Rite Aid Corporation, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent and collateral agent.	Exhibit 10.1 to Form 8-K, filed on January 14, 2015
10.31	First Amendment to Amended and Restated Credit Agreement, dated as of February 10, 2015, among Rite Aid Corporation, the lenders signatory thereto and Citicorp North America, Inc., as administrative agent and collateral agent.	Exhibit 10.1 to Form 8-K, filed on February 13, 2015
10.32	Credit Agreement, dated as of June 21, 2013, among Rite Aid Corporation, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent and collateral agent	Exhibit 10.1 to Form 8-K, filed on June 21, 2013
10.33	Credit Agreement, dated as of February 21, 2013, among Rite Aid Corporation, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent and collateral agent	Exhibit 10.2 to Form 8-K, filed on February 21, 2013

Exhibit Numbers	Description	Incorporation By Reference To
10.34	Amended and Restated Collateral Trust and Intercreditor Agreement, including the related definitions annex, dated as of June 5, 2009, among Rite Aid Corporation, each subsidiary named therein or which becomes a party thereto, Wilmington Trust Company, as collateral trustee, Citicorp North America, Inc., as senior collateral processing agent, The Bank of New York Trust Company, N.A., as trustee under the 2017 7.5% Note Indenture (as defined therein) and The Bank of New York Mellon Trust Company, N.A., as trustee under the 2016 10.375% Note Indenture (as defined therein), and each other Second Priority Representative and Senior Representative which becomes a party thereto	Exhibit 10.3 to Form 8-K, filed on June 11, 2009
10.35	Amended and Restated Senior Subsidiary Guarantee Agreement, dated as of June 5, 2009 among the subsidiary guarantors party thereto and Citicorp North America, Inc., as senior collateral agent	Exhibit 10.4 to Form 8-K, filed on June 11, 2009
10.36	Amended and Restated Senior Subsidiary Security Agreement, dated as of June 5, 2009, by the subsidiary guarantors party thereto in favor of the Citicorp North America, Inc., as senior collateral agent	Exhibit 10.5 to Form 8-K, filed on June 11, 2009
10.37	Amended and Restated Senior Indemnity, Subrogation and Contribution Agreement, dated as of May 28, 2003, and supplemented as of September 27, 2004, among Rite Aid Corporation, the Subsidiary Guarantors, and Citicorp North America, Inc. and JPMorgan Chase Bank, N.A., as collateral processing co- agents	Exhibit 4.27 to Form 10-K, filed on April 29, 2008
10.38	Second Priority Subsidiary Guarantee Agreement, dated as of June 27, 2001, as amended and restated as of May 28, 2003, and as supplemented as of January 5, 2005, among the Subsidiary Guarantors and Wilmington Trust Company, as collateral agent	Exhibit 4.36 to Form 10-K, filed on April 17, 2009
10.39	Second Priority Subsidiary Security Agreement, dated as of June 27, 2001, as amended and restated as of May 28, 2003, as supplemented as of January 5, 2005, and as amended in the Reaffirmation Agreement and Amendment dates as of January 11, 2005, by the Subsidiary Guarantors in favor of Wilmington Trust Company, as collateral trustee	Exhibit 4.37 to Form 10-K, filed on April 17, 2009
10.40	Amended and Restated Second Priority Indemnity, Subrogation and Contribution Agreement, dated as of May 28, 2003, and as supplemented as of January 5, 2005, among the Subsidiary Guarantors and Wilmington Trust Company, as collateral agent	Exhibit 4.33 to Form 10-K, filed on April 29, 2008

Exhibit Numbers	Description	Incorporation By Reference To
10.41	Intercreditor Agreement, dated as of February 18, 2009, by and among Citicorp North America, Inc. and Citicorp North America, Inc., and acknowledged and agreed to by Rite Aid Funding II	Exhibit 10.2 to Form 8-K, filed on February 20, 2009
10.42	Senior Lien Intercreditor Agreement dated as of June 12, 2009, among Rite Aid Corporation, the subsidiary guarantors named therein, Citicorp North America, Inc., as senior collateral agent for the Senior Secured Parties (as defined therein), Citicorp North America, Inc., as senior representative for the Senior Loan Secured Parties (as defined therein), The Bank of New York Mellon Trust Company, N.A., as Senior Representative (as defined therein) for the Initial Additional Senior Debt Parties (as defined therein), and each additional Senior Representative from time to time party thereto	Exhibit 10.2 to Form 8-K, filed on June 16, 2009
11	Statement regarding computation of earnings per share (See Note 4 to the consolidated financial statements)	Filed herewith
12	Statement regarding computation of ratio of earnings to fixed charges	Filed herewith
21	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
32	Certification of CEO and CFO pursuant to 18 United States Code, Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

Exhibit Numbers	Description	Incorporation By Reference To
101.	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets at March 4, 2017 and February 27, 2016, (ii) Consolidated Statements of Operations for the fiscal years ended March 4, 2017, February 27, 2016, and February 28, 2015, (iii) Consolidated Statements of Comprehensive Income for the fiscal years ended March 4, 2017, February 27, 2016, and February 28, 2015, (iv) Consolidated Statements of Stockholders' Equity for the fiscal years ended March 4, 2017, February 27, 2016, and February 28, 2015, (v) Consolidated Statements of Cash Flows for the fiscal years ended March 4, 2017, February 27, 2016, and February 28, 2015 and (vi) Notes to Consolidated Financial Statements, tagged in detail.	

* Constitutes a compensatory plan or arrangement required to be filed with this Form 10-K.

** Confidential portions of these Exhibits were redacted and filed separately with the Securities and Exchange Commission pursuant to requests for confidential treatment.

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Rite Aid Corporation, its subsidiaries or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;*
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;*
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and*
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.*

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Rite Aid Corporation may be found elsewhere in this report and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

*** Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Rite Aid Corporation agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rite Aid Corporation
Camp Hill, Pennsylvania

We have audited the accompanying consolidated balance sheets of Rite Aid Corporation and subsidiaries (the "Company") as of March 4, 2017 and February 27, 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 4, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rite Aid Corporation and subsidiaries as of March 4, 2017 and February 27, 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 4, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 4, 2017, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 3, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
May 3, 2017

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	March 4, 2017	February 27, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 245,410	\$ 124,471
Accounts receivable, net	1,771,126	1,601,008
Inventories, net	2,837,211	2,697,104
Prepaid expenses and other current assets	211,541	128,144
Total current assets	5,065,288	4,550,727
Property, plant and equipment, net	2,251,692	2,255,398
Goodwill	1,715,479	1,713,475
Other intangibles, net	835,795	1,004,379
Deferred tax assets	1,505,564	1,539,141
Other assets	219,934	213,890
Total assets	<u>\$ 11,593,752</u>	<u>\$ 11,277,010</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 21,335	\$ 26,848
Accounts payable	1,613,909	1,542,797
Accrued salaries, wages and other current liabilities	1,370,004	1,427,250
Total current liabilities	3,005,248	2,996,895
Long-term debt, less current maturities	7,263,288	6,914,393
Lease financing obligations, less current maturities	44,070	52,895
Other noncurrent liabilities	667,076	731,399
Total liabilities	10,979,682	10,695,582
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, par value \$1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,053,690 and 1,047,754	1,053,690	1,047,754
Additional paid-in capital	4,839,854	4,822,665
Accumulated deficit	(5,237,157)	(5,241,210)
Accumulated other comprehensive loss	(42,317)	(47,781)
Total stockholders' equity	614,070	581,428
Total liabilities and stockholders' equity	<u>\$ 11,593,752</u>	<u>\$ 11,277,010</u>

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Revenues	\$ 32,845,073	\$ 30,736,657	\$ 26,528,377
Costs and expenses:			
Cost of revenues	25,071,008	22,910,402	18,951,645
Selling, general and administrative expenses	7,242,359	7,013,346	6,695,642
Lease termination and impairment charges	55,294	48,423	41,945
Interest expense	431,991	449,574	397,612
Loss on debt retirements, net	—	33,205	18,512
(Gain) loss on sale of assets, net	(4,024)	3,303	(3,799)
	<u>32,796,628</u>	<u>30,458,253</u>	<u>26,101,557</u>
Income before income taxes	48,445	278,404	426,820
Income tax expense (benefit)	44,392	112,939	(1,682,353)
Net income	<u>\$ 4,053</u>	<u>\$ 165,465</u>	<u>\$ 2,109,173</u>
Computation of income attributable to common stockholders:			
Income attributable to common stockholders—basic	4,053	165,465	2,109,173
Add back-interest on convertible notes	—	—	5,456
Income attributable to common stockholders—diluted	<u>\$ 4,053</u>	<u>\$ 165,465</u>	<u>\$ 2,114,629</u>
Basic income per share	<u>\$ 0.00</u>	<u>\$ 0.16</u>	<u>\$ 2.17</u>
Diluted income per share	<u>\$ 0.00</u>	<u>\$ 0.16</u>	<u>\$ 2.08</u>

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Other comprehensive income (loss):			
Defined benefit pension plans:			
Amortization of prior service cost, net transition obligation and net actuarial losses included in net periodic pension cost, net of \$3,600, \$(1,681), and \$(6,042) tax expense (benefit)	5,464	(1,931)	(8,516)
Total other comprehensive income (loss)	5,464	(1,931)	(8,516)
Comprehensive income	<u>\$ 9,517</u>	<u>\$ 163,534</u>	<u>\$ 2,100,657</u>

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	Other Comprehensive Loss	
BALANCE MARCH 1, 2014	971,331	\$ 971,331	\$ 4,468,149	\$ (7,515,848)	\$ (37,334)	\$ (2,113,702)
Net income				2,109,173		2,109,173
Other comprehensive loss:						
Changes in Defined Benefit Plans, net of \$6,042 tax benefit					(8,516)	(8,516)
Comprehensive income						2,100,657
Exchange of restricted shares for taxes	(2,115)	(2,115)	(13,063)			(15,178)
Issuance of restricted stock	3,303	3,303	(3,303)			—
Cancellation of restricted stock	(454)	(454)	454			—
Amortization of restricted stock balance			12,441			12,441
Stock-based compensation expense			10,949			10,949
Tax benefit from exercise of stock options and restricted stock vesting			37,772			37,772
Stock options exercised	16,485	16,485	7,612			24,097
Conversion of convertible debt instruments	8	8	12			20
BALANCE FEBRUARY 28, 2015	988,558	\$ 988,558	\$ 4,521,023	\$ (5,406,675)	\$ (45,850)	\$ 57,056
Net income				165,465		165,465
Other comprehensive loss:						
Changes in Defined Benefit Plans, net of \$1,681 tax benefit					(1,931)	(1,931)
Comprehensive income						163,534
Exchange of restricted shares for taxes	(2,045)	(2,045)	(15,461)			(17,506)
Issuance of restricted stock	2,751	2,751	(2,751)			—
Cancellation of restricted stock	(420)	(420)	420			—
Amortization of restricted stock balance			28,342			28,342
Stock-based compensation expense			11,164			11,164
Conversion of convertible debt instruments	24,762	24,762	39,327			64,089
Tax benefit from exercise of stock options and restricted stock vesting			22,466			22,466
Stock options exercised	6,394	6,394	4,982			11,376
Shares issued for EnvisionRx acquisition	27,754	27,754	213,153			240,907
BALANCE FEBRUARY 27, 2016	1,047,754	\$ 1,047,754	\$ 4,822,665	\$ (5,241,210)	\$ (47,781)	\$ 581,428
Net income				4,053		4,053
Other comprehensive loss:						
Changes in Defined Benefit Plans, net of \$3,600 tax expense					5,464	5,464
Comprehensive income						9,517
Exchange of restricted shares for taxes	(809)	(809)	(5,446)			(6,255)
Issuance of restricted stock	3,613	3,613	(3,613)			—
Cancellation of restricted stock	(424)	(424)	424			—
Amortization of restricted stock balance			12,588			12,588
Stock-based compensation expense			9,989			9,989
Tax benefit from exercise of stock options and restricted stock vesting			(148)			(148)
Stock options exercised	3,556	3,556	3,395			6,951
BALANCE MARCH 4, 2017	1,053,690	\$ 1,053,690	\$ 4,839,854	\$ (5,237,157)	\$ (42,317)	\$ 614,070

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
OPERATING ACTIVITIES:			
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	568,231	509,212	416,628
Lease termination and impairment charges	55,294	48,423	41,945
LIFO (credit) charge	(6,620)	11,163	(18,857)
(Gain) loss on sale of assets, net	(4,024)	3,303	(3,799)
Stock-based compensation expense	23,482	37,948	23,390
Loss on debt retirements, net	—	33,205	18,512
Changes in deferred taxes	35,038	79,488	(1,726,487)
Excess tax benefit on stock options and restricted stock	(543)	(22,884)	(41,563)
Changes in operating assets and liabilities:			
Accounts receivable	(166,765)	291,659	(25,902)
Inventories	(133,543)	181,958	129,985
Accounts payable	29,528	(21,187)	(169,952)
Other assets and liabilities, net	(178,268)	(320,351)	(104,114)
Net cash provided by operating activities	225,863	997,402	648,959
INVESTING ACTIVITIES:			
Payments for property, plant and equipment	(424,289)	(541,347)	(426,828)
Intangible assets acquired	(56,822)	(128,648)	(112,558)
Acquisition of businesses, net of cash acquired	—	(1,778,377)	(69,793)
Proceeds from sale-leaseback transactions	—	36,732	—
Proceeds from dispositions of assets and investments	16,852	9,782	15,494
Net cash used in investing activities	(464,259)	(2,401,858)	(593,685)
FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	—	1,800,000	1,152,293
Net proceeds from revolver	330,000	375,000	1,325,000
Principal payments on long-term debt	(21,239)	(672,717)	(2,595,709)
Change in zero balance cash accounts	43,080	(62,878)	1,081
Net proceeds from the issuance of common stock	6,951	11,376	24,117
Financing fees paid for early debt redemption	—	(26,003)	(13,841)
Excess tax benefit on stock options and restricted stock	543	22,884	41,563
Deferred financing costs paid	—	(34,634)	(20,285)
Net cash provided by (used in) financing activities	359,335	1,413,028	(85,781)
Increase (decrease) in cash and cash equivalents	120,939	8,572	(30,507)
Cash and cash equivalents, beginning of year	124,471	115,899	146,406
Cash and cash equivalents, end of year	<u>\$ 245,410</u>	<u>\$ 124,471</u>	<u>\$ 115,899</u>

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies*Description of Business*

The Company is a Delaware corporation and through its 100 percent owned subsidiaries, operates a pharmacy retail healthcare company in the United States of America. The Company operates through its two reportable segments: the Retail Pharmacy segment and the Pharmacy Services segment. The Retail Pharmacy segment operates one of the largest retail drugstore chains in the United States, with 4,536 stores in operation as of March 4, 2017. The Retail Pharmacy segment's drugstores' primary business is the sale of brand and generic prescription drugs. The Retail Pharmacy segment also sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private brand product line. The Pharmacy Services segment, acquired by the Company in connection with the June 24, 2015 acquisition of EnvisionRx, operates both a transparent and traditional pharmacy benefit management ("PBM") business; mail-order and specialty pharmacy services through EnvisionPharmacies; access to the nation's largest cash pay infertility discount drug program via Design Rx; a claims adjudication software platform through Laker Software; and a national Medicare Part D prescription drug plan through Envision Insurance Company ("EIC"). See Note 20 for additional details on the Company's reportable segments.

Prior to the June 24, 2015 acquisition of EnvisionRx, the Company's operations consisted solely of the Retail Pharmacy segment. Following the completion of the EnvisionRx acquisition, the Company organized its operations into the Retail Pharmacy segment and the Pharmacy Services segment. Revenues for the Company are as follows:

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Retail Pharmacy segment:			
Pharmacy sales	\$ 18,187,451	\$ 18,442,557	\$ 18,114,768
Front end sales	8,427,256	8,238,450	8,232,256
Other revenue	201,962	184,924	181,353
Total Retail Pharmacy segment	\$ 26,816,669	\$ 26,865,931	\$ 26,528,377
Pharmacy Services segment revenue	6,393,884	4,103,513	—
Intersegment elimination	(365,480)	(232,787)	—
Total revenue	\$ 32,845,073	\$ 30,736,657	\$ 26,528,377

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 68.3%, 69.1% and 68.8% of the Company's total drugstore sales in fiscal years 2017, 2016 and 2015,

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****1. Summary of Significant Accounting Policies (Continued)**

respectively. The Retail Pharmacy segment's principal classes of products in fiscal 2017 were the following:

Product Class	Percentage of Sales
Prescription drugs	68.3%
Over-the-counter medications and personal care	10.2%
Health and beauty aids	4.8%
General merchandise and other	16.7%

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal year ended March 4, 2017 includes 53 weeks. The fiscal years ended February 27, 2016 and February 28, 2015 included 52 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its 100 percent owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments, which are readily convertible to known amounts of cash and which have original maturities of three months or less when purchased.

Allowance for Uncollectible Receivables

Approximately 98.2% of prescription sales are made to customers who are covered by third-party payors, such as insurance companies, government agencies and employers. The Company recognizes receivables that represent the amount owed to the Company for sales made to customers or employees of those payors that have not yet been paid. The Company maintains a reserve for the amount of these receivables deemed to be uncollectible. This reserve is calculated based upon historical collection activity adjusted for current conditions.

Inventories

Inventories are stated at the lower of cost or market. Inventory balances include the capitalization of certain costs related to purchasing, freight and handling costs associated with placing inventory in its location and condition for sale. The Company uses the last-in, first-out ("LIFO") cost flow assumption for substantially all of its inventories. The Company calculates its inflation index based on internal product mix and utilizes the link-chain LIFO method.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Asset impairments are recorded when the carrying value of assets are not recoverable. For purposes of recognizing and measuring impairment of long-lived assets, the Company categorizes assets of operating stores as "Assets to Be Held and Used" and "Assets to Be Disposed Of." The Company evaluates assets at the store level because this is the lowest level of identifiable cash flows ascertainable to evaluate impairment. Assets being tested for recoverability at the store level include tangible long-lived assets and identifiable, finite-lived intangibles that arose in purchase business combinations. Corporate assets to be held and used are evaluated for impairment based on excess cash flows from the stores that support those assets.

The Company reviews long-lived assets to be held and used for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. The Company provides for depreciation using the straight-line method over the following useful lives: buildings—30 to 45 years; equipment—3 to 15 years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. When determining the amortization period of a leasehold improvement, the Company considers whether discretionary exercise of a lease renewal option is reasonably assured. If it is determined that the exercise of such option is reasonably assured, the Company will amortize the leasehold improvement asset over the minimum lease term, plus the option period. This determination depends on the remaining life of the minimum lease term and any economic penalties that would be incurred if the lease option is not exercised.

Capitalized lease assets are recorded at the lesser of the present value of minimum lease payments or fair market value and amortized over the estimated useful life of the related property or term of the lease.

The Company capitalizes direct internal and external development costs associated with internal-use software. Neither preliminary evaluation costs nor costs associated with the software after implementation are capitalized. For fiscal years 2017, 2016 and 2015, the Company capitalized costs of approximately \$6,189, \$7,680 and \$7,550, respectively.

Goodwill

The Company recognizes goodwill as the excess of the purchase price over the fair value of the assets acquired and liabilities assumed during business combinations. The Company accounts for

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****1. Summary of Significant Accounting Policies (Continued)**

goodwill under ASC Topic 350, "Intangibles—Goodwill and Other", which does not permit amortization, but instead requires the Company to perform an annual impairment review, or more frequently if events or circumstances indicate that impairment may be more likely. See Note 12 for additional information on goodwill.

Intangible Assets

The Company has certain finite-lived intangible assets that are amortized over their useful lives. The value of favorable and unfavorable leases on stores acquired in business combinations are amortized over the terms of the leases on a straight-line basis. Prescription files acquired in business combinations are amortized over an estimated useful life of ten years on an accelerated basis, which approximates the anticipated prescription file retention and related cash flows. Purchased prescription files acquired in other than business combinations are amortized over their estimated useful lives of five years on a straight-line basis. The value of finite-lived trade names are amortized over 10 years on a straight-line basis. The value of customer relationships, acquired in connection with the Company's acquisition of EnvisionRx, are amortized over a period between 10 and 20 years on a descending percentage method which matches the pattern of expected discounted cash flows. The Pharmacy Services segment's contract with Centers for Medicare and Medicaid Services ("CMS") for Medicare Part D ("Part D"), which is required in order to act as a national provider of the Part D benefit, is amortized over 25 years on a straight line basis.

Deferred Financing Costs

Costs incurred to issue debt are deferred and amortized as a component of interest expense over the terms of the related debt agreements. Amortization expense of deferred financing costs was \$19,565, \$19,545 and \$15,301 for fiscal 2017, 2016 and 2015, respectively.

Revenue Recognition***Retail Pharmacy Segment***

For front end sales, the Retail Pharmacy segment recognizes revenue from the sale of merchandise at the time the merchandise is sold. The Retail Pharmacy segment records revenue net of an allowance for estimated future returns. Return activity is immaterial to revenues and results of operations in all periods presented. For third party payor pharmacy sales, revenue is recognized at the time the prescription is filled, which is or approximates when the customer picks up the prescription and is recorded net of an allowance for prescriptions that were filled but will not be picked up by the customer. For all periods presented, there is no material difference between the revenue recognized at the time the prescription is filled and that which would be recognized when the customer picks up the prescription. For cash prescriptions and patient third party payor co-payments, the Retail Pharmacy segment recognizes revenue when the patient picks up the prescription and tenders the cash price or patient third party payor co-payment amount at the point of sale. Prescriptions are generally not returnable.

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****1. Summary of Significant Accounting Policies (Continued)**

The Retail Pharmacy segment offers a chain wide loyalty card program titled wellness +. Members participating in the wellness + loyalty card program earn points on a calendar year basis for eligible front end merchandise purchases and qualifying prescriptions. One point is awarded for each dollar spent towards front end merchandise and 25 points are awarded for each qualifying prescription.

Members reach specific wellness + tiers based on the points accumulated during the calendar year, which entitles such customers to certain future discounts and other benefits upon reaching that tier. For example, any customer that reaches 1,000 points in a calendar year achieves the "Gold" tier, enabling them to receive a 20% discount on qualifying purchases of front end merchandise for the remaining portion of the calendar year and also the next calendar year. There is also a similar "Silver" level with a lower threshold and benefit level.

As wellness + customers accumulate points, the Retail Pharmacy segment defers the value of the points earned as deferred revenue (included in other current and noncurrent liabilities, based on the expected usage). The amount deferred is based on historic and projected customer activity (e.g., tier level, spending level). As customers receive discounted front end merchandise, the Retail Pharmacy segment recognizes an allocable portion of the deferred revenue. The Retail Pharmacy segment deferred \$97,501 as of March 4, 2017 of which \$75,833 is included in other current liabilities and \$21,668 is included in noncurrent liabilities. The Retail Pharmacy segment deferred \$110,208 as of February 27, 2016 of which \$88,470 is included in other current liabilities and \$21,738 is included in noncurrent liabilities.

During fiscal 2016, the Company partnered with American Express Travel Related Services Company, Inc. to be part of a coalition loyalty program titled Plenti. This awards program allows a customer to earn points based on qualifying purchases at participating retailers. Each Plenti point is worth the equivalent of \$0.01. The customer has the opportunity to redeem their accumulated points on a future purchase at any of the participating retailers. All points are redeemed using a FIFO methodology (e.g., first points earned are the first to be redeemed). Points expire on December 31st of each year for any point that has aged a minimum of two years that has not been redeemed by the customer. For a majority of the Plenti point issuances, funding is provided by our vendors through contractual arrangements. This funding is treated as deferred revenue and remains in deferred revenue until a customer redeems their points. Upon redemption, the deferred revenue account is decremented with an offsetting credit to sales. For Plenti point redemptions that are not vendor funded, deferred revenue is recorded and not recognized until the points are redeemed. As of March 4, 2017, the Company had deferred revenue of \$35,642 relating to the Plenti program which is included in other current liabilities. As of February 27, 2016, the Company had deferred revenue of \$39,253 relating to the Plenti program which is included in other current liabilities.

Pharmacy Services Segment

The Pharmacy Services segment ("Pharmacy Services") sells prescription drugs indirectly through its retail pharmacy network and directly through its mail service dispensing pharmacy. The Pharmacy Services segment recognizes revenue from prescription drugs sold by (i) its mail service dispensing pharmacy and (ii) under retail pharmacy network contracts where it is the principal using the gross

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****1. Summary of Significant Accounting Policies (Continued)**

method at the contract prices negotiated with its clients, primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States. Revenues include: (i) the portion of the price the client pays directly to the Pharmacy Services segment, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the Pharmacy Services segment by client plan members for mail order prescriptions ("Mail Co-Payments"), (iii) customer copayments made directly to the retail pharmacy network, and (iv) administrative fees. Sales taxes are not included in revenue. Revenue is recognized when: (i) persuasive evidence that the prescription drug sale has occurred or a contractual arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. The following revenue recognition policies have been established for the Pharmacy Services segment:

- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services segment's online claims processing system.
- Revenues generated from prescription drugs sold by the Pharmacy Services segment's mail service dispensing pharmacy are recognized when the prescription is delivered. At the time of delivery, the Pharmacy Services segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.
- Revenues generated from administrative fees based on membership or claims volume are recognized monthly upon active membership in the plan or actual claims volume.

In the majority of its contracts, the Pharmacy Services segment has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) latitude in establishing price, (iii) performs part of the service, (iv) having discretion in supplier selection and v) having involvement in the determination of product or service specifications. The Pharmacy Services segment's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the Pharmacy Services segment is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold after payment is received from its clients. The Pharmacy Services segment's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically appropriate and approving the prescription for dispensing.

Although the Pharmacy Services segment does not have credit risk with respect to its pharmacy benefit manager operations and retail co-payments, management believes that all of the other applicable indicators of gross revenue reporting are present.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Drug Discounts—The Pharmacy Services segment deducts from its revenues that are generated from prescription drugs sold by third party pharmacies any rebates, inclusive of discounts and fees, earned by its clients. Rebates are paid to clients in accordance with the terms of client contracts.

Medicare Part D—The Pharmacy Services segment, through its EIC subsidiary, participates in the federal government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

The Pharmacy Services segment records estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

See Note 20 for additional information about the revenues of the Company's business segments.

Cost of Revenues

Retail Pharmacy Segment

Cost of revenues for the Retail Pharmacy segment includes the following: the cost of inventory sold during the period, including related vendor rebates and allowances, LIFO credit or charges, costs incurred to return merchandise to vendors, inventory shrink, purchasing costs and warehousing costs, which include inbound freight costs from the vendor, distribution payroll and benefit costs, distribution center occupancy costs and depreciation expense and delivery expenses to the stores.

Pharmacy Services Segment

The Pharmacy Services segment's cost of revenues includes the cost of prescription drugs sold during the reporting period indirectly through its retail pharmacy network and directly through its mail service dispensing pharmacy. The cost of prescription drugs sold component of cost of revenues includes: (i) the cost of the prescription drugs purchased from manufacturers or distributors and shipped to members in clients' benefit plans from the Pharmacy Services segment's mail service dispensing pharmacy, net of any volume-related or other discounts (see "Vendor allowances and purchase discounts" below) and (ii) the cost of prescription drugs sold through the Pharmacy Services

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

segment's retail pharmacy network under contracts where it is the principal, net of any volume-related or other discounts.

See Note 20 for additional information about the cost of revenues of the Company's business segments.

Vendor Rebates and Allowances and Purchase Discounts

Retail Pharmacy Segment

The Retail Pharmacy segment rebates and allowances received from vendors relate to either buying and merchandising or promoting the product. Buying and merchandising related rebates and allowances are recorded as a reduction of cost of revenue as product is sold. Buying and merchandising rebates and allowances include all types of vendor programs such as cash discounts from timely payment of invoices, purchase discounts or rebates, volume purchase allowances, price reduction allowances and slotting allowances. Certain product promotion related rebates and allowances, primarily related to advertising, are recorded as a reduction in selling, general and administrative expenses when the advertising commitment has been satisfied.

Pharmacy Services Segment

The Pharmacy Services segment receives purchase discounts on products purchased. The Pharmacy Services segment's contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the Pharmacy Services segment to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, or (ii) a discount (or rebate) paid subsequent to dispensing when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy). These rebates are recognized when prescriptions are dispensed and are generally billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the Pharmacy Services segment's results of operations. The Pharmacy Services segment accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The Pharmacy Services segment also receives additional discounts under its wholesaler contracts and fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of cost of revenues.

Reinsurance

To minimize risk and statutory capital requirements, EIC enters into quota share reinsurance agreements with unaffiliated reinsurers whereby they assume a quota share percentage of the company's Medicare Part D program. The net revenue and net cost of revenue for EIC has been reduced by the amounts ceded to reinsurers under these agreements.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Rent

The Company records rent expense on operating leases on a straight-line basis over the minimum lease term. The Company begins to record rent expense at the time that the Company has the right to use the property. From time to time, the Company receives incentive payments from landlords that subsidize lease improvement construction. These leasehold incentives are deferred and recognized on a straight-line basis over the minimum lease term.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include store and corporate administrative payroll and benefit costs, occupancy costs which include retail store and corporate rent costs, facility and leasehold improvement depreciation and utility costs, advertising, repair and maintenance, insurance, equipment depreciation and professional fees.

Repairs and Maintenance

Routine repairs and maintenance are charged to operations as incurred. Improvements and major repairs, which extend the useful life of an asset, are capitalized and depreciated.

Advertising

Advertising costs, net of specific vendor advertising allowances, are expensed in the period the advertisement first takes place. Advertising expenses, net of vendor advertising allowances, for fiscal 2017, 2016 and 2015 were \$289,871, \$307,817 and \$318,157, respectively.

Insurance

The Company is self-insured for certain general liability and workers' compensation claims. For claims that are self-insured, stop-loss insurance coverage is maintained for workers' compensation occurrences exceeding \$1,000 and general liability occurrences exceeding \$3,000. The Company utilizes actuarial studies as the basis for developing reported claims and estimating claims incurred but not reported relating to the Company's self-insurance. Workers' compensation claims are discounted to present value using a risk-free interest rate.

Benefit Plan Accruals

The Company has several defined benefit plans, under which participants earn a retirement benefit based upon a formula set forth in the plan. The Company records expense related to these plans using actuarially determined amounts that are calculated under the provisions of ASC 715, "Compensation—Retirement Benefits." Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and the rate of increase in future compensation levels.

Stock-Based Compensation

The Company has several stock option plans, which are described in detail in Note 16. The Company accounts for stock-based compensation under ASC 718, "Compensation—Stock Compensation." The Company recognizes option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Store Pre-opening Expenses

Costs incurred prior to the opening of a new or relocated store, associated with a remodeled store or related to the opening of a distribution facility are charged against earnings when incurred.

Litigation Reserves

The Company is involved in litigation on an ongoing basis. The Company accrues its best estimate of the probable loss related to legal claims. Such estimates are developed in consultation with in-house counsel, and are based upon a combination of litigation and settlement strategies.

Facility Closing Costs and Lease Exit Charges

When a store or distribution center is closed, the Company records an expense for unrecoverable costs and accrues a liability equal to the present value at current credit adjusted risk-free interest rates of the remaining lease obligations and anticipated ancillary occupancy costs, net of estimated sublease income. Other store or distribution center closing and liquidation costs are expensed when incurred.

Income Taxes

Deferred income taxes are determined based on the difference between the financial reporting and tax basis of assets and liabilities. Deferred income tax expense (benefit) represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change.

The Company has net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate a significant deferred tax asset. The Company regularly reviews the deferred tax assets for recoverability considering historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies.

The Company recognizes tax liabilities in accordance with ASC 740, "Income Taxes" and the Company 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.

Sales Tax Collected

Sales taxes collected from customers and remitted to various governmental agencies are presented on a net basis (excluded from revenues) in the Company's statement of operations.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Concentrations

Retail Pharmacy Segment

The Company's pharmacy sales were primarily to customers covered by health plan contracts, which typically contract with a third party payor that agrees to pay for all or a portion of a customer's eligible prescription purchases. During fiscal 2017, the top five third party payors accounted for approximately 75.6% of the Company's pharmacy sales. The largest third party payor, Caremark, represented 27.3%, of pharmacy sales during fiscal 2017. The largest third party payor during fiscal 2016 and 2015, Express Scripts, represented 25.3% and 27.8% of fiscal 2016 and 2015 pharmacy sales, respectively. Third party payors are entities such as an insurance company, governmental agency, health maintenance organization or other managed care provider, and typically represent several health care contracts and customers.

During fiscal 2017, state sponsored Medicaid agencies and related managed care Medicaid payors accounted for approximately 19.8% of the Company's pharmacy sales, the largest of which was approximately 1.2% of the Company's pharmacy sales. During fiscal 2017, approximately 33.0% of the Company's pharmacy sales were to customers covered by Medicare Part D. Any significant loss of third-party payor business could have a material adverse effect on the Company's business and results of operations.

During fiscal 2017, the Company purchased brand and generic pharmaceuticals, which amounted to approximately 97.1% of the dollar volume of its prescription drugs from McKesson Corporation "McKesson" under its expanded five-year agreement executed on February 17, 2014 for pharmaceutical purchasing and distribution (our "Purchasing and Delivery Agreement") whereby McKesson assumed responsibility for purchasing essential all of the brand and generic medications the Company dispenses as well as providing a new direct store delivery model to all of the Company's stores. If the Company's relationship with McKesson was disrupted, it could temporarily have difficulty filling prescriptions for brand-named and generic drugs until it executed a replacement wholesaler agreement or developed and implemented self- distribution processes.

Pharmacy Services Segment

The Pharmacy Services segment, through its EIC subsidiary, participates in the federal government's Medicare Part D program as a PDP. During fiscal 2017 and fiscal 2016, net revenues of \$223,077 (0.7% of consolidated revenues) and \$162,620 (0.5% of consolidated revenues), respectively, include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

EIC has entered into a quota share reinsurance agreement with Swiss Re Life & Health America Inc. ("Swiss Re") whereby they assume a quota share percentage of the company's Medicare Part D program. Fifty percent of the net revenue and net cost of revenue for EIC has been ceded to Swiss Re under this agreement.

Derivatives

The Company may enter into interest rate swap agreements to hedge the exposure to increasing rates with respect to its variable rate debt, when the Company deems it prudent to do so. Upon inception of interest rate swap agreements, or modifications thereto, the Company performs a comprehensive review of the interest rate swap agreements based on the criteria as provided by ASC 815, "Derivatives and Hedging." As of March 4, 2017 and February 27, 2016, the Company had no interest rate swap arrangements or other derivatives.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU No. 2014-15). This ASU amended ASC 205-40— *Presentation of Financial Statements—Going Concern* and requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are available to be issued and provide related disclosures of such conditions and events. The adoption of ASU 2014-15 did not have a material impact on the Company's financial position or results of operations and cash flows.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also eliminates certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Instead, the ASU limits those disclosures to investments for which the entity has elected to measure the fair value using that practical expedient. ASU No. 2015-07 is effective for fiscal years and interim periods within those years after December 15, 2015. The ASU is to be applied retrospectively to all periods presented. Early adoption of this ASU is permitted. The adoption of this guidance in fiscal 2017 did not materially affect the Company's financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, an update to ASU 2014-09. This ASU amends ASU 2014-09 to defer the effective date by one year for annual reporting periods beginning after December 15, 2017 (fiscal 2019). Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. This ASU removes inconsistencies, complexities and allows transparency and comparability of revenue transactions across entities, industries, jurisdictions and capital markets by providing a single comprehensive principles-based model with additional disclosures regarding uncertainties. The principles-based revenue recognition model has a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Early adoption is permitted for annual reporting periods beginning after December 15, 2016 (fiscal 2018). In transition, the ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company does not intend to early adopt the new standard. The Company has a team to assess and implement the new standard. While the Company is continuing its assessment of all of the potential impacts of the new standard, it does not expect the implementation of the standard to have a material impact on the Company's consolidated financial position, results of operations or cash flow. The Company intends to adopt the new standard on a modified retrospective basis.

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

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

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

assessing the impact of the adoption of ASU No. 2017-04 on its financial position, results of operations and cash flows.

2. Acquisition

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

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

The Company's consolidated financial statements for fiscal 2017 include EnvisionRx results of operations. The Company's consolidated financial statements for fiscal 2016 includes EnvisionRx results of operations from the Acquisition date of June 24, 2015 through February 27, 2016 (please see Note 20 Segment Reporting for the Pharmacy Services segment results included within the consolidated financial statements for the fifty-three week period ended March 4, 2017 and the fifty-two week period ended February 27, 2016, which reflects the results of EnvisionRx). The Company's consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 "Business Combinations", whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the Acquisition date.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

2. Acquisition (Continued)

The following allocation of the purchase price is final:

<i>Final purchase price</i>	
Cash consideration	\$ 1,882,211
Stock consideration	240,907
Total	<u>\$ 2,123,118</u>
<i>Final purchase price allocation</i>	
Cash and cash equivalents	\$ 103,834
Accounts receivable	892,678
Inventories	7,276
Prepaid expenses and other current assets	13,386
Total current assets	<u>1,017,174</u>
Property and equipment	13,196
Intangible assets(1)	646,600
Goodwill	1,639,355
Other assets	7,219
Total assets acquired	<u>3,323,544</u>
Accounts payable	491,672
Reinsurance funds held	381,225
Other current liabilities(2)	215,770
Total current liabilities	<u>1,088,667</u>
Other long term liabilities(3)	111,759
Total liabilities assumed	<u>1,200,426</u>
<i>Net assets acquired</i>	<u>\$ 2,123,118</u>

- (1) Intangible assets are recorded at estimated fair value, as determined by management based on available information which includes a final valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included management's estimates of future cash flows, discounted at an appropriate rate of return which are based on the weighted average cost of capital for both the Company and other market participants, projected customer attrition rates, as well as applicable royalty rates for comparable assets. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

2. Acquisition (Continued)

The estimated fair value of intangible assets and related useful lives as included in the final purchase price allocation include:

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

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

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

During fiscal 2017, 2016 and 2015, acquisition costs of \$6, \$27,402 and \$15,442, respectively, were expensed as incurred. The following unaudited pro forma combined financial data gives effect to the Acquisition as if it had occurred as of March 1, 2014.

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

- Incremental interest expense relating to the \$1,800,000 6.125% Notes issued on April 2, 2015, the net proceeds of which were used to finance the cash portion of the Acquisition.
- Incremental amortization resulting from increased fair value of the identifiable intangible assets as noted in the final purchase price allocation.
- Removal of costs incurred in connection with the Acquisition by both the Company and EnvisionRx, including bridge loan commitment fees of \$15,375.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

2. Acquisition (Continued)

- Removal of interest expense incurred by EnvisionRx as the underlying debt was repaid upon the acquisition date.
- Removal of debt extinguishment charges incurred by EnvisionRx.
- Inclusion of the 27,754 shares of Rite Aid common stock issued to fund the stock portion of the purchase price in the basic and diluted share calculation.

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

	Year Ended		
	March 4, 2017 (53 weeks) Pro forma	February 27, 2016 (52 weeks) Pro forma	February 28, 2015 (52 weeks) Pro forma
Net revenues as reported	\$ 32,845,073	\$ 30,736,657	\$ 26,528,377
EnvisionRx revenue, prior to the acquisition	—	1,735,635	4,273,016
Less pre-acquisition intercompany revenue	—	(103,363)	(272,530)
Pro forma combined revenues	\$ 32,845,073	\$ 32,368,929	\$ 30,528,863
Net income as reported	\$ 4,053	\$ 165,465	\$ 2,109,173
EnvisionRx net (loss) income before income taxes, prior to the acquisition	—	(45,307)	14,031
Incremental interest expense on the 6.125% Notes issued on April 2, 2015	—	(11,097)	(115,407)
Incremental amortization resulting from fair value adjustments of the identifiable intangible assets	—	(14,297)	(48,586)
Transaction costs incurred by both the Company and EnvisionRx	—	56,194	16,199
Interest expense incurred by EnvisionRx	—	21,984	56,884
Debt extinguishment charges incurred by EnvisionRx	—	31,601	—
Income tax expense relating to pro forma adjustments	—	(15,866)	—
Pro forma net income	\$ 4,053	\$ 188,677	\$ 2,032,294
Basic income per share	\$ 0.00	\$ 0.18	\$ 2.03
Diluted income per share	\$ 0.00	\$ 0.18	\$ 1.95

The unaudited pro forma combined financial information for fiscal 2017 is identical to the actual results reported by the Company because EnvisionRx results were included in the consolidated operations of the Company for the entire period.

3. Pending Merger

On January 30, 2017, Walgreens Boots Alliance, Inc. (NASDAQ: WBA) ("WBA") and Rite Aid Corporation ("Rite Aid") announced that they had entered into an amendment and extension of their

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****3. Pending Merger (Continued)**

previously announced definitive Agreement and Plan of Merger, dated as of October 27, 2015 (as amended by Amendment No. 1 thereto (the "Amendment") on January 29, 2017, the "Merger Agreement"), with Victoria Merger Sub, Inc., a Delaware corporation and wholly owned direct subsidiary of WBA ("Victoria Merger Sub"). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid (the "Merger"), with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. Completion of the Merger is subject to various closing conditions, including but not limited to (i) approval of the Merger Agreement by the holders of Rite Aid's common stock, (ii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of any law or order prohibiting the Merger, and (iv) the absence of a material adverse effect on Rite Aid, as defined in the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of Rite Aid's common stock, par value \$1.00 per share, issued and outstanding immediately prior to the effective time (other than shares owned by (i) WBA, Victoria Merger Sub or Rite Aid (which will be cancelled), (ii) stockholders who have properly exercised and perfected appraisal rights under Delaware law, or (iii) any direct or indirect 100 percent owned subsidiary of Rite Aid or WBA (which will be converted into shares of common stock of the surviving corporation)) will be converted into the right to receive a maximum of \$7.00 in cash per share and a minimum of \$6.50 in cash per share, without interest. The exact per share merger consideration will be determined based on the number of retail stores that WBA agrees to divest in connection with the parties' efforts to obtain the required regulatory approvals for the Merger, with the price set at \$7.00 per share if 1,000 stores or fewer retail stores are required to be divested and at \$6.50 per share if 1,200 retail stores are required to be divested (or more, if WBA agrees to sell more). If the required divestitures fall between 1,000 and 1,200 stores, then there will be a pro-rata adjustment of the price per share. While the exact per share merger consideration is not known as of the date of this report, based on discussions with the Federal Trade Commission ("FTC") regarding potential remedies after filing the preliminary proxy statement, if the Merger is completed, Rite Aid believes that the per share merger consideration would likely be \$6.50 per share.

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

Pursuant to the Amendment, Rite Aid and WBA extended the "End Date" (as defined in the Merger Agreement) to July 31, 2017.

On December 20, 2016, WBA and Rite Aid announced that they had entered into an Asset Purchase Agreement, dated as of December 19, 2016 (the "Asset Purchase Agreement"), with Fred's, Inc. (Nasdaq: FRED), a Tennessee corporation ("Fred's") (solely for the purposes set forth in the Asset Purchase Agreement), and AFAE, LLC, a Tennessee limited liability company and wholly owned subsidiary of Fred's ("Buyer"). Pursuant to the terms and subject to the conditions set forth in

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

3. Pending Merger (Continued)

the Asset Purchase Agreement, Rite Aid agreed to sell 865 Rite Aid stores (the "Acquired Stores") and certain specified assets related thereto for a purchase price of \$950,000 plus Buyer's assumption of certain liabilities of Rite Aid and its affiliates (the "Sale"). Completion of the Sale is subject to various closing conditions, including but not limited to (i) the closing of the proposed acquisition of Rite Aid by WBA (the "Rite Aid Acquisition"), (ii) the FTC having issued publicly the proposed final judgment relating to the Acquired Stores in connection with the Rite Aid Acquisition identifying Buyer as being preliminarily approved as the purchaser of the assets purchased under the Asset Purchase Agreement, (iii) filings with or receipt of approval from the applicable state boards of pharmacy, and (iv) the absence of a material adverse effect on the stores being acquired in the Sale.

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

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

Rite Aid expects that the Asset Purchase Agreement will be amended to, among other things, make certain changes contemplated by the Amendment.

While WBA and Rite Aid are actively engaged in discussions with the FTC regarding the transaction and are working towards a close of the Merger by July 31, 2017, there can be no assurance that the requisite regulatory approvals will be obtained, or that the Merger or the Sale will be completed within the time periods contemplated by the Merger Agreement and Asset Purchase Agreement on the current terms, if at all. In the event the Merger Agreement is terminated in certain circumstances involving a failure to obtain required regulatory approvals or if the Merger is not completed by July 31, 2017, WBA is required to pay Rite Aid a \$325,000 termination fee; provided that

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

3. Pending Merger (Continued)

such termination fee is reduced to \$162,500 if (i) on the termination date Rite Aid's fails to satisfy the EBITDA threshold set forth in the Merger Agreement (the "EBITDA test") or (ii) if WBA exercises its right to terminate the Merger Agreement as a result of Rite Aid's failure to satisfy the EBITDA test as of the End Date or as of the date on which closing is required to occur.

4. Income Per Share

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

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Numerator for income per share:			
Income attributable to common stockholders—basic	\$ 4,053	\$ 165,465	\$ 2,109,173
Add back—interest on convertible notes	—	—	5,456
Income attributable to common stockholders—diluted	\$ 4,053	\$ 165,465	\$ 2,114,629
Denominator:			
Basic weighted average shares	1,044,427	1,024,377	971,102
Outstanding options and restricted shares, net	16,399	17,985	21,967
Convertible notes	—	—	24,792
Diluted weighted average shares	1,060,826	1,042,362	1,017,861
Basic income per share	\$ 0.00	\$ 0.16	\$ 2.17
Diluted income per share	\$ 0.00	\$ 0.16	\$ 2.08

Due to their antidilutive effect, 3,200, 3,464 and 2,777 potential common shares related to stock options have been excluded from the computation of diluted income per share as of March 4, 2017, February 27, 2016 and February 28, 2015, respectively.

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

5. Lease Termination and Impairment Charges

Impairment Charges

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, the Company evaluates individual stores for recoverability of assets. To determine if a store needs to be

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

5. Lease Termination and Impairment Charges (Continued)

tested for recoverability, the Company considers items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

The Company monitors new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, it performs a recoverability analysis if it has experienced current-period and historical cash flow losses.

In performing the recoverability test, the Company compares the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to its future cash flow projections include expected sales, gross profit, and distribution expenses; expected costs such as payroll, occupancy costs and advertising expenses; and estimates for other significant selling, and general and administrative expenses. Many long-term macro-economic and industry factors are considered, both quantitatively and qualitatively, in the future cash flow assumptions. In addition to current and expected economic conditions such as inflation, interest and unemployment rates that affect customer shopping patterns, the Company considers that it operates in a highly competitive industry which includes the actions of other national and regional drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, dollar stores and internet pharmacies. Additionally, the Company takes into consideration that certain operating stores are executing specific improvement plans which are monitored quarterly to recoup recent capital investments, such as an acquisition of an independent pharmacy, which it has made to respond to specific competitive or local market conditions, or have specific programs tailored towards a specific geography or market.

The Company recorded impairment charges of \$32,147 in fiscal 2017, \$17,219 in fiscal 2016 and \$14,438 in fiscal 2015. The Company's methodology for recording impairment charges has been consistently applied in the periods presented.

At March 4, 2017, \$2.015 billion of the Company's long-lived assets, including intangible assets, were associated with 4,536 active operating stores.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value which is its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset.

An impairment charge is recorded in the period that the store does not meet its original return on investment and/or has an operating loss for the last 2 years and its projected cash flows do not exceed its current asset carrying value. The amount of the impairment charge is the entire difference between the current asset carrying value and the estimated fair value of the assets using discounted future cash flows. Most stores are fully impaired in the period that the impairment charge is originally recorded.

The Company recorded impairment charges for active stores of \$30,109 in fiscal 2017, \$16,106 in fiscal 2016 and \$12,126 in fiscal 2015.

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
5. Lease Termination and Impairment Charges (Continued)

The Company reviews key performance results for active stores on a quarterly basis and approves certain stores for closure. Impairment for closed stores, if any (many stores are closed on lease expiration), are recorded in the quarter the closure decision is approved. Closure decisions are made on an individual store or regional basis considering all of the macro-economic, industry and other factors, in addition to, the active store's individual operating results. The Company recorded impairment charges for closed facilities of \$2,038 in fiscal 2017, \$1,113 in fiscal 2016 and \$2,312 in fiscal 2015.

The following table summarizes the impairment charges and number of locations, segregated by closed facilities and active stores that have been recorded in fiscal 2017, 2016 and 2015:

(in thousands, except number of stores)	Year Ended					
	March 4, 2017		February 27, 2016		February 28, 2015	
	Number	Charge	Number	Charge	Number	Charge
Active stores:						
Stores previously impaired(1)	428	\$ 9,426	357	\$ 9,183	376	\$ 6,949
New, relocated and remodeled stores(2)	22	13,232	3	1,649	2	1,108
Remaining stores not meeting the recoverability test(3)	50	7,451	29	5,274	16	4,069
Total impairment charges—active stores	500	30,109	389	16,106	394	12,126
Total impairment charges—closed facilities	53	2,038	27	1,113	35	2,312
Total impairment charges—all locations	553	\$ 32,147	416	\$ 17,219	429	\$ 14,438

- (1) These charges are related to stores that were impaired for the first time in prior periods. Most active stores, requiring an impairment charge, are fully impaired in the first period that they do not meet their asset recoverability test. However, we do often make capital additions to certain stores to improve their operating results or to meet geographical competition, which if later are deemed to be unrecoverable, will be impaired in future periods. Of this total, 424, 351 and 369 stores for fiscal years 2017, 2016 and 2015 respectively have been fully impaired. Also included in these charges are an insignificant number of stores, which were only partially impaired in prior years based on our analysis that supported a reduced net book value greater than zero, but now require additional charges.
- (2) These charges are related to new stores (open at least 3 years) and relocated stores (relocated in the last 2 years) and significant strategic remodels (remodeled in the last year) that did not meet their recoverability test during the current period. These stores have not met their original return on investment projections and have a historical loss of at least 2 years. Their future cash flow projections do not recover their current carrying value. Of this total, 18, 3 and 1 stores for fiscal years 2017, 2016 and 2015 respectively have been fully impaired.
- (3) These charges are related to the remaining active stores that did not meet the recoverability test during the current period. These stores have a historical loss of at least 2 years. Their future cash flow projections do not recover their current carrying value. Of this total, 48, 27 and 14 stores for fiscal years 2017, 2016 and 2015 respectively have been fully impaired.

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
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5. Lease Termination and Impairment Charges (Continued)

The primary drivers of its impairment charges are each store's current and historical operating performance and the assumptions that the Company makes about each store's operating performance in future periods. Projected cash flows are updated based on the next year's operating budget which includes the qualitative factors noted above. The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

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

Long-lived non-financial assets are measured at fair value on a nonrecurring basis for purposes of calculating impairment using Level 2 and Level 3 inputs as defined in the fair value hierarchy. The fair value of long-lived assets using Level 2 inputs is determined by evaluating the current economic conditions in the geographic area for similar use assets. The fair value of long-lived assets using Level 3 inputs is determined by estimating the amount and timing of net future cash flows (which are unobservable inputs) and discounting them using a risk-adjusted rate of interest (which is Level 1). The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located. Significant increases or decreases in actual cash flows may result in valuation changes.

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 as of March 4, 2017 and February 27, 2016:

	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 Charges March 4, 2017
Long-lived assets held and used	\$ —	\$ 924	\$ 19,827	\$ 20,751	\$ (32,076)
Long-lived assets held for sale	—	1,260	—	1,260	(71)
Total	<u>\$ —</u>	<u>\$ 2,184</u>	<u>\$ 19,827</u>	<u>\$ 22,011</u>	<u>\$ (32,147)</u>

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

5. Lease Termination and Impairment Charges (Continued)

	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 Charges February 27, 2016
Long-lived assets held and used	\$ —	\$ 3,641	\$ 17,645	\$ 21,286	\$ (16,672)
Long-lived assets held for sale	—	3,283	189	3,472	(547)
Total	\$ —	\$ 6,924	\$ 17,834	\$ 24,758	\$ (17,219)

Lease Termination Charges

Charges to close a store, which principally consist of continuing lease obligations, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in ASC 420, "Exit or Disposal Cost Obligations." 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.

In fiscal 2017, 2016 and 2015, the Company recorded lease termination charges of \$23,147, \$31,204 and \$27,507, respectively. These charges related to changes in future assumptions, interest accretion and provisions for 17 stores in fiscal 2017, 23 stores in fiscal 2016, and 10 stores in fiscal 2015.

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

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Balance—beginning of year	\$ 208,421	\$ 241,047	\$ 284,270
Provision for present value of noncancellable lease payments of closed stores	6,503	9,709	1,661
Changes in assumptions about future sublease income, terminations and change in interest rates	2,633	5,655	7,560
Interest accretion	14,186	16,463	18,988
Cash payments, net of sublease income	(66,605)	(64,453)	(71,432)
Balance—end of year	<u>\$ 165,138</u>	<u>\$ 208,421</u>	<u>\$ 241,047</u>

The Company's revenues and income before income taxes for fiscal 2017, 2016, and 2015 included results from stores that have been closed or are approved for closure as of March 4, 2017. The

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

5. Lease Termination and Impairment Charges (Continued)

revenue, operating expenses and income before income taxes of these stores for the periods are presented as follows:

	Year Ended		
	March 4, 2017	February 27, 2016	February 28, 2015
Revenues	\$ 132,790	\$ 143,339	\$ 193,757
Operating expenses	151,978	159,967	212,753
Gain from sale of assets	(1,364)	(5,607)	(5,529)
Other expenses	2,544	1,676	2,889
Loss before income taxes	(20,368)	(12,697)	(16,356)
Included in these stores' loss before income taxes are:			
Depreciation and amortization	1,166	1,162	1,650
Inventory liquidation charges	346	295	222

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.

6. Fair Value Measurements

The Company utilizes the three-level valuation hierarchy as described in Note 5, *Lease Termination and Impairment Charges*, for the recognition and disclosure of fair value measurements.

As of March 4, 2017 and February 27, 2016, the Company did not have any financial assets measured on a recurring basis. Please see Note 5 for fair value measurements of non-financial assets measured on a non-recurring basis.

Other Financial Instruments

Financial instruments other than long-term indebtedness include cash and cash equivalents, accounts receivable and accounts payable. These instruments are recorded at book value, which we believe approximate their fair values due to their short term nature. In addition, as of March 4, 2017 and February 27, 2016, the Company has \$6,874 and \$6,069, respectively, of investments carried at amortized cost as these investments are being held to maturity. These investments are included as a component of prepaid expenses and other current assets as of March 4, 2017 and are included as a component of other assets as of February 27, 2016. The Company believes the carrying value of these investments approximates their fair value.

The fair value for LIBOR-based borrowings under the Company's senior secured credit facility and first and second lien term loans are estimated based on the quoted market price of the financial instrument which is considered Level 1 of the fair value hierarchy. The fair values of substantially all of the Company's other long-term indebtedness are estimated based on quoted market prices of the financial instruments which are considered Level 1 of the fair value hierarchy. The carrying amount and

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

6. Fair Value Measurements (Continued)

estimated fair value of the Company's total long-term indebtedness was \$7,263,378 and \$7,556,599, respectively, as of March 4, 2017. The carrying amount and estimated fair value of the Company's total long-term indebtedness was \$6,914,483 and \$7,235,916, respectively, as of February 27, 2016. There were no outstanding derivative financial instruments as of March 4, 2017 and February 27, 2016.

7. Income Taxes

The provision for income tax expense (benefit) was as follows:

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Current tax:			
Federal	\$ —	\$ (52)	\$ —
State	14,596	9,396	6,011
	<u>14,596</u>	<u>9,344</u>	<u>6,011</u>
Deferred tax and other:			
Federal	10,341	117,200	(1,544,344)
State	19,455	(13,605)	(144,020)
	<u>29,796</u>	<u>103,595</u>	<u>(1,688,364)</u>
Total income tax expense (benefit)	<u>\$ 44,392</u>	<u>\$ 112,939</u>	<u>\$ (1,682,353)</u>

A reconciliation of the expected statutory federal tax and the total income tax expense (benefit) was as follows:

	Year Ended		
	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)
Federal statutory rate	\$ 16,957	\$ 97,441	\$ 149,389
Nondeductible expenses	2,479	6,518	805
State income taxes, net	8,219	23,828	11,565
Decrease of previously recorded liabilities	(955)	—	(3,698)
Nondeductible compensation	1,157	6,057	5,136
Acquisition Costs	4,023	6,782	—
Valuation allowance	14,703	(26,358)	(1,841,304)
Other	(2,191)	(1,329)	(4,246)
Total income tax expense (benefit)	<u>\$ 44,392</u>	<u>\$ 112,939</u>	<u>\$ (1,682,353)</u>

Net income for fiscal 2017 included income tax expense of \$44,392, which included an increase in valuation allowance of \$14,703 primarily related to a reduction in estimated utilization of state NOLs and for expiring carryforwards.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

7. Income Taxes (Continued)

Net income for fiscal 2016 included income tax expense of \$112,939 based on the effective tax rate above, which included a benefit of \$26,358 related to a reduction in valuation allowance primarily for an increase in estimated utilization of state NOLs and for expiring carryforwards.

The fiscal 2015 income tax benefit of \$1,682,353 was primarily attributable to the reduction of the deferred tax valuation allowance. The reduction of the valuation allowance was based upon the Company's then achievement of cumulative profitability over a three year window, reported earnings for ten consecutive quarters, utilization of federal and state net operating losses against taxable income for the last three years and the Company's historical ability of predicting earnings. Based upon the Company's projections for future taxable income over the periods in which the deferred tax assets are recoverable, management believed that it was more likely than not that the Company would realize the benefits of substantially all the net deferred tax assets existing at February 28, 2015.

The tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at March 4, 2017 and February 27, 2016:

	2017	2016
Deferred tax assets:		
Accounts receivable	\$ 68,320	\$ 72,883
Accrued expenses	194,884	198,636
Liability for lease exit costs	68,411	81,704
Pension, retirement and other benefits	168,274	182,394
Long-lived assets	509,283	487,944
Other	1,630	6,203
Credits	65,971	64,382
Net operating losses	1,207,650	1,182,440
Total gross deferred tax assets	2,284,423	2,276,586
Valuation allowance	(226,726)	(212,023)
Total deferred tax assets	2,057,697	2,064,563
Deferred tax liabilities:		
Outside basis difference	112,509	108,860
Inventory	439,624	416,562
Total gross deferred tax liabilities	552,133	525,422
Net deferred tax assets	\$ 1,505,564	\$ 1,539,141

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
7. Income Taxes (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

	2017	2016	2015
Unrecognized tax benefits	\$ 10,676	\$ 9,514	\$ 10,143
Increases to prior year tax positions	16	1,667	1,003
Decreases to tax positions in prior periods	(626)	(577)	(984)
Increases to current year tax positions	26	72	123
Settlements	—	—	(681)
Lapse of statute of limitations	(1,153)	—	(90)
Unrecognized tax benefits balance	<u>\$ 8,939</u>	<u>\$ 10,676</u>	<u>\$ 9,514</u>

The amount of the above unrecognized tax benefits at March 4, 2017, February 27, 2016 and February 28, 2015 which would impact the Company's effective tax rate, if recognized, was \$892, \$2,084 and \$440, respectively. Additionally, any impact on the effective rate may be mitigated by the valuation allowance that is remaining against the Company's net deferred tax assets.

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

The Company recognizes interest and penalties related to tax contingencies as income tax expense. The Company recognized an expense/(benefit) for interest and penalties in connection with tax matters of \$(276), \$60 and \$(5,250) for fiscal years 2017, 2016 and 2015, respectively. As of March 4, 2017 and February 27, 2016 the total amount of accrued income tax-related interest and penalties was \$263 and \$539, respectively.

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 are closed for examination through fiscal year 2013. Prior year returns for acquired subsidiaries remain open for 2012 and 2013 due to IRS examination. However, any net operating losses that were generated in these prior closed years may be subject to examination by the IRS upon utilization. Tax examinations by various state taxing authorities could generally be conducted 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 year 2005.

Net Operating Losses and Tax Credits

At March 4, 2017, the Company had federal net operating loss carryforwards of approximately \$2,936,612. Of these, \$1,658,482 will expire, if not utilized, between fiscal 2020 and 2028. An additional \$1,278,130 will expire, if not utilized, between fiscal 2029 and 2037.

At March 4, 2017, the Company had state net operating loss carryforwards of approximately \$5,093,651, the majority of which will expire between fiscal 2028 and 2037.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

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7. Income Taxes (Continued)

The Company's federal and state net operating loss carryforwards include federal deductions of \$35,935 and state deductions of \$88,614 for windfall tax benefits that have not yet been recognized in the financial statements at March 4, 2017. Previously, these tax benefits would be credited to additional paid-in capital when they reduce current taxable income consistent with the tax law ordering approach. However, due to the adoption of ASU 2016-09, they will be recognized in the first quarter of fiscal 2018.

At March 4, 2017, the Company had federal business tax credit carryforwards of \$51,869, the majority of which will expire between 2019 and 2021. In addition to these credits, the Company had alternative minimum tax credit carryforwards of \$3,234.

Valuation Allowances

The valuation allowances as of March 4, 2017 and February 27, 2016 apply to the net deferred tax assets of the Company. The Company maintained a valuation allowance of \$226,726 and \$212,023, which relates primarily to state deferred tax assets at March 4, 2017 and February 27, 2016, respectively.

8. Accounts Receivable

The Company maintains an allowance for doubtful accounts receivable based upon the expected collectability of accounts receivable. The allowance for uncollectible accounts at March 4, 2017 and February 27, 2016 was \$30,891 and \$32,820 respectively. The Company's accounts receivable are due primarily from third-party payors (e.g., pharmacy benefit management companies, insurance companies or governmental agencies) and are recorded net of any allowances provided for under the respective plans. Since payments due from third-party payors are sensitive to payment criteria changes and legislative actions, the allowance is reviewed continually and adjusted for accounts deemed uncollectible by management.

9. Medicare Part D

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

EIC is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, EIC must file quarterly and annual reports with the National Association of Insurance Commissioners ("NAIC") and certain state regulators, must maintain certain minimum amounts of capital and surplus under formulas established by certain states and must, in certain circumstances, request and receive the approval of certain state regulators before making dividend payments or other capital distributions to the Company. The Company does not believe these limitations on dividends and distributions materially impact its financial position. EIC is subject to minimum capital and surplus requirements in certain states. The minimum amount of capital and surplus required to satisfy regulatory requirements in these states is \$18,962 as of December 31, 2016. EIC was in excess of the minimum required amounts in these states as of March 4, 2017.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

9. Medicare Part D (Continued)

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

As of March 4, 2017, accounts receivable, net included \$245,766 due from CMS and accrued salaries, wages and other current liabilities included \$145,903 of EIC liabilities under certain reinsurance contracts. As of February 27, 2016, accounts receivable, net included \$275,032 due from CMS and accrued salaries, wages and other current liabilities included \$166,238 of EIC liabilities under certain reinsurance contracts. EIC limits its exposure to loss and recovers a portion of benefits paid by utilizing quota-share reinsurance with a commercial reinsurance company.

10. Inventory

At March 4, 2017 and February 27, 2016, inventories were \$999,776 and \$1,006,396, respectively, lower than the amounts that would have been reported using the first-in, first-out ("FIFO") cost flow assumption. The Company calculates its FIFO inventory valuation using the retail method for store inventories and the cost method for distribution facility inventories. The Company recorded a LIFO credit for fiscal year 2017 of \$6,620, compared to a LIFO charge of \$11,163 for fiscal year 2016 and a LIFO credit of \$18,857 for fiscal year 2015. During fiscal 2017, a reduction in non-pharmacy inventories resulted in the liquidation of applicable LIFO inventory quantities carried at lower costs in prior years. During fiscal 2016 and 2015, a reduction in inventories related to working capital initiatives resulted in similar LIFO liquidation. This LIFO liquidation resulted in a \$4,225, \$60,653 and \$38,867 cost of revenues decrease, with a corresponding reduction to the adjustment to LIFO for fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

11. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at March 4, 2017 and February 27, 2016:

	2017	2016
Land	\$ 217,112	\$ 221,409
Buildings	754,289	764,497
Leasehold improvements	2,353,066	2,245,307
Equipment	2,512,748	2,416,316
Software	16,316	6,111
Construction in progress	71,954	153,236
	<u>5,925,485</u>	<u>5,806,876</u>
Accumulated depreciation	(3,673,793)	(3,551,478)
Property, plant and equipment, net	<u>\$ 2,251,692</u>	<u>\$ 2,255,398</u>

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

11. Property, Plant and Equipment (Continued)

Depreciation expense, which included the depreciation of assets recorded under capital leases, was \$346,081, \$322,396 and \$298,523 in fiscal 2017, 2016 and 2015, respectively.

Included in property, plant and equipment was the carrying amount, which approximates fair value, of assets to be disposed of totaling \$1,057 and \$3,256 at March 4, 2017 and February 27, 2016, respectively.

12. Goodwill and Other Intangibles

Goodwill and indefinitely-lived assets, such as certain trademarks acquired in connection with acquisition transactions, are not amortized, but is instead evaluated for impairment on an annual basis at the end of the fiscal year, or more frequently if events or circumstances indicate that impairment may be more likely. When evaluating goodwill for possible impairment, the Company typically performs a qualitative assessment in the fourth quarter of the fiscal year to determine if it is more likely than not that the carrying value of the goodwill exceeds the fair value of the goodwill. However, as part of this qualitative assessment, a quantitative assessment is performed at least once every three years to re-establish a baseline fair value that can be used in current and future qualitative assessments. During the Company's qualitative assessment it makes significant estimates, assumptions, and judgments, including, but not limited to, the overall economy, industry and market conditions, financial performance of the Company, changes in the Company's share price, and forecasts of revenue, profit, working capital requirements, and cash flows. The Company considers its two reporting units', the Retail Pharmacy segment and the Pharmacy Services segment, historical results and operating trends when determining these assumptions. If the Company determines that it is more likely than not that the carrying value of the goodwill exceeds the fair value of the goodwill, it performs the first step of the impairment process, which compares the fair value of a reporting unit to its carrying amount, including the goodwill. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction models. If the carrying value of a reporting unit exceeds the fair value, the second step of the impairment process is performed and the implied fair value of a reporting unit is compared to the carrying amount of the goodwill. The implied fair value of the goodwill is determined the same way as the goodwill recognized in a business combination. The Company assigns the fair value of a reporting unit to all of the assets and liabilities of that unit (including unrecognized intangible assets) and any excess goes to the goodwill (its implied fair value). Any excess carrying amount of the goodwill over the implied fair value of the goodwill, is the amount of the impairment loss recognized.

In the fiscal fourth quarter the Company completed a qualitative goodwill impairment assessment, which included a quantitative assessment to re-establish baseline fair value where necessary, and after evaluating the results, events and circumstances of the reporting units, the Company concluded that sufficient evidence existed to assert qualitatively that it is more likely than not that the fair values of the reporting units exceeded their carrying values. Therefore, a two- step impairment assessment was not necessary and no goodwill impairment charge was assessed for the fiscal years ended March 4, 2017 and February 27, 2016.

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
12. Goodwill and Other Intangibles (Continued)

Below is a summary of the changes in the carrying amount of goodwill by segment for the fiscal years ended March 4, 2017 and February 27, 2016:

	Retail Pharmacy	Pharmacy Services	Total
Balance, February 28, 2015	\$ 76,124	\$ —	\$ 76,124
Acquisition (see Note 2. Acquisition)	—	1,637,351	1,637,351
Balance, February 27, 2016	\$ 76,124	\$ 1,637,351	\$ 1,713,475
Acquisition (see Note 2. Acquisition)			
Change in goodwill resulting from changes to the final purchase price allocation	—	2,004	2,004
Balance, March 4, 2017	<u>\$ 76,124</u>	<u>\$ 1,639,355</u>	<u>\$ 1,715,479</u>

The Company's intangible assets are finite-lived and amortized over their useful lives. Following is a summary of the Company's finite-lived and indefinite-lived intangible assets as of March 4, 2017 and February 27, 2016.

	2017				2016			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period
Favorable leases and other	\$ 664,670	\$ (531,022)	\$ 133,648	7 years	\$ 665,197	\$ (507,776)	\$ 157,421	8 years
Prescription files	1,584,240	(1,390,139)	194,101	3 years	1,541,518	(1,285,633)	255,885	3 years
Customer relationships(a)	465,000	(110,653)	354,347	16 years	465,000	(44,203)	420,797	17 years
CMS license	57,500	(3,872)	53,628	24 years	57,500	(1,572)	55,928	25 years
Claims adjudication and other developed software	58,995	(14,188)	44,807	6 years	59,000	(5,760)	53,240	7 years
Trademarks	20,100	(3,383)	16,717	9 years	20,100	(1,373)	18,727	10 years
Backlog	11,500	(6,453)	5,047	2 years	11,500	(2,619)	8,881	3 years
Total finite	\$ 2,862,005	\$ (2,059,710)	\$ 802,295		\$ 2,819,815	\$ (1,848,936)	\$ 970,879	
Trademarks	33,500	—	33,500	Indefinite	33,500	—	33,500	Indefinite
Total	<u>\$ 2,895,505</u>	<u>\$ (2,059,710)</u>	<u>\$ 835,795</u>		<u>\$ 2,853,315</u>	<u>\$ (1,848,936)</u>	<u>\$ 1,004,379</u>	

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

Also included in other non-current liabilities as of March 4, 2017 and February 27, 2016 are unfavorable lease intangibles with a net carrying amount of \$38,242 and \$46,947, respectively. These intangible liabilities are amortized over their remaining lease terms at time of acquisition.

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****12. Goodwill and Other Intangibles (Continued)**

Amortization expense for these intangible assets and liabilities was \$222,150, \$186,816 and \$118,105 for fiscal 2017, 2016 and 2015, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2018—\$180,560; 2019—\$143,150; 2020—\$113,607; 2021—\$80,891 and 2022—\$51,883.

13. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consisted of the following at March 4, 2017 and February 27, 2016:

	2017	2016
Accrued wages, benefits and other personnel costs	\$ 426,097	\$ 457,135
Accrued interest	66,352	65,729
Accrued sales and other taxes payable	141,420	155,999
Accrued store expense	202,599	231,900
Accrued reinsurance	145,904	166,238
Other	387,632	350,249
	<u>\$ 1,370,004</u>	<u>\$ 1,427,250</u>

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
14. Indebtedness and Credit Agreement

Following is a summary of indebtedness and lease financing obligations at March 4, 2017 and February 27, 2016:

	2017	2016
Secured Debt:		
Senior secured revolving credit facility due January 2020 (\$2,430,000 and \$2,100,000 face value less unamortized debt issuance costs of \$24,918 and \$33,903)	\$ 2,405,082	\$ 2,066,097
Tranche 1 Term Loan (second lien) due August 2020 (\$470,000 face value less unamortized debt issuance costs of \$4,167 and \$5,414)	465,833	464,586
Tranche 2 Term Loan (second lien) due June 2021 (\$500,000 face value less unamortized debt issuance costs of \$2,431 and \$3,007)	497,569	496,993
Other secured	90	90
	3,368,574	3,027,766
Guaranteed Unsecured Debt:		
9.25% senior notes due March 2020 (\$902,000 face value plus unamortized premium of \$2,071 and \$2,743 and less unamortized debt issuance costs of \$7,527 and \$10,180)	896,544	894,563
6.75% senior notes due June 2021 (\$810,000 face value less unamortized debt issuance costs of \$6,360 and \$7,872)	803,640	802,128
6.125% senior notes due April 2023 (\$1,800,000 face value less unamortized debt issuance costs of \$25,984 and \$30,343)	1,774,016	1,769,657
	3,474,200	3,466,348
Unguaranteed Unsecured Debt:		
7.7% notes due February 2027 (\$295,000 face value less unamortized debt issuance costs of \$1,625 and \$1,794)	293,375	293,206
6.875% fixed-rate senior notes due December 2028 (\$128,000 face value less unamortized debt issuance costs of \$771 and \$837)	127,229	127,163
	420,604	420,369
Lease financing obligations	65,315	79,653
Total debt	7,328,693	6,994,136
Current maturities of long-term debt and lease financing obligations	(21,335)	(26,848)
Long-term debt and lease financing obligations, less current maturities	\$ 7,307,358	\$ 6,967,288

Credit Facility

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

14. Indebtedness and Credit Agreement (Continued)

Availability (as defined in the Amended and Restated Senior Secured Credit Facility). Amounts drawn under the revolver become due and payable on January 13, 2020.

The Company's ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At March 4, 2017, the Company had \$2,430,000 of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$62,272 which resulted in additional borrowing capacity of \$1,207,728. The Merger Agreement contains a requirement that the Company's borrowings under the revolver not exceed \$3,000,000 in the aggregate immediately prior to the closing of the Merger.

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

The Amended and Restated Senior Secured Credit Facility allows the Company to have outstanding, at any time, up to \$1,500,000 in secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Amended and Restated Senior Secured Credit Facility and existing indebtedness, provided that not in excess of \$750,000 of such secured second priority debt, split-priority term loan debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (a) the fifth anniversary of the effectiveness of the Amended and Restated Senior Secured Credit Facility and (b) the latest maturity date of any Term Loan or Other Revolving Loan (each as defined in the Amended and Restated Senior Secured Credit Facility) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date and, with respect to any escrow notes issued by Rite Aid, excluding any special mandatory redemption of the type described in clause (iii) of the definition of "Escrow Notes" in the Amended and Restated Senior Secured Credit Facility). Subject to the limitations described in clauses (a) and (b) of the immediately preceding sentence, the Amended and Restated Senior Secured Credit Facility additionally allows the Company to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Amended and Restated Senior Secured Credit Facility) is not in effect; provided, however, that certain of the Company's other outstanding indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Amended and Restated Senior Secured Credit Facility also contains certain restrictions on the amount of secured first priority debt the Company is able to incur. The Amended and Restated Senior Secured Credit Facility also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Amended and Restated Senior Secured Credit Facility is not in default and the Company maintains availability under its revolver of more than \$365,000.

The Amended and Restated Senior Secured Credit Facility has a financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (a) on any date on which availability under the revolver is less than \$200,000 or (b) on the third consecutive business day

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****14. Indebtedness and Credit Agreement (Continued)**

on which availability under the revolver is less than \$250,000 and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolver is equal to or greater than \$250,000. As of March 4, 2017, the Company had availability under its revolver of \$1,207,728, its fixed charge coverage ratio was greater than 1.00 to 1.00, and the Company was in compliance with the senior secured credit facility's financial covenant. The Amended and Restated Senior Secured Credit Facility also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens.

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

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

With the exception of EIC, substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, and unsecured guaranteed notes. The Amended and Restated Senior Secured Credit Facility and second priority secured term loan facilities are secured, on a senior or second priority basis, as applicable, by a lien on, among other things, accounts receivable, inventory and prescription files of the Subsidiary Guarantors. The subsidiary guarantees related to the Company's Amended and Restated Senior Secured Credit Facility and second priority secured term loan facilities and, on an unsecured basis, the unsecured guaranteed notes, are full and unconditional and joint and several, and there are no restrictions on the ability of the Company to obtain funds from its subsidiaries. The Company has no independent assets or operations. Additionally, prior to the Acquisition, the subsidiaries, including joint ventures, that did not guarantee the Amended and Restated Senior Secured Credit Facility, the credit facility, second priority secured term loan facilities and applicable notes, were minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented for those periods. Subsequent to the Acquisition, other than EIC, the subsidiaries, including joint ventures, that do not guarantee the credit facility, second priority secured term loan facilities and applicable notes, are minor. As such, condensed consolidating financial information for the Company, its guaranteeing subsidiaries and non-guaranteeing subsidiaries is presented for those periods subsequent to the Acquisition. See Note 24 "Guarantor and Non-Guarantor Condensed Consolidating Financial Information" for additional disclosure.

2016 Transactions

On April 2, 2015, the Company issued \$1,800,000 aggregate principal amount of its 6.125% Notes, the net proceeds of which, along with other available cash and borrowings under its Amended and

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****14. Indebtedness and Credit Agreement (Continued)**

Restated Senior Secured Credit Facility, were used to finance the cash portion of the Acquisition, which closed on June 24, 2015. The Company's obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsubordinated basis, by all of its subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, the 9.25% senior notes due 2020 (the "9.25% Notes") and the 6.75% senior notes due 2021 (the "6.75% Notes") (the "Rite Aid Subsidiary Guarantors"), including EnvisionRx and certain of its domestic subsidiaries other than, among others, EIC (the "EnvisionRx Subsidiary Guarantors" and, together with the Rite Aid Subsidiary Guarantors, the "Subsidiary Guarantors"). The guarantees are unsecured. The 6.125% Notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all of its other unsecured, unsubordinated indebtedness.

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

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

2015 Transactions

On October 15, 2014, the Company completed the redemption of all of its outstanding \$270,000 aggregate principal amount of its 10.25% senior notes due October 2019 at their contractually determined early redemption price of 105.125% of the principal amount, plus accrued interest. The Company funded this redemption with borrowings under its revolver. The Company recorded a loss on debt retirement of \$18,512 related to this transaction.

Interest Rates and Maturities

The annual weighted average interest rate on the Company's indebtedness was 5.4%, 5.4%, and 5.8% for fiscal 2017, 2016, and 2015, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2018—\$90; 2019—\$0; 2020—\$2,430,000; 2021—\$1,372,000 and \$3,533,000 in 2022 and thereafter.

15. Leases

The Company leases most of its retail stores and certain distribution facilities under noncancellable operating and capital leases, most of which have initial lease terms ranging from 5 to 22 years. The Company also leases certain of its equipment and other assets under noncancellable operating leases with initial terms ranging from 3 to 10 years. In addition to minimum rental payments, certain store leases require additional payments based on sales volume, as well as reimbursements for taxes,

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

15. Leases (Continued)

maintenance and insurance. Most leases contain renewal options, certain of which involve rent increases. Total rental expense, net of sublease income of \$7,310, \$8,995, and \$8,559, was \$1,017,316, \$973,347, and \$964,484 in fiscal 2017, 2016, and 2015, respectively. These amounts include contingent rentals of \$15,522, \$17,755 and \$18,919 in fiscal 2017, 2016, and 2015, respectively.

During fiscal 2017, the Company did not enter into any sale-leaseback transactions whereby the Company sold owned operating stores to independent third parties and concurrent with the sale, entered into an agreement to lease the store back from the purchasers.

During fiscal 2016, the Company sold 10 owned operating stores to independent third parties. Net proceeds from the sale were \$36,732. Concurrent with these sales, the Company entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. Eight leases were accounted for as operating leases and the remaining two were accounted for as capital leases. The transactions resulted in a gain for certain stores of \$670 which is deferred over the life of the leases. In addition, the transaction resulted in a loss for certain stores of \$546 which is included in the loss on sale of assets, net for the fifty-two weeks ended February 27, 2016.

During fiscal 2015, the Company did not enter into any sale-leaseback transactions whereby the Company sold owned operating stores to independent third parties and concurrent with the sale, entered into an agreement to lease the store back from the purchasers.

The net book values of assets under capital leases and sale-leasebacks accounted for under the financing method at March 4, 2017 and February 27, 2016 are summarized as follows:

	2017	2016
Land	\$ 5,063	\$ 5,063
Buildings	135,434	136,416
Leasehold improvements	1,470	1,612
Equipment	31,219	33,919
Accumulated depreciation	(132,105)	(128,168)
	<u>\$ 41,081</u>	<u>\$ 48,842</u>

Following is a summary of lease finance obligations at March 4, 2017 and February 27, 2016:

	2017	2016
Obligations under financing leases	\$ 60,575	\$ 74,913
Sale-leaseback obligations	4,740	4,740
Less current obligation	(21,245)	(26,758)
Long-term lease finance obligations	<u>\$ 44,070</u>	<u>\$ 52,895</u>

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

15. Leases (Continued)

Following are the minimum lease payments for all properties under a lease agreement that will have to be made in each of the years indicated based on non-cancelable leases in effect as of March 4, 2017:

<u>Fiscal year</u>	<u>Lease Financing Obligations</u>	<u>Operating Leases</u>
2018	\$ 26,184	\$ 1,050,834
2019	15,448	988,754
2020	10,668	868,907
2021	6,800	743,598
2022	5,037	640,073
Later years	25,743	3,054,697
Total minimum lease payments	89,880	\$ 7,346,863
Amount representing interest	(24,565)	
Present value of minimum lease payments	<u>\$ 65,315</u>	

16. Stock Option and Stock Award Plans

The Company recognizes share-based compensation expense in accordance with ASC 718, "Compensation—Stock Compensation." Expense is recognized over the requisite service period of the award, net of an estimate for the impact of forfeitures. Operating results for fiscal 2017, 2016 and 2015 include \$23,482, \$37,948 and \$23,390 of compensation costs related to the Company's stock-based compensation arrangements.

In December 2000, the Company adopted the 2000 Omnibus Equity Plan (the 2000 Plan) under which 22,000 shares of common stock are reserved for granting of restricted stock, stock options, phantom stock, stock bonus awards and other stock awards at the discretion of the Board of Directors.

In February 2001, the Company adopted the 2001 Stock Option Plan (the 2001 Plan) which was approved by the shareholders under which 20,000 shares of common stock are authorized for granting of stock options at the discretion of the Board of Directors.

In April 2004, the Board of Directors adopted the 2004 Omnibus Equity Plan, which was approved by the shareholders. Under the plan, 20,000 shares of common stock are authorized for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors.

In January 2007, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2006 Omnibus Equity Plan. Under the plan, 50,000 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

16. Stock Option and Stock Award Plans (Continued)

In June 2010, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2010 Omnibus Equity Plan. Under the plan, 35,000 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2010 Omnibus Equity Plan became effective on June 23, 2010.

In June 2012, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2012 Omnibus Equity Plan. Under the plan, 28,500 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2012 Omnibus Equity Plan became effective on June 21, 2012.

In June 2014, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2014 Omnibus Equity Plan. Under the plan, 58,000 shares of Rite Aid common stock plus any shares of common stock remaining available for grant under the Rite Aid Corporation 2010 Omnibus Equity Plan and the Rite Aid Corporation 2012 Omnibus Equity Plan as of the effective date of the 2014 Plan (provided that no more than 25,000 shares may be granted as incentive stock options) are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2014 Omnibus Equity Plan became effective on June 19, 2014.

All of the plans provide for the Board of Directors (or at its election, the Compensation Committee) to determine both when and in what manner options may be exercised; however, it may not be more than 10 years from the date of grant. All of the plans provide that stock options may be granted at prices that are not less than the fair market value of a share of common stock on the date of grant. The aggregate number of shares authorized for issuance for all plans is 54,337 as of March 4, 2017.

Stock Options

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes-Merton option-pricing model. The following weighted average assumptions were used for options granted in fiscal 2017, 2016 and 2015:

	2017	2016	2015
Expected stock price volatility(1)	N/A	56%	74%
Expected dividend yield(2)	N/A	0.00%	0.00%
Risk-free interest rate(3)	N/A	1.70%	1.70%
Expected option life(4)	N/A	5.5 years	5.5 years

- (1) The expected volatility is based on the historical volatility of the stock price over the most recent period equal to expected life of the option.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

16. Stock Option and Stock Award Plans (Continued)

- (2) The dividend rate that will be paid out on the underlying shares during the expected term of the options. The Company does not currently pay dividends on its common stock, as such, the dividend rate is assumed to be zero percent.
- (3) The risk free interest rate is equal to the rate available on United States Treasury zero-coupon issues as of the grant date of the option with a remaining term equal to the expected term.
- (4) The period of time for which the option is expected to be outstanding. The Company analyzed historical exercise behavior to estimate the life.

The weighted average fair value of options granted during fiscal 2017, 2016 and 2015 was \$0.00, \$4.45 and \$4.43, respectively. Following is a summary of stock option transactions for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 1, 2014	55,966	\$ 1.65		
Granted	3,097	7.04		
Exercised	(16,485)	1.46		
Cancelled	(910)	3.16		
Outstanding at February 28, 2015	41,668	\$ 2.09		
Granted	3,579	8.68		
Exercised	(6,400)	1.78		
Cancelled	(722)	4.20		
Outstanding at February 27, 2016	38,125	\$ 2.73		
Granted	—	N/A		
Exercised	(3,556)	1.95		
Cancelled	(679)	5.60		
Outstanding at March 4, 2017	33,890	\$ 2.75	4.76	\$ 107,125
Vested or expected to vest at March 4, 2017	32,960	\$ 2.66	4.69	\$ 106,158
Exercisable at March 4, 2017	29,198	\$ 2.08	4.31	\$ 104,365

As of March 4, 2017, there was \$12,376 of total unrecognized pre-tax compensation costs related to unvested stock options, net of forfeitures. These costs are expected to be recognized over a weighted average period of 1.87 years.

Cash received from stock option exercises for fiscal 2017, 2016 and 2015 was \$6,951, \$11,376 and \$24,117, respectively. The income tax benefit from stock options for fiscal 2017, 2016 and 2015 was

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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16. Stock Option and Stock Award Plans (Continued)

\$421, \$11,764 and \$30,099, respectively. The total intrinsic value of stock options exercised for fiscal 2017, 2016 and 2015 was \$20,475, \$42,207 and \$92,355, respectively.

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

Restricted Stock

The Company provides restricted stock grants to associates under plans approved by the stockholders. Shares awarded under the plans typically vest in equal annual installments over a three-year period. Unvested shares are forfeited upon termination of employment. Following is a summary of restricted stock transactions for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015:

	Shares	Weighted Average Grant Date Fair Value
Balance at March 1, 2014	10,056	\$ 1.66
Granted	3,303	7.01
Vested	(5,239)	1.54
Cancelled	(454)	5.00
Balance at February 28, 2015	7,666	\$ 3.84
Granted	2,752	8.60
Vested	(5,140)	2.94
Cancelled	(420)	6.89
Balance at February 27, 2016	4,858	\$ 7.23
Granted	3,613	7.73
Vested	(2,222)	6.28
Cancelled	(426)	7.84
Balance at March 4, 2017	5,823	\$ 7.87

At March 4, 2017, there was \$31,605 of total unrecognized pre-tax compensation costs related to unvested restricted stock grants, net of forfeitures. These costs are expected to be recognized over a weighted average period of 1.95 years.

The total fair value of restricted stock vested during fiscal years 2017, 2016 and 2015 was \$13,951, \$15,104 and \$8,090, respectively.

Performance Based Incentive Plan

Beginning in fiscal 2015, the Company provided certain of its associates with performance based incentive plans under which the associates will receive a certain number of shares of the Company's common stock based on the Company meeting certain financial and performance goals. If such goals

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16. Stock Option and Stock Award Plans (Continued)

are not met, no stock-based compensation expense is recognized and any recognized stock-based compensation expense is reversed. The Company incurred \$(6,070), \$12,634 and \$1,769 related to these performance based incentive plans for fiscal 2017, 2016 and 2015, respectively, which is recorded as a component of stock-based compensation expense.

17. Reclassifications from Accumulated Other Comprehensive Loss

The following table summarizes the components of accumulated other comprehensive loss and the changes in balances of each component of accumulated other comprehensive loss, net of tax as applicable, for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015:

	March 4, 2017 (53 Weeks)		February 27, 2016 (52 Weeks)		February 28, 2015 (52 Weeks)	
	Defined benefit pension plans	Accumulated other comprehensive loss	Defined benefit pension plans	Accumulated other comprehensive loss	Defined benefit pension plans	Accumulated other comprehensive loss
Accumulated other comprehensive loss						
Balance—beginning of period	\$ (47,781)	\$ (47,781)	\$ (45,850)	\$ (45,850)	\$ (37,334)	\$ (37,334)
Other comprehensive (loss) income before reclassifications, net of \$1,553, \$(3,162), and \$(7,506) tax expense (benefit)	2,356	2,356	(3,633)	(3,633)	(10,578)	(10,578)
Amounts reclassified from accumulated other comprehensive loss to net income, net of \$2,047, \$1,481, and \$1,464 tax expense	3,108	3,108	1,702	1,702	2,062	2,062
Balance—end of period	<u>\$ (42,317)</u>	<u>\$ (42,317)</u>	<u>\$ (47,781)</u>	<u>\$ (47,781)</u>	<u>\$ (45,850)</u>	<u>\$ (45,850)</u>

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

17. Reclassifications from Accumulated Other Comprehensive Loss (Continued)

The following table summarizes the effects on net income of significant amounts classified out of each component of accumulated other comprehensive loss for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015:

	Fiscal Years Ended March 4, 2017, February 27, 2016 and February 28, 2015			
	Amount reclassified from accumulated other comprehensive loss			
Details about accumulated other comprehensive loss components	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	February 28, 2015 (52 Weeks)	Affected line item in the consolidated statements of operations
Defined benefit pension plans				
Amortization of unrecognized prior service cost(a)	\$ —	\$ (67)	\$ (240)	Selling, general and administrative expenses
Amortization of unrecognized net loss(a)	(5,155)	(3,116)	(3,286)	Selling, general and administrative expenses
	(5,155)	(3,183)	(3,526)	Total before income tax expense
	2,047	1,481	1,464	Income tax expense
	\$ (3,108)	\$ (1,702)	\$ (2,062)	Net of income tax expense

(a) —See Note 18, Retirement Plans for additional details.

18. Retirement Plans

Defined Contribution Plans

The Company and its subsidiaries sponsor several retirement plans that are primarily 401(k) defined contribution plans covering nonunion associates and certain union associates. The Company does not contribute to all of the plans. In accordance with those plan provisions, the Company matches 100% of a participant's pretax payroll contributions, up to a maximum of 3% of such participant's pretax annual compensation. Thereafter, the Company will match 50% of the participant's additional pretax payroll contributions, up to a maximum of 2% of such participant's additional pretax annual compensation. Total expense recognized for the above plans was \$68,393 in fiscal 2017, \$65,118 in fiscal 2016 and \$60,552 in fiscal 2015.

The Company sponsors a Supplemental Executive Retirement Plan ("SERP") for its officers, which is a defined contribution plan that is subject to a five year graduated vesting schedule. The expense recognized for the SERP was \$16,921 in fiscal 2017, \$1,377 in fiscal 2016 and \$8,748 in fiscal 2015.

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For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
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18. Retirement Plans (Continued)
Defined Benefit Plans

The Company and its subsidiaries also sponsor a qualified defined benefit pension plan that requires benefits to be paid to eligible associates based upon years of service and, in some cases, eligible compensation. The Company's funding policy for The Rite Aid Pension Plan (The "Defined Benefit Pension Plan") is to contribute the minimum amount required by the Employee Retirement Income Security Act of 1974. However, the Company may, at its sole discretion, contribute additional funds to the plan. The Company made contributions of \$0 in fiscal 2017, \$0 in fiscal 2016 and \$1,159 in fiscal 2015.

The Company also maintains a nonqualified executive retirement plan for certain former employees who, pursuant to their employment agreements, did not participate in the SERP. The Company no longer enrolls new participants into this plan. These participants generally receive an annual benefit payable monthly over fifteen years. This nonqualified defined benefit plan is unfunded.

Net periodic pension expense and other changes recognized in other comprehensive income for the defined benefit pension plans and the nonqualified executive retirement plan included the following components:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2017	2016	2015	2017	2016	2015
Service cost	\$ 1,291	\$ 1,498	\$ 2,543	\$ —	\$ —	\$ —
Interest cost	6,634	6,398	6,474	436	475	542
Expected return on plan assets	(4,512)	(6,330)	(7,339)	—	—	—
Amortization of unrecognized prior service cost	—	67	240	—	—	—
Amortization of unrecognized net loss (gain)	5,085	3,690	2,392	70	(574)	894
Net pension expense	\$ 8,498	\$ 5,323	\$ 4,310	\$ 506	\$ (99)	\$ 1,436
Other changes recognized in other comprehensive loss:						
Unrecognized net (gain) loss arising during period	\$ (3,979)	\$ 7,369	\$ 17,190	\$ 70	\$ (574)	\$ 894
Prior service cost arising during period	—	—	—	—	—	—
Amortization of unrecognized prior service costs	—	(67)	(240)	—	—	—
Amortization of unrecognized net (loss) gain	(5,085)	(3,690)	(2,392)	(70)	574	(894)
Net amount recognized in other comprehensive loss	(9,064)	3,612	14,558	—	—	—
Net amount recognized in pension expense and other comprehensive loss	<u>\$ (566)</u>	<u>\$ 8,935</u>	<u>\$ 18,868</u>	<u>\$ 506</u>	<u>\$ (99)</u>	<u>\$ 1,436</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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18. Retirement Plans (Continued)

The table below sets forth reconciliation from the beginning of the year for both the benefit obligation and plan assets of the Company's defined benefit plans, as well as the funded status and amounts recognized in the Company's balance sheet as of March 4, 2017 and February 27, 2016:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plan	
	2017	2016	2017	2016
Change in benefit obligations:				
Benefit obligation at end of prior year	\$ 156,474	\$ 167,256	\$ 11,046	\$ 12,685
Service cost	1,291	1,498	—	—
Interest cost	6,634	6,398	436	475
Distributions	(7,449)	(7,408)	(1,504)	(1,540)
Change due to change in assumptions	—	—	—	—
Actuarial loss (gain)	7,399	(11,270)	70	(574)
Benefit obligation at end of year	<u>\$ 164,349</u>	<u>\$ 156,474</u>	<u>\$ 10,048</u>	<u>\$ 11,046</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 110,217	\$ 129,934	\$ —	\$ —
Employer contributions	—	—	1,504	1,540
Actual return on plan assets	15,890	(12,309)	—	—
Distributions (including expenses paid by the plan)	(7,449)	(7,408)	(1,504)	(1,540)
Fair value of plan assets at end of year	<u>\$ 118,658</u>	<u>\$ 110,217</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ (45,691)</u>	<u>\$ (46,257)</u>	<u>\$ (10,048)</u>	<u>\$ (11,046)</u>
Net amount recognized	<u>\$ (45,691)</u>	<u>\$ (46,257)</u>	<u>\$ (10,048)</u>	<u>\$ (11,046)</u>
Amounts recognized in consolidated balance sheets consisted of:				
Prepaid pension cost	\$ —	\$ —	\$ —	\$ —
Accrued pension liability	(45,691)	(46,257)	(10,048)	(11,046)
Net amount recognized	<u>\$ (45,691)</u>	<u>\$ (46,257)</u>	<u>\$ (10,048)</u>	<u>\$ (11,046)</u>
Amounts recognized in accumulated other comprehensive loss consist of:				
Net actuarial loss	\$ (44,761)	\$ (53,825)	\$ —	\$ —
Prior service cost	—	—	—	—
Amount recognized	<u>\$ (44,761)</u>	<u>\$ (53,825)</u>	<u>\$ —</u>	<u>\$ —</u>

The estimated net actuarial loss and prior service cost amounts that will be amortized from accumulated other comprehensive loss into net periodic pension expense in fiscal 2018 are \$3,425 and \$0, respectively.

The accumulated benefit obligation for the defined benefit pension plan was \$164,349 and \$156,474 as of March 4, 2017 and February 27, 2016, respectively. The accumulated benefit obligation

RITE AID CORPORATION AND SUBSIDIARIES
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18. Retirement Plans (Continued)

for the nonqualified executive retirement plan was \$10,048 and \$11,046 as of March 4, 2017 and February 27, 2016, respectively.

The significant actuarial assumptions used for all defined benefit plans to determine the benefit obligation as of March 4, 2017, February 27, 2016 and February 28, 2015 were as follows:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2017	2016	2015	2017	2016	2015
Discount rate	4.00%	4.25%	4.00%	4.00%	4.25%	4.00%
Rate of increase in future compensation levels	N/A	N/A	N/A	N/A	N/A	N/A
Expected long-term rate of return on plan assets	6.50%	6.50%	6.50%	N/A	N/A	N/A

Weighted average assumptions used to determine net cost for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015 were:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2017	2016	2015	2017	2016	2015
Discount rate	4.25%	4.00%	4.50%	4.25%	4.00%	4.50%
Rate of increase in future compensation levels	N/A	N/A	N/A	N/A	N/A	N/A
Expected long-term rate of return on plan assets	6.50%	6.50%	7.75%	N/A	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 6.50% long-term rate of return on plan assets assumption for fiscal 2017, 2016 and 2015.

The Company's pension plan asset allocations at March 4, 2017 and February 27, 2016 by asset category were as follows:

	March 4, 2017	February 27, 2016
Equity securities	52%	49%
Fixed income securities	48%	51%
Total	100%	100%

The investment objectives of the Defined Benefit Pension Plan, the only defined benefit plan with assets, are to:

- Achieve a rate of return on investments that exceeds inflation over a full market cycle and is consistent with actuarial assumptions;
- Balance the correlation between assets and liabilities by diversifying the portfolio among various asset classes to address return risk and interest rate risk;

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****18. Retirement Plans (Continued)**

- Balance the allocation of assets between the investment managers to minimize concentration risk;
- Maintain liquidity in the portfolio sufficient to meet plan obligations as they come due; and
- Control administrative and management costs.

The asset allocation established for the pension investment program reflects the risk tolerance of the Company, as determined by:

- the current and anticipated financial strength of the Company;
- the funded status of the plan; and
- plan liabilities.

Investments in both the equity and fixed income markets will be maintained, recognizing that historical results indicate that equities (primarily common stocks) have higher expected returns than fixed income investments. It is also recognized that the correlation between assets and liabilities must be balanced to address higher volatility of equity investments (return risk) and interest rate risk.

The following targets are to be applied to the allocation of plan assets.

<u>Category</u>	<u>Target Allocation</u>
U.S. equities	39%
International equities	13%
U.S. fixed income	48%
Total	<u>100%</u>

The Company expects to contribute \$4,900 to the Defined Benefit Pension Plan and make payments of \$1,241 to participants of the Nonqualified Executive Retirement Plan during fiscal 2018.

Common and Collective Trusts

Common collective trust funds are stated at fair value as determined by the issuer of the common collective trust funds based on the net asset value ("NAV") of the underlying investments in accordance with ASC 820. There are generally no restrictions on redemptions from these funds and no unfunded commitments to invest. In accordance with ASC subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The underlying investments mainly consist of equity and fixed income securities funds that are valued based on the daily closing price as reported by the fund.

The proceeding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different

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18. Retirement Plans (Continued)

methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at March 4, 2017.

The following table sets forth by level within the fair value hierarchy a summary of the plan's investments measured at fair value on a recurring basis as of March 4, 2017 and February 27, 2016:

Fair Value Measurements at March 4, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity Securities				
International equity	\$ —	\$ —	\$ —	\$ 15,348
Large Cap	—	—	—	32,413
Small-Mid Cap	—	—	—	14,083
Fixed Income				
Long Term Credit Bond Index	—	—	—	47,694
20+ Year Treasury STRIPS	—	—	—	7,563
Intermediate Fixed Income	—	—	—	639
Other types of investments				
Short Term Investments	—	—	—	918
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118,658</u>

Fair Value Measurements at February 27, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity Securities				
International equity	\$ —	\$ —	\$ —	\$ 14,414
Large Cap	—	—	—	28,188
Small-Mid Cap	—	—	—	11,684
Fixed Income				
Long Term Credit Bond Index	—	—	—	43,130
20+ Year Treasury STRIPS	—	—	—	10,929
Intermediate Fixed Income	—	—	—	41
Other types of investments				
Short Term Investments	—	—	—	1,831
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 110,217</u>

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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18. Retirement Plans (Continued)

Following are the future benefit payments expected to be paid for the Defined Benefit Pension Plan and the nonqualified executive retirement plan during the years indicated:

<u>Fiscal Year</u>	<u>Defined Benefit Pension Plan</u>	<u>Nonqualified Executive Retirement Plan</u>
2018	\$ 8,091	\$ 1,241
2019	8,190	1,217
2020	8,408	1,137
2021	8,587	969
2022	8,785	874
2023 - 2027	45,960	3,550
Total	<u>\$ 88,021</u>	<u>\$ 8,988</u>

Other Plans

The Company participates in various multi-employer union pension plans that are not sponsored by the Company. Total expenses recognized for the multi-employer plans were \$26,104 in fiscal 2017, \$25,966 in fiscal 2016 and \$24,261 in fiscal 2015.

19. Multiemployer Plans that Provide Pension Benefits

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Additionally, if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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19. Multiemployer Plans that Provide Pension Benefits (Continued)

The Company's participation in these plans for the annual period ended March 4, 2017 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three- digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available for fiscal 2017 and fiscal 2016 is for the plan year- ends as indicated below. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last two columns list the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject and any minimum funding requirements. There have been no significant changes that affect the comparability of total employer contributions of fiscal years 2017, 2016, and 2015.

Pension	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/ RP Status Pending/ Implemented	Contributions of the Company			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement	Minimum Funding Requirements
		2017	2016		2017	2016	2015			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	Green— 12/31/2015	Green— 12/31/2014	No	\$ 11,920	\$ 12,959	\$ 11,568	No	4/18/2015	Contribution rate of 10.76% of gross wages earned per associate beginning 01/01/2016. Contribution rate of 10.22% of gross wages earned per associate from 01/01/2015 through 12/31/2015. Contribution rate of 11.25% of gross wages earned per associate through 12/31/2014.
Southern California United Food and Commercial Workers Unions and Drug Employers Pension Fund	51-6029925-001	Red— 12/31/2016	Red— 12/31/2015	Implemented	8,021	7,552	7,002	No	7/14/2018	Subsequent to 01/01/2016 contributions of \$1.41 per hour worked. From 01/01/2015 through 12/31/2015 contributions of \$1.328 per hour worked for pharmacists and \$0.602 per hour worked for non pharmacists. Prior to 01/01/2015 contributions of \$1.242 per hour worked for pharmacists and \$0.563 per hour worked for non pharmacists.

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19. Multiemployer Plans that Provide Pension Benefits (Continued)

Pension	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/ RP Status Pending/ Implemented	Contributions of the Company			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement	Minimum Funding Requirements
		2017	2016		2017	2016	2015			
UFCW Pharmacists, Clerks and Drug Employers Pension Trust	94-2518312-001	Green— 12/31/2016	Green— 12/31/2015	No	2,970	3,006	2,938	No	7/13/2019	Effective 09/01/2014, contribution rate frozen at \$0.55 per hour worked for associates. Prior to 9/01/2014, contribution rate of \$0.57 per hour worked for associates.
United Food and Commercial Workers Union-Employer Pension Fund	34-6665155-001	Red— 9/30/2016	Red— 9/30/2015	Implemented	827	732	667	No	12/31/2017	Effective 02/05/2017 contribution rate of \$1.89 per hour worked. Effective 02/07/2016 through 02/04/2017 contribution rate of \$1.76 per hour worked. Effective 02/02/2015 through 02/06/2016 contribution rate of \$1.62 per hour worked. Contribution rate of \$1.49 per hour worked prior to 02/02/2015.
United Food and Commercial Workers Union Local 880—Mercantile Employers Joint Pension Fund	51-6031766-001	Yellow— 9/30/2016	Yellow— 9/30/2015	Implemented	504	454	480	No	12/31/2017	Effective 01/01/2017 contribution rate \$1.88 per hour worked. Effective 01/01/2016 through 12/31/2016 contribution rate of \$1.79 per hour worked. Effective 10/01/2015 through 12/31/2015 contribution rate of \$1.70 per hour worked. Effective 01/01/2015 through 09/30/2015 contribution rate of \$1.61 per hour worked. Effective 10/01/2014 through 12/31/2014 contribution rate of \$1.73 per hour worked. Contribution of \$1.52 per hour worked prior to 10/01/2014.
Other Funds					<u>1,862</u>	<u>1,263</u>	<u>1,606</u>			
					<u>\$ 26,104</u>	<u>\$ 25,966</u>	<u>\$ 24,261</u>			

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19. Multiemployer Plans that Provide Pension Benefits (Continued)

The Company was listed in these plans Forms 5500 as providing more than 5 percent of the total contributions for the following plans and plan years:

<u>Pension Fund</u>	<u>Year Contributions to Plan Exceeded More Than 5 Percent of Total Contributions (as of the Plan's Year-End)</u>
UFCW Pharmacists, Clerks and Drug Employers Pension Trust	12/31/2015 and 12/31/2014
Southern California United Food and Commercial Workers Unions and Drug Employers Pension Fund	12/31/2015 and 12/31/2014
United Food & Commercial Workers Union- Employer Pension Fund	9/30/2015 and 9/30/2014
United Food & Commercial Workers Union Local 880—Mercantile Employers Joint Pension Fund	9/30/2015 and 9/30/2014

At the date the Company's financial statements were issued, certain Forms 5500 were not available.

During fiscal 2017, 2016 and 2015, the Company did not withdraw from any plans or incur any additional withdrawal liabilities.

20. Segment Reporting

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

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

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

20. Segment Reporting (Continued)

The following table is a reconciliation of the Company's business segments to the consolidated financial statements for the fiscal years ended March 4, 2017, February 27, 2016 and February 28, 2015:

	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations(1)	Consolidated
March 4, 2017:				
Revenues	\$ 26,816,669	\$ 6,393,884	\$ (365,480)	\$ 32,845,073
Gross Profit	7,381,333	392,732	—	7,774,065
Adjusted EBITDA(2)	948,906	188,235	—	1,137,141
February 27, 2016:				
Revenues	\$ 26,865,931	\$ 4,103,513	\$ (232,787)	\$ 30,736,657
Gross Profit	7,595,429	230,826	—	7,826,255
Adjusted EBITDA(2)	1,300,905	101,357	—	1,402,262
February 28, 2015:				
Revenues	\$ 26,528,377	\$ —	\$ —	\$ 26,528,377
Gross Profit	7,576,732	—	—	7,576,732
Adjusted EBITDA(2)	1,322,843	—	—	1,322,843

- (1) Intersegment eliminations include intersegment revenues and corresponding cost of revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Retail Pharmacy and Pharmacy Services segments record the revenue on a stand-alone basis.
- (2) See "Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share and Other Non-GAAP Measures" in MD&A for additional details.

The following is a reconciliation of net income to Adjusted EBITDA for fiscal 2017, 2016 and 2015:

	March 4, 2017 (53 weeks)	February 27, 2016 (52 weeks)	February 28, 2015 (52 weeks)
Net income	\$ 4,053	\$ 165,465	\$ 2,109,173
Interest expense	431,991	449,574	397,612
Income tax expense	29,689	139,297	158,951
Income tax valuation allowance increase/ (release)	14,703	(26,358)	(1,841,304)
Depreciation and amortization expense	568,231	509,212	416,628
LIFO (credit) charge	(6,620)	11,163	(18,857)
Lease termination and impairment charges	55,294	48,423	41,945
Loss on debt retirements, net	—	33,205	18,512
Other	39,800	72,281	40,183
Adjusted EBITDA	\$ 1,137,141	\$ 1,402,262	\$ 1,322,843

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

20. Segment Reporting (Continued)

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

	Retail Pharmacy	Pharmacy Services	Eliminations(2)	Consolidated
March 4, 2017:				
Total Assets	\$ 8,664,216	\$ 3,087,143	\$ (157,607)	\$ 11,593,752
Goodwill	76,124	1,639,355	—	1,715,479
Additions to property and equipment and intangible assets	468,386	12,725	—	481,111
February 27, 2016:				
Total Assets	\$ 8,468,186	\$ 2,948,548	\$ (139,724)	\$ 11,277,010
Goodwill	76,124	1,637,351	—	1,713,475
Additions to property and equipment and intangible assets	667,719	2,276	—	669,995

- (2) As of March 4, 2017 and February 27, 2016, intersegment eliminations include netting of the Pharmacy Services segment long-term deferred tax liability of \$140,865 and \$116,027, respectively, against the Retail Pharmacy segment long-term deferred tax asset for consolidation purposes in accordance with ASC 740, and intersegment accounts receivable of \$16,742 and \$23,697, respectively, that represents amounts owed from the Pharmacy Services segment to the Retail Pharmacy segment that are created when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products.

21. Commitments, Contingencies and Guarantees

Legal Matters

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

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

21. Commitments, Contingencies and Guarantees (Continued)

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

On December 23, 2015, the eight (8) Delaware actions were consolidated in an action captioned *In re Rite Aid Corporation Stockholders Litigation*, Consol. C.A. No. 11663-CB (the Consolidated Action). In addition to the claims asserted in the nine (9) complaints discussed above, the operative pleading in the Consolidated Action also included allegations that the preliminary proxy statement contained material omissions, including with respect to the process that resulted in the Merger agreement and the fairness opinion rendered by the Company's banker. On December 28, 2015, the plaintiffs in the Consolidated Action filed a motion for expedited proceedings, which the Court orally denied at a hearing held on January 5, 2016. On March 11, 2016, the Court granted the plaintiffs' notice and proposed order voluntarily dismissing the Consolidated Action as moot, while retaining jurisdiction solely for the purpose of adjudicating plaintiffs' counsel's anticipated application for an award of attorneys' fees and reimbursement of expenses. On April 15, 2016, the Company reached a settlement in principle related to this matter for an immaterial amount. On May 11, 2016, the Court entered a stipulated order regarding notice of payment thereof and final dismissal of this matter.

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

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****21. Commitments, Contingencies and Guarantees (Continued)**

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

The Company has been named in a collective and class action lawsuit, *Indergit v. Rite Aid Corporation, et al.*, pending in the United States District Court for the Southern District of New York, filed purportedly on behalf of current and former store managers working in the Company's stores at various locations around the country. The lawsuit alleges that the Company failed to pay overtime to store managers as required under the FLSA and under certain New York state statutes. The lawsuit also seeks other relief, including liquidated damages, attorneys' fees, costs and injunctive relief arising out of state and federal claims for overtime pay. On April 2, 2010, the Court conditionally certified a nationwide collective group of individuals who worked for the Company as store managers since March 31, 2007. The Court ordered that Notice of the *Indergit* action be sent to the purported members of the collective group (approximately 7,000 current and former store managers) and approximately 1,550 joined the *Indergit* action. Discovery as to certification issues has been completed. On September 26, 2013, the Court granted Rule 23 class certification of the New York store manager claims as to liability only, but denied it as to damages, and denied the Company's motion for decertification of the nationwide collective action claims. The Company filed a motion seeking reconsideration of the Court's September 26, 2013 decision which motion was denied in June 2014. The Company subsequently filed a petition for an interlocutory appeal of the Court's September 26, 2013 ruling with the U. S. Court of Appeals for the Second Circuit which petition was denied in September 2014. Notice of the Rule 23 class certification as to liability only has been sent to approximately 1,750 current and former store managers in the state of New York. Discovery related to the merits of the claims is ongoing. On January 12, 2017, the parties reached a settlement in principle of this matter, for an immaterial amount of money, which is subject to preliminary and final approval by the court. On January 19, 2017, the court entered an order staying the case indefinitely pending preliminary and final court approval. In the event the settlement does not receive preliminary and/or final approval by the court, the litigation will resume. If such occurs, the Company presently is not able to either predict the outcome of this lawsuit or estimate a potential range of loss with respect to the lawsuit. The Company's management believes, however, that this lawsuit is without merit and is vigorously defending this lawsuit.

The Company is currently a defendant in several lawsuits filed in state courts in California alleging violations of California wage-and-hour laws, rules and regulations pertaining primarily to failure to pay overtime, failure to pay for missed meals and rest periods, failure to reimburse business expenses and failure to provide employee seating (the "California Cases"). The class actions pertaining to failure to reimburse business expenses and provide employee seating purport to be class actions and seek substantial damages. The single-plaintiff and multi-plaintiff lawsuits regarding failure to pay overtime and failure to pay for missed meals and rest periods, in the aggregate, seek substantial damages. The

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

21. Commitments, Contingencies and Guarantees (Continued)

Company has aggressively challenged the merits of the lawsuits and, where applicable, the allegations that the cases should be certified as class or representative actions.

In the business expense class action (*Fenley v. Rite Aid Corporation, Santa Clara Superior Court*), the parties reached a settlement pursuant to which the Company will pay an immaterial amount to settle the class claims. The court granted final approval of the settlement on February 3, 2017.

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

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

The Company was served with a Civil Investigative Demand Subpoena Duces Tecum dated August 26, 2011 by the United States Attorney's Office for the Eastern District of Michigan. The subpoena requests records regarding the relationship of Rite Aid's Rx Savings Program to the reporting of usual and customary charges to publicly funded health programs. In connection with the same investigation, the Company was served with a Civil Subpoena Duces Tecum dated February 22, 2013 by the State of Indiana Office of the Attorney General requesting additional information regarding both Rite Aid's Rx Savings Program and usual and customary charges. The Company responded to both of the subpoenas. To enable the parties to discuss a possible resolution, the Medicaid Fraud Control Units of the several states, commonwealths, and the District of Columbia and the Company entered into an agreement tolling the statute of limitations until October 7, 2015. The parties agreed to extend the tolling agreement and continue to exchange pertinent claims data in the near future. On January 19, 2017, the District Court for the Eastern District of Michigan unsealed Relator's Second Amended Complaint against the Company. In its Complaint, Relator alleges that the Company failed to report Rx Savings prices as its usual and customary charges under the Medicare Part D program and to federal and state Medicaid programs in 18 (eighteen) states and the District of Columbia; and that the Company is thus liable under the federal False Claims Act and similar False Claims Act statutes operative in the states named in the Complaint. The federal government and the 18 (eighteen) states and the District of Columbia named in the lawsuit have elected not to intervene in this action. At this stage of the proceedings, the Company is not able to either predict the outcome of this lawsuit or estimate a potential range of loss with respect to the lawsuit and is vigorously defending this lawsuit.

On April 26, 2012, the Company received an administrative subpoena from the U.S. Drug Enforcement Administration ("DEA"), Albany, New York District Office, requesting information regarding the Company's sale of products containing pseudoephedrine ("PSE"). In April 2012, it also

RITE AID CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015****(In thousands, except per share amounts)****21. Commitments, Contingencies and Guarantees (Continued)**

received a communication from the U.S. Attorney's Office ("USAO") for the Northern District of New York concerning an investigation of possible civil violations of the Combat Methamphetamine Epidemic Act of 2005 ("CMEA"). Additional subpoenas were issued in 2013, 2014, and 2015 seeking broader documentation regarding PSE sales and recordkeeping requirements. Assistant U.S. Attorneys from the Northern and Eastern Districts of New York and the Southern District of West Virginia are currently investigating, but no lawsuits or charges have been filed. Between September 2015 and January 2017, the Company received several grand jury subpoenas from the U.S. District Court for the Southern District of West Virginia seeking additional information in connection with the investigation of violations of the CMEA and/or the Controlled Substances Act ("CSA"). Violations of the CMEA or the CSA could result in the imposition of administrative, civil and/or criminal penalties against the Company. The Company is cooperating with the government and continues to provide information responsive to the subpoenas. The Company has entered into a tolling agreement with the USAOs in the Northern and Eastern Districts of New York and entered into a separate tolling agreement with the USAO in the Southern District of West Virginia. Discussions are underway to attempt to resolve these matters with those USAOs and the Department of Justice, but whether an agreement can be reached and on what terms is uncertain. While the Company's management cannot predict the outcome of these matters, it is possible that the Company's results of operations or cash flows could be materially affected by an unfavorable resolution. At this stage of the investigation, Rite Aid is not able to predict the outcome of the investigation.

In January 2013, the DEA, Los Angeles District Office, served an administrative subpoena on the Company seeking documents related to prescriptions by a certain prescriber. The USAO, Central District of California, also contacted the Company about a related investigation into allegations that Rite Aid pharmacies filled certain controlled substance prescriptions for a number of prescribers after their DEA registrations had expired or otherwise become invalid in violation of the federal Controlled Substances Act and DEA regulations. The Company responded to the administrative subpoena and subsequent informal requests for information from the USAO. The Company met with the USAO and DEA in January 2014 regarding this matter. The Company entered into a tolling agreement with the USAO. The Company recorded a legal accrual during the period ended March 1, 2014, which was revised during the period ending August 29, 2015. On February 28, 2017, the USAO, Central District of California, and the Company entered into a settlement agreement resolving this matter for an immaterial amount. The settlement agreement is not an admission of liability by the Company.

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

21. Commitments, Contingencies and Guarantees (Continued)

Company produce 60 prescriptions; (ii) on July 30, 2014, the government requested that the Company produce 30 prescriptions; (iii) on June 15, 2015, the government requested that the Company produce 80 prescriptions; and (iv) on September 30, 2016, the Company agreed to produce an additional 242 prescriptions. The Company is continuing discussions with the government.

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

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

22. Supplementary Cash Flow Data

	Year Ended		
	March 4, 2017	February 27, 2016	February 28, 2015
Cash paid for interest (net of capitalized amounts of \$195, \$196 and \$145)	\$ 409,692	\$ 403,727	\$ 384,329
Cash payments for income taxes, net	\$ 17,081	\$ 4,856	\$ 6,665
Equipment financed under capital leases	\$ 7,551	\$ 9,614	\$ 6,157
Equipment received for noncash consideration	\$ 746	\$ 3,011	\$ 1,600
Accrued capital expenditures	\$ 37,325	\$ 69,417	\$ 87,916
Gross borrowings from revolver	\$ 3,608,000	\$ 4,729,000	\$ 6,078,000
Gross repayments to revolver	\$ 3,278,000	\$ 4,354,000	\$ 4,753,000

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

23. Related Party Transactions

There were receivables from related parties of \$34 and \$48 at March 4, 2017 and February 27, 2016, respectively.

As contemplated by the pending Merger with WBA, on December 31, 2015, the Board of Directors of the Company approved the adoption of a retention and severance program upon the recommendation of the Compensation Committee of the Board (the "Committee"), which was advised by the Committee's independent compensation consultant, to enhance employee retention and corporate performance through the closing of the Merger, and authorized the Company to enter into individual retention award agreements with certain of its executive officers. The individual retention award agreements provide for the lump-sum payment of the retention award on the one hundred twentieth day following the closing of the Merger (the "retention date"), subject to continued employment through such retention date or upon the earlier termination of the recipient's employment by the Company without "cause" or by the recipient for "good reason" (as such terms are defined in the Company's 2014 Omnibus Equity Plan) (each referred to as a "qualifying termination"). The Company executed retention award agreements on December 31, 2015 with certain Company executive officers, which provided for the grant of retention awards under the terms described above and, for tax planning purposes, provide for the accelerated payment of the executive's fiscal year 2016 bonus in 2015, the accelerated lapse of restrictions on certain time-based restricted stock awards in 2015 and, to the extent necessary for one executive officer, the accelerated payment of the retention award in 2015, in each case subject to repayment requirements on the part of the executive if the executive would not have otherwise become entitled to such payments. During fiscal 2016, the Company made advance payments to certain executives of \$500 for retention bonuses and \$1,778 of fiscal 2016 performance bonuses for tax planning purposes.

24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information

Rite Aid Corporation conducts the majority of its business through its subsidiaries. With the exception of EIC, substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes (the "Subsidiary Guarantors"). Additionally, prior to the Acquisition, the subsidiaries, including joint ventures, that did not guarantee the Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes, were minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented for those periods. Condensed consolidating financial information for the Company, its Subsidiary Guarantors and non-guarantor subsidiaries, is presented for periods subsequent to the Acquisition.

For the purposes of preparing the information below, Rite Aid Corporation uses the equity method to account for its investment in subsidiaries. The equity method has been used by Subsidiary Guarantors with respect to investments in the non-guarantor subsidiaries. The subsidiary guarantees related to the Company's Amended and Restated Senior Secured Credit Facility, second priority secured term loan facilities and secured guaranteed notes and, on an unsecured basis, the unsecured guaranteed notes, are full and unconditional and joint and several. Presented below is condensed consolidating financial information for Rite Aid Corporation, the Subsidiary Guarantors, and the

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

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24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

non-guarantor subsidiaries at March 4, 2017, February 27, 2016 and for the fiscal years ended March 4, 2017 and February 27, 2016. Separate financial statements for Subsidiary Guarantors are not presented.

	Rite Aid Corporation Condensed Consolidating Balance Sheet March 4, 2017				
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 213,104	\$ 32,306	\$ —	\$ 245,410
Accounts receivable, net	—	1,506,288	264,838	—	1,771,126
)	
Intercompany receivable	—	215,862	—	(215,862)(a)	—
Inventories, net of LIFO reserve of \$0, \$999,776, \$0, \$0, and \$999,776	—	2,837,211	—	—	2,837,211
Prepaid expenses and other current assets	—	203,033	8,508	—	211,541
Total current assets	—	4,975,498	305,652	(215,862)	5,065,288
Property, plant and equipment, net	—	2,251,692	—	—	2,251,692
Goodwill	—	1,715,479	—	—	1,715,479
Other intangibles, net	—	782,167	53,628	—	835,795
Deferred tax assets	—	1,505,564	—	—	1,505,564
)	
Investment in subsidiaries	15,275,488	50,004	—	(15,325,492)(b)	—
)	
Intercompany receivable	—	7,331,675	—	(7,331,675)(a)	—
Other assets	—	219,934	—	—	219,934
Total assets	<u>\$15,275,488</u>	<u>\$18,832,013</u>	<u>\$ 359,280</u>	<u>\$(22,873,029)</u>	<u>\$ 11,593,752</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt and lease financing obligations	\$ 90	\$ 21,245	\$ —	\$ —	\$ 21,335
Accounts payable	—	1,609,025	4,884	—	1,613,909
)	
Intercompany payable	—	—	215,862	(215,862)(a)	—
Accrued salaries, wages and other current liabilities	66,365	1,236,297	67,342	—	1,370,004
Total current liabilities	66,455	2,866,567	288,088	(215,862)	3,005,248
Long-term debt, less current maturities	7,263,288	—	—	—	7,263,288
Lease financing obligations, less current maturities	—	44,070	—	—	44,070
)	
Intercompany payable	7,331,675	—	—	(7,331,675)(a)	—
Other noncurrent liabilities	—	645,888	21,188	—	667,076
Total liabilities	14,661,418	3,556,525	309,276	(7,547,537)	10,979,682
Commitments and contingencies	—	—	—	—	—
)	
Total stockholders' equity	614,070	15,275,488	50,004	(15,325,492)(b)	614,070
Total liabilities and stockholders' equity	<u>\$15,275,488</u>	<u>\$18,832,013</u>	<u>\$ 359,280</u>	<u>\$(22,873,029)</u>	<u>\$ 11,593,752</u>

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

(b) Elimination of investments in consolidated subsidiaries.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

	Rite Aid Corporation Condensed Consolidating Balance Sheet February 27, 2016				
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 90,569	\$ 33,902	\$ —	\$ 124,471
Accounts receivable, net	—	1,316,797	284,211	—	1,601,008
Intercompany receivable	—	224,220	—	(224,220)(a)	—
Inventories, net of LIFO reserve of \$0, \$1,006,396, \$0, \$0, and \$1,006,396	—	2,697,104	—	—	2,697,104
Prepaid expenses and other current assets	—	121,684	6,460	—	128,144
Total current assets	—	4,450,374	324,573	(224,220)	4,550,727
Property, plant and equipment, net	—	2,255,398	—	—	2,255,398
Goodwill	—	1,713,475	—	—	1,713,475
Other intangibles, net	—	948,451	55,928	—	1,004,379
Deferred tax assets	—	1,539,141	—	—	1,539,141
Investment in subsidiaries	14,832,523	57,167	—	(14,889,690)(b)	—
Intercompany receivable	—	7,270,869	—	(7,270,869)(a)	—
Other assets	—	207,821	6,069	—	213,890
Total assets	<u>\$14,832,523</u>	<u>\$18,442,696</u>	<u>\$ 386,570</u>	<u>\$ (22,384,779)</u>	<u>\$ 11,277,010</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt and lease financing obligations	\$ 90	\$ 26,758	\$ —	\$ —	\$ 26,848
Accounts payable	—	1,541,984	813	—	1,542,797
Intercompany payable	—	—	224,220	(224,220)(a)	—
Accrued salaries, wages and other current liabilities	65,743	1,274,074	87,433	—	1,427,250
Total current liabilities	65,833	2,842,816	312,466	(224,220)	2,996,895
Long-term debt, less current maturities	6,914,393	—	—	—	6,914,393
Lease financing obligations, less current maturities	—	52,895	—	—	52,895
Intercompany payable	7,270,869	—	—	(7,270,869)(a)	—
Other noncurrent liabilities	—	714,462	16,937	—	731,399
Total liabilities	14,251,095	3,610,173	329,403	(7,495,089)	10,695,582
Commitments and contingencies	—	—	—	—	—
Total stockholders' equity	581,428	14,832,523	57,167	(14,889,690)(b)	581,428
Total liabilities and stockholders' equity	<u>\$14,832,523</u>	<u>\$18,442,696</u>	<u>\$ 386,570</u>	<u>\$ (22,384,779)</u>	<u>\$ 11,277,010</u>

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

(b) Elimination of investments in consolidated subsidiaries.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

Rite Aid Corporation Condensed Consolidating Statement of Operations For the Year Ended March 4, 2017					
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$ —	\$32,739,473	\$ 223,077	\$ (117,477)(a)	\$ 32,845,073
Costs and expenses:					
Cost of revenues	—	24,975,538	213,225	(117,755)(a)	25,071,008
Selling, general and administrative expenses	—	7,228,540	13,541	278(a)	7,242,359
Lease termination and impairment expenses	—	55,294	—	—	55,294
Interest expense	414,208	17,796	(13)	—	431,991
Gain on sale of assets, net	—	(4,024)	—	—	(4,024)
Equity in earnings of subsidiaries, net of tax	(418,261)	5,101	—	413,160(b)	—
	(4,053)	32,278,245	226,753	295,683	32,796,628
Income (loss) before income taxes	4,053	461,228	(3,676)	(413,160)	48,445
Income tax expense	—	42,967	1,425	—	44,392
Net income (loss)	\$ 4,053	\$ 418,261	\$ (5,101)	\$ (413,160)(b)	\$ 4,053
Total other comprehensive income (loss)	5,464	5,464	—	(5,464)	5,464
Comprehensive income (loss)	\$ 9,517	\$ 423,725	\$ (5,101)	\$ (418,624)	\$ 9,517

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

Rite Aid Corporation Condensed Consolidating Statement of Operations For the Year Ended February 27, 2016					
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Revenues	\$ —	\$30,731,771	\$ 162,620	\$ (157,734)(a)	\$ 30,736,657
Costs and expenses:					
Cost of revenues	—	22,910,402	154,838	(154,838)(a)	22,910,402
Selling, general and administrative expenses	—	7,004,321	11,921	(2,896)(a)	7,013,346
Lease termination and impairment expenses	—	48,423	—	—	48,423
Interest expense	415,304	34,268	2	—	449,574
Loss on debt retirement, net	33,205	—	—	—	33,205
Loss on sale of assets, net	—	3,303	—	—	3,303
Equity in earnings of subsidiaries, net of tax	(613,974)	3,972	—	610,002(b)	—
	(165,465)	30,004,689	166,761	452,268	30,458,253
Income (loss) before income taxes	165,465	727,082	(4,141)	(610,002)	278,404
Income tax expense (benefit)	—	113,108	(169)	—	112,939
Net income (loss)	\$ 165,465	\$ 613,974	\$ (3,972)	\$ (610,002)(b)	\$ 165,465
Total other comprehensive (loss) income	(1,931)	(1,931)	—	1,931	(1,931)
Comprehensive income (loss)	\$ 163,534	\$ 612,043	\$ (3,972)	\$ (608,071)	\$ 163,534

(a) Elimination of intercompany revenues and expenses.

(b) Elimination of equity in earnings of subsidiaries.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

Rite Aid Corporation Condensed Consolidating Statement of Cash Flows For the Year Ended March 4, 2017					
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ (394,768)	\$ 622,227	\$ (1,596)	\$ —	\$ 225,863
Investing activities:					
Payments for property, plant and equipment	—	(424,289)	—	—	(424,289)
Intangible assets acquired	—	(56,822)	—	—	(56,822)
Intercompany activity	—	(57,817)	—	57,817	—
Proceeds from dispositions of assets and investments	—	16,852	—	—	16,852
Net cash (used in) provided by investing activities	—	(522,076)	—	57,817	(464,259)
Financing activities:					
Net proceeds from revolver	330,000	—	—	—	330,000
Principal payments on long-term debt	—	(21,239)	—	—	(21,239)
Change in zero balance cash accounts	—	43,080	—	—	43,080
Net proceeds from issuance of common stock	6,951	—	—	—	6,951
Excess tax benefit on stock options and restricted stock	—	543	—	—	543
Intercompany activity	57,817	—	—	(57,817)	—
Net cash provided by (used in) financing activities	394,768	22,384	—	(57,817)	359,335
Increase (decrease) in cash and cash equivalents	—	122,535	(1,596)	—	120,939
Cash and cash equivalents, beginning of period	—	90,569	33,902	—	124,471
Cash and cash equivalents, end of period	\$ —	\$ 213,104	\$ 32,306	\$ —	\$ 245,410

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
24. Guarantor and Non-Guarantor Condensed Consolidating Financial Information (Continued)

	Rite Aid Corporation Condensed Consolidating Statement of Cash Flows For the Year Ended February 27, 2016				
	Rite Aid Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ (387,871)	\$ 1,391,759	\$ (6,486)	\$ —	\$ 997,402
Investing activities:					
Payments for property, plant and equipment	—	(541,347)	—	—	(541,347)
Intangible assets acquired	—	(128,648)	—	—	(128,648)
Acquisition of businesses, net of cash acquired	(1,778,377)	—	—	—	(1,778,377)
Intercompany activity	(103,834)	(794,422)	—	898,256	—
Proceeds from sale-leaseback transaction	—	36,732	—	—	36,732
Proceeds from dispositions of assets and investments	—	9,782	—	—	9,782
Net cash (used in) provided by investing activities	(1,882,211)	(1,417,903)	—	898,256	(2,401,858)
Financing activities:					
Proceeds from issuance of long-term debt	1,800,000	—	—	—	1,800,000
Net proceeds from revolver	375,000	—	—	—	375,000
Principal payments on long-term debt	(650,079)	(22,638)	—	—	(672,717)
Change in zero balance cash accounts	—	(62,878)	—	—	(62,878)
Net proceeds from issuance of common stock	11,376	—	—	—	11,376
Financing fees paid for early debt redemption	(26,003)	—	—	—	(26,003)
Excess tax benefit on stock options and restricted stock	—	22,884	—	—	22,884
Deferred financing costs paid	(34,634)	—	—	—	(34,634)
Intercompany activity	794,422	63,446	40,388	(898,256)	—
Net cash provided by (used in) financing activities	2,270,082	814	40,388	(898,256)	1,413,028
(Decrease) increase in cash and cash equivalents	—	(25,330)	33,902	—	8,572
Cash and cash equivalents, beginning of period	—	115,899	—	—	115,899
Cash and cash equivalents, end of period	\$ —	\$ 90,569	\$ 33,902	\$ —	\$ 124,471

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015
(In thousands, except per share amounts)
25. Interim Financial Results (Unaudited)

	Fiscal Year 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(2)	Year
Revenues	\$ 8,184,181	\$ 8,029,806	\$ 8,089,726	\$ 8,541,360	\$ 32,845,073
Cost of revenues	6,289,881	6,113,063	6,194,866	6,473,198	25,071,008
Selling, general and administrative expenses	1,793,247	1,778,247	1,773,862	1,897,003	7,242,359
Lease termination and impairment charges	5,781	7,233	7,265	35,015	55,294
Interest expense	105,113	105,388	106,309	115,181	431,991
Loss (gain) on sale of assets, net	1,056	174	501	(5,755)	(4,024)
	<u>8,195,078</u>	<u>8,004,105</u>	<u>8,082,803</u>	<u>8,514,642</u>	<u>32,796,628</u>
(Loss) income before income taxes	(10,897)	25,701	6,923	26,718	48,445
Income tax (benefit) expense	(6,309)	10,928	(8,087)	47,860	44,392
Net (loss) income	<u>\$ (4,588)</u>	<u>\$ 14,773</u>	<u>\$ 15,010</u>	<u>\$ (21,142)</u>	<u>\$ 4,053</u>
Basic and diluted (loss) income per share(1)	<u>\$ (0.00)</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.00</u>

	Fiscal Year 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	\$ 6,647,561	\$ 7,664,776	\$ 8,154,184	\$ 8,270,136	\$ 30,736,657
Cost of revenues	4,788,031	5,742,485	6,151,305	6,228,581	22,910,402
Selling, general and administrative expenses	1,699,585	1,725,826	1,777,647	1,810,288	7,013,346
Lease termination and impairment charges	5,022	9,637	7,011	26,753	48,423
Interest expense	123,607	115,410	106,879	103,678	449,574
Loss on debt retirements, net	—	33,205	—	—	33,205
Loss (gain) on sale of assets, net	39	281	3,331	(348)	3,303
	<u>6,616,284</u>	<u>7,626,844</u>	<u>8,046,173</u>	<u>8,168,952</u>	<u>30,458,253</u>
Income before income taxes	31,277	37,932	108,011	101,184	278,404
Income tax expense	12,441	16,463	48,468	35,567	112,939
Net income	<u>\$ 18,836</u>	<u>\$ 21,469</u>	<u>\$ 59,543</u>	<u>\$ 65,617</u>	<u>\$ 165,465</u>
Basic income per share(1)	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.16</u>
Diluted income per share(1)	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.16</u>

- (1) Income per share amounts for each quarter may not necessarily total to the yearly income per share due to the weighting of shares outstanding on a quarterly and year-to-date basis.
- (2) The interim financial results for the fourth quarter of fiscal 2017 includes 14 weeks.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended March 4, 2017, February 27, 2016 and February 28, 2015

(In thousands, except per share amounts)

25. Interim Financial Results (Unaudited) (Continued)

During the fourth quarter of fiscal 2017, the Company recorded facilities impairment charges of \$30,493 and a LIFO credit of \$47,881 due to lower deflation on pharmacy generics as compared to a lower LIFO credit recognized at prior year end due to lower deflation on pharmacy generics.

During the second quarter of 2016, the Company recorded a loss on debt retirement related to the August 2015 redemption of the outstanding 8.00% Notes as discussed in Note 14. During the fourth quarter of fiscal 2016, the Company recorded facilities impairment charges of \$16,401 and a LIFO credit of \$6,796 due to lower deflation on pharmacy generics as compared to a larger LIFO credit recognized at prior year end caused by lower pharmacy inventory due to its Purchasing and Delivery Arrangement.

26. Financial Instruments

The carrying amounts and fair values of financial instruments at March 4, 2017 and February 27, 2016 are listed as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	\$ 3,368,484	\$ 3,404,225	\$ 3,027,675	\$ 3,025,500
Fixed rate indebtedness	\$ 3,894,894	\$ 4,152,374	\$ 3,886,808	\$ 4,210,416

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. In addition, as of March 4, 2017 and February 27, 2016, the Company had \$6,874 and \$6,069, respectively, of investments carried at amortized cost, as these investments are being held to maturity. As of March 4, 2017, these investments are included as a component of prepaid expenses and other current assets. As of February 27, 2016, these investments are included as a component of other assets. The Company believes the carrying value of these investments approximates their fair value.

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.

RITE AID CORPORATION AND SUBSIDIARIES**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**
For the Years Ended March 4, 2017, February 27, 2016, and February 28, 2015
(dollars in thousands)

Allowances deducted from accounts receivable for estimated uncollectible amounts:	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended March 4, 2017	\$ 32,820	\$ 72,876	\$ 74,805	\$ 30,891
Year ended February 27, 2016	\$ 31,247	\$ 71,984	\$ 70,411	\$ 32,820
Year ended February 28, 2015	\$ 26,873	\$ 66,319	\$ 61,945	\$ 31,247

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RITE AID CORPORATION

By: /s/ JOHN T. STANDLEY

John T. Standley

Chairman and Chief Executive Officer

Dated: May 3, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their respective capacities on May 3, 2017.

<u>Signature</u>	<u>Title</u>
<u>/s/ JOHN T. STANDLEY</u> John T. Standley	Chairman, Chief Executive Officer and Director (principal executive officer)
<u>/s/ DARREN W. KARST</u> Darren W. Karst	Chief Financial Officer, Chief Administrative Officer and Senior Executive Vice President (principal financial officer)
<u>/s/ DOUGLAS E. DONLEY</u> Douglas E. Donley	Chief Accounting Officer and Senior Vice President (principal accounting officer)
<u>/s/ JOSEPH B. ANDERSON, JR</u> Joseph B. Anderson, Jr	Director
<u>/s/ BRUCE G. BODAKEN</u> Bruce G. Bodaken	Director
<u>/s/ DAVID R. JESSICK</u> David R. Jessick	Director
<u>/s/ KEVIN E. LOFTON</u> Kevin E. Lofton	Director

<u>Signature</u>	<u>Title</u>
<div>/s/ MYRTLE S. POTTER</div> <div>Myrtle S. Potter</div>	Director
<div>/s/ MICHAEL N. REGAN</div> <div>Michael N. Regan</div>	Director
<div>/s/ FRANK A. SAVAGE</div> <div>Frank A. Savage</div>	Director
<div>/s/ MARCY SYMS</div> <div>Marcy Syms</div>	Director

ASSET PURCHASE AGREEMENT

BY AND AMONG

RITE AID CORPORATION,

AFAE, LLC,

FRED'S, INC.

(solely for the purposes set forth in the Preamble)

AND

WALGREENS BOOTS ALLIANCE, INC.

(solely for the purposes set forth in the Preamble)

Dated as of December 19, 2016

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Exhibit F	Form of Transitional Trademark License Agreement
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SCHEDULES

Schedule 2.10(b)	Form of Physical Inventory Valuation Report
Schedule A	Inventory Valuation Process Example
Schedule B	Duplicate IT System Exceptions

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This **ASSET PURCHASE AGREEMENT** (this “Agreement”), dated as of December 19, 2016, is by and among **RITE AID CORPORATION**, a Delaware corporation (“Seller”), **WALGREENS BOOTS ALLIANCE, INC.**, a Delaware corporation (“Parent”) (solely for purposes of Section 2.06, Section 2.09 through Section 2.12, Section 5.03 through Section 5.06, Section 5.08, Section 5.11 through Section 5.19, Section 9.09, Article VIII and Article X), **AFAE, LLC**, a Tennessee limited liability company (“Buyer”), and **FRED’S, INC.**, a Tennessee corporation (“Fred’s”) (solely for purposes of Section 4.07, Section 5.05, Section 5.12, Section 9.10 and Article X).

PRELIMINARY STATEMENTS

A. The United States Federal Trade Commission (“FTC”) staff has raised the concern that the proposed acquisition (the “Rite Aid Acquisition”) of Seller by Parent is likely to produce anti-competitive effects in the alleged relevant product markets in various geographic areas in the United States, which would not be in the public interest, including, but not limited to, by eliminating competition between Parent and Seller.

B. Whereas in order to resolve the concerns raised by FTC Staff in the alleged product markets and geographic areas, Parent and Seller have agreed to enter into an agreement to divest certain assets related to these products with Buyer, to permit Buyer to replace lost competition by itself marketing and selling the products referred to above into the respective alleged markets.

C. If this Agreement is approved by the FTC, the FTC will issue a Proposed Consent Order governing the scope, nature and extent and requirements of this Agreement.

D. Following the Rite Aid Closing, Seller wishes to sell, or to cause to be sold, to Buyer, and Buyer wishes to purchase from Seller certain of the assets of Seller and its Affiliates, all on the terms and subject to the conditions set forth herein. In addition, Buyer wishes to assume, and Seller wishes to have Buyer assume, certain Liabilities of Seller and its Affiliates, all on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Certain Defined Terms. Capitalized terms used in this Agreement shall have the meanings specified in Exhibit A to, or elsewhere in, this Agreement.

ARTICLE II

PURCHASE AND SALE

Section 2.01. Purchased Assets. Upon the terms and subject to the conditions of this Agreement, on the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date), Seller shall, and shall cause its Affiliates to sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase from Seller and, as applicable, its Affiliates, free and clear of all Liens (except for Permitted Liens) all right, title and interest of Seller and its Affiliates, in, to and under the following assets to the extent exclusively relating to any Acquired Store or the Distribution Center (collectively, the “Purchased Assets”):

- (a) all Inventory and supplies of Seller and its Affiliates;
- (b) to the extent transferable, the Permits held by Seller and its Affiliates;
- (c) the Owned Real Property;
- (d) the Acquired Leases, and all subleases, licenses or concessions thereunder, including the right to all security deposits and other amounts and instruments deposited by, on behalf of, or for the benefit of, Seller or its Affiliates thereunder with respect to which Seller or any of its Affiliates is a party;
- (e) the machinery, equipment, vehicles, furniture, shelving, safes (with combinations and keys), and other personal property owned by Seller or any of its Subsidiaries, and all leases relating to the foregoing;
- (f) all of Seller’s or one of its Subsidiary’s rights, claims or causes of action against third parties relating to the assets, properties, business or operations of the Acquired Stores or the Distribution Center arising out of events or transactions occurring, or facts or circumstances existing, prior to the Closing Date (or the applicable Subsequent Closing Date or the Distribution Center Closing, as applicable);
- (g) (i) all books and records (including all data and other information stored on discs, tapes or other media) of Seller or any of its Subsidiaries relating to the assets, properties, business and operations of the Acquired Stores and the Distribution Center (but excluding (A) all personnel files other than as set forth below, and (B) all Tax Returns not relating solely to the Acquired Stores), and (ii) any and all medical records, billing records, prescriptions, prescription files and records, pharmacy customer lists, signature logs and patient profiles (the information in this clause (ii), collectively, “Seller Rx Data”) relating to customers of the Acquired Stores (which shall in any event include no less than twenty four (24) months for any Seller Rx Data of customers of the Acquired Stores maintained electronically or in hard copy, or for such longer period of time to the extent required by applicable Law and stored in the Duplicate IT System and electronically available if not on the Duplicate IT System); provided, that, the “Purchased Assets” shall include, to the extent available, personnel records limited to employment applications and hiring paperwork, compensation records, and the 2015 and 2016 overall annual performance reviews and ratings pertaining to Transferred Employees

employed in the position of District Manager, Pharmacy District Manager, Human Resources District Manager, Asset Protection District Manager, Regional Vice President, Regional Pharmacy Vice President, Senior Human Resources Manager, or Regional Asset Protection Director; provided, further, however, that as a condition of transferring such records, (i) each subject Transferred Employee shall, to the extent required by applicable Law with respect to Transferred Employee, provide written consent for the transfer and shall waive all claims against Seller and any of its Affiliates related to the contents or the transfer of such records, (ii) the Buyer shall acknowledge that the Seller and its Affiliates make no representations or warranties regarding the accuracy or completeness of such records and agree that it shall base no employment decisions on the records provided, and (iii) Buyer shall indemnify and hold the Seller Indemnified Parties harmless with respect to any claim or Loss related to Buyer's receipt or use of the records transferred in accordance herewith;

(h) the CBAs applicable to employees of the Acquired Stores and the Distribution Center;

(i) any cash and cash equivalents in the registers of any Acquired Stores as of the close of business on the Business Day immediately preceding the Closing Date (or the applicable Subsequent Closing Date) (the "Purchased Cash");

(j) all guarantees and warranties related to the Purchased Assets;

(k) the right to use all telephone numbers and facsimile numbers;

(l) the Intellectual Property set forth on Section 2.01(l) of the Disclosure Schedules; and

(m) to the extent transferable, the historical customer data related to the Seller's Wellness+ program (and to the extent not transferable, Seller shall provide Buyer access to such customer data (to the extent reasonably practicable and permissible)).

Section 2.02. Excluded Assets. Notwithstanding the provisions of Section 2.01, the Purchased Assets shall not include any assets of Seller or any of its Affiliates other than the Purchased Assets, including the following (collectively, the "Excluded Assets"):

(a) all notes and accounts receivable generated;

(b) any cash, bank deposits and cash equivalents of Seller, other than the Purchased Cash;

(c) all Contracts of insurance (" Insurance Arrangements ");

(d) all corporate minute books and stock transfer books and the corporate seal of Seller or its Affiliates, other than the books and records contemplated by Section 2.01(g);

(e) all equity interests in any joint venture or equity interests in any other Person held by Seller or any of its Affiliates;

(f) all assets arising out of or relating to employee benefits or employee benefit or compensation plans, programs, agreements or arrangements maintained or contributed to (or formerly maintained or contributed to) by Seller or its Affiliates (“Benefits Arrangements”), except as expressly set forth in Section 6.01;

(g) all personnel files and records, other than those expressly included in accordance with Section 2.01(g) and the provisos stated therein;

(h) all refunds of any Tax for which Seller is liable pursuant to Section 5.07;

(i) all Tax Returns of Seller or its Affiliates not relating solely to the Acquired Stores;

(j) except as expressly set forth in Section 2.01, any Contract to which Seller or any of its Affiliates is a party;

(k) except as expressly set forth in Section 2.01(l), the Intellectual Property used or owned by Seller or any of its Affiliates;

(l) the Software and information technology systems used or owned by Seller or any of its Affiliates;

(m) any of the machinery, equipment, vehicles, furniture and other personal property leased by Seller or any of its Affiliates under a Contract;

(n) all pin-pad credit card readers;

(o) all assets related to the “RediClinic” in-store clinics and any equity interests owned by Seller and its Affiliates of the entity or entities that own such assets; and

(p) the assets set forth on Section 2.02(p) of the Disclosure Schedules.

Section 2.03. Assumed Liabilities. On the terms and subject to the conditions set forth in this Agreement, Buyer hereby agrees, effective at the time of the Closing (or the applicable Subsequent Closing or Distribution Center Closing), to assume, pay, discharge and perform as required solely under the following Liabilities to the extent exclusively relating to the Acquired Stores or Distribution Center, whether known or unknown, fixed or contingent, asserted or unasserted, and not satisfied or extinguished, as the same shall exist on and after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) (the “Assumed Liabilities”):

(a) all Liabilities of Seller or any of its Affiliates to be paid or performed after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) under the Acquired Leases;

(b) any Liabilities in respect of Taxes for which Buyer is liable pursuant to Section 5.07;

(c) except as contemplated by Sections 2.04(f), 2.04(h), and 2.04(i), all Liabilities of Seller or any of its Affiliates to be paid or performed after the Closing Date (or the applicable Subsequent Closing Date) under the CBAs applicable to employees of the Acquired Stores, which shall be assumed in accordance with their terms, including Liabilities related to or arising out of any Multiemployer Plan to which Seller or any of Seller's Affiliates contribute as of the Closing Date (or the applicable Subsequent Closing Date); and

(d) all Liabilities relating to Business Employees to the extent arising after and relating to any period of employment with Buyer or any of its Affiliates after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date).

Section 2.04. Excluded Liabilities. The Buyer is not assuming or agreeing to pay or discharge any Liabilities other than the Assumed Liabilities and all such other Liabilities of Seller and its Affiliates, including the following shall be referred to as "Excluded Liabilities":

(a) any Liabilities in respect of Taxes for which Seller or its Affiliates is liable pursuant to Section 5.07;

(b) any payables and other liabilities or obligations of Seller or its Affiliates with respect to the Acquired Stores owed to any other business unit of Seller or any of Seller's Affiliates;

(c) any Company Expenses;

(d) any indebtedness of Seller or its Affiliates;

(e) any Liabilities in respect of any Excluded Assets;

(f) except as may be otherwise specifically provided in Section 6.01, all Liabilities arising out of or relating to employee benefits, deferred compensation, pension or retirement plans, or other programs, policies, procedures or other arrangements of any type or description, including for this purpose any benefits provided or available to former employees, dependents of employees or former employees, independent contractors or any other person, which are maintained or contributed to (or formerly maintained or contributed to) by Seller or any Affiliate or former Affiliate of Seller, or to which Seller or its Affiliates or former Affiliates has or formerly had any obligation to contribute or provide benefits, however maintained, funded or sponsored, whether or not legally binding or subject to ERISA, whether providing individual or a group coverage, and whether written or unwritten, funded or unfunded, insured or self-insured, including: (i) all Liabilities arising under the Benefits Arrangements (other than any Multiemployer Plan), (ii) all Liabilities under Title IV of ERISA (other than any Liability with respect to a Multiemployer Plan), (iii) all Liabilities with respect to compensation, bonuses and commissions owed to any current or former Business Employees that are payable with respect to services performed by such individuals prior to their termination of employment or service with Seller or Seller's Affiliates, (iv) all Liabilities arising out of or relating to any claims by any current or former Business Employees with respect to any personal injuries, including workers' compensation or disability, allegedly arising during their

employment or engagement by Seller or Seller's Affiliates, regardless of when any such claim is made or asserted, (v) all Liabilities arising from the Seller's breach of its CBAs applicable to employees of the Acquired Stores and the Distribution Center, (vi) any Liabilities arising out of or relating to any pension plan other than a Multiemployer Plan, including but not limited to the Rite Aid of New York Pension Plan and the Rite Aid Defined Benefit Pension Plan, (vii) any Liabilities relating to personal holidays or other vacation leave accrued by employees of the Acquired Stores and the Distribution Center prior to the applicable Employment Start Date, and (viii) all other Liabilities for which Seller is responsible pursuant to Section 6.01;

(g) any Liabilities or obligations in connection with any Business Employees who are not Transferred Employees (including any liabilities arising under the WARN Act and any similar state or local law, provided Buyer has offered employment to such Business Employees in accordance with Section 6.01);

(h) except as otherwise specifically provided in Section 6.01(a) or (b), any Liabilities (i) in connection with the Transferred Employees to the extent arising before, and relating to any period of employment with Seller at any time on or prior to, the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) or (ii) related to current or former employees of Seller or any of its Affiliates who are not Transferred Employees; and

(i) any Liabilities arising out of (i) any Action related to or arising out of any occurrence or event happening prior to the Closing (or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), (ii) any matter disclosed on Schedule 3.06 of the Disclosure Schedules or (iii) any matter disclosed on Schedule 3.14 of the Disclosure Schedules.

Section 2.05. Assignment of Contracts and Rights. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not constitute an agreement to assign or transfer any Acquired Lease, Permit or any claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment or transfer thereof, without the consent of any applicable third party (including any Governmental Authority), would constitute a breach or other contravention thereof, a violation of Law or would in any way adversely affect the rights of Buyer (as assignee of Seller) or Seller (as applicable). Subject to Section 5.05(c), Seller will use its commercially reasonable efforts to obtain the consent of the other parties to any such Purchased Asset or any claim or right or any benefit arising thereunder for the assignment thereof to Buyer as Buyer may request. If, on the Closing Date (or the applicable Subsequent Closing Date), any such consent is not obtained, or if an attempted transfer or assignment thereof would be ineffective, a violation of Law or would adversely affect the rights of Buyer (as assignee of Seller) thereto or thereunder so that Buyer would not in fact receive all such rights, Seller and Buyer will, subject to Section 5.05(c), cooperate in a mutually agreeable arrangement under which Buyer would, in compliance with Law, obtain the benefits and assume the obligations and bear the economic burdens associated with the Purchased Asset, claim, right or benefit in accordance with this Agreement, including subcontracting, sublicensing or subleasing to Buyer, or under which Seller would enforce, for the benefit of Buyer, and at the expense of Buyer, any and all of its rights against a third party thereto (including any Governmental Authority) associated with such Purchased Asset, claim, right or benefit

(collectively, “Third Party Rights”), and Seller would promptly pay to Buyer when received all monies received by them under any Purchased Asset or any claim or right or any benefit arising thereunder. To the extent that (i) any Acquired Leases cannot be assigned or transferred to Buyer as set forth in this Section 2.05 and (ii) Seller subleases such Acquired Leases to Buyer, Buyer and Seller will enter into individual subleases for each of such Acquired Leases (as opposed to a “master” sublease covering all such Acquired Leases).

Section 2.06. Closing.

(a) Subject to Section 2.06(b) and Section 2.06(c), on the second (2nd) Business Day following the satisfaction or waiver of the conditions set forth in Section 7.01 and Section 7.02 (other than such conditions which, by their nature, are to be satisfied at Closing), or on such other date as Seller and Buyer may mutually agree in writing, the sale and purchase of the Purchased Assets and the assumption of the Assumed Liabilities contemplated by this Agreement with respect to which such conditions have been satisfied or waived as of such date shall take place at a closing (the “Closing”) that will be held at the offices of Sidley Austin LLP, One South Dearborn Street, Chicago, Illinois 60603, or such other place as Seller and Buyer may agree in writing or remotely via the exchange of executed documents or closing deliverables (the date on which the Closing takes place being the “Closing Date”).

(b) Buyer and Seller will consummate the sale and purchase of any Purchased Assets and the assumption of any Assumed Liabilities (other than the Purchased Assets and Assumed Liabilities that were transferred on the Closing Date or any other Subsequent Closing Date) (each, a “Subsequent Closing”) on the second (2nd) Business Day following (i) receipt by Buyer of a certificate of Seller signed by a duly authorized representative of Seller, with respect to the Acquired Stores to be transferred at such Subsequent Closing, certifying that (A) the representations and warranties contained in the first sentence of Section 3.05, Section 3.09, the second and third sentences of Section 3.13, the final sentence of Section 3.15 and the final sentence of Section 3.18, are true and correct in all respects as of such Subsequent Closing as if made on the applicable Subsequent Closing Date, except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect and (B) the covenants contained in the first sentence of Section 5.01 (with respect to Inventory and prescriptions) and Section 5.01(f) of this Agreement have been complied with in all material respects, (ii) the satisfaction or waiver of (A) the conditions set forth in Section 7.01(b) and Section 7.02(b) and (B) the condition that Parent shall have (1) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at such Subsequent Closing using the Developed Testing Procedures and (2) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate, in each case applicable to the Acquired Stores to be transferred at such Subsequent Closing and (iii) the delivery to Buyer of the Inventory Statement and the report specified in Section 2.10(b)(ii) (the “Subsequent Closing Conditions”), pursuant to the terms and conditions of this Agreement. The date on which a Subsequent Closing occurs is hereinafter referred to as the “Subsequent Closing Date”; provided, however, that the sale and purchase of the Distribution Center and the assets therein to the extent Purchased Assets (the “Distribution Center Closing”) shall occur on the last day of the Transition Period (as defined in the Transition Service Agreement) or such earlier date as

mutually agreed by the parties (such date, the “Distribution Center Closing Date”), subject to receipt by Buyer of a certificate of Seller signed by a duly authorized representative of Seller, with respect to the Distribution Center, certifying that the representations and warranties contained in Section 3.09 are true and correct in all respects as of the Distribution Center Closing as if made on the Distribution Center Closing Date, except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect. Upon the request of Parent, Buyer will provide commercially reasonable transition services related or arising out of the assets related to the Distribution Center pursuant to an agreement to be mutually agreed upon in good faith by the parties prior to the Distribution Center Closing Date.

(c) Notwithstanding anything herein to the contrary, in no event shall the parties consummate the Closing or a Subsequent Closing, except as otherwise agreed upon by Buyer and Seller, with respect to less than fifty (50) Acquired Stores (other than the final Subsequent Closing) or more than seventy-five (75) Acquired Stores (it being acknowledged and agreed that in the event that the Subsequent Closing Conditions have been satisfied or waived with respect to less than fifty (50) Acquired Stores, the parties shall consummate the Subsequent Closing with respect to such Acquired Stores on the second Business Day following the satisfaction or waiver of the Subsequent Closing Conditions with respect to fifty (50) or more Acquired Stores which have not yet been conveyed to Buyer, or, in the case of the final Subsequent Closing, any remaining Acquired Stores that have not previously been conveyed to Buyer).

Section 2.07. Purchase Price.

(a) The aggregate cash “Purchase Price” for the Purchased Assets shall be an amount in cash equal to (i) \$950,000,000 (the “Base Purchase Price”) plus the assumption of the Assumed Liabilities. Section 2.07 of the Disclosure Schedules shall set forth an allocation of the Base Purchase Price among each of the Acquired Stores and the Distribution Center for purposes of Section 2.06(b) and Section 2.07(a).

(b) Within sixty (60) days following each Subsequent Closing Date and the Distribution Center Closing Date, Seller and Buyer shall negotiate and draft a schedule (the “Allocation Schedule”) allocating the Purchase Price (taking into account, for purposes of this Section 2.07(b), any other consideration paid to Seller, including any adjustment and the Assumed Liabilities) among the Purchased Assets (including the Distribution Center). The Allocation Schedule shall be reasonable and shall be prepared in accordance with Section 1060 of the Code and the regulations thereunder. Seller and Buyer each agrees that promptly upon receiving said Allocation Schedule it shall return an executed copy thereof to the other party. Seller and Buyer shall file IRS Form 8594, and all Tax Returns consistent with the Allocation Schedule. Buyer and Seller each agrees to provide the other promptly with any information required to complete Form 8594.

Section 2.08. Deliveries by Seller.

(a) At the Closing, Seller shall deliver or cause to be delivered to Buyer:

- (i) a certificate, dated as of the Closing Date, executed by Seller confirming the satisfaction of the conditions specified in Section 7.02(a) and Section 7.02(f);
 - (ii) a certification of non-foreign status, for purposes of Section 897 and 1445 of the Code;
 - (iii) duly executed counterparts by Seller or any Affiliate of Seller to each of the Ancillary Agreements applicable to the Closing;
and
 - (iv) an Operational Duplicate IT System Certificate, executed by Parent, dated as of the Closing Date.
- (b) At each Subsequent Closing and at the Distribution Center Closing, as applicable, Seller shall deliver or cause to be delivered to Buyer:
- (i) a certificate, dated as of each Subsequent Closing Date or Distribution Center Closing Date, as applicable, executed by Seller regarding the accuracy of the matters set forth in Section 7.02(a), where, for purposes of this Section 2.08(b)(i), each reference therein to “Closing Date” in Section 7.02(a) shall be deemed to be such Subsequent Closing Date or Distribution Center Closing Date, as applicable, with any exceptions to Section 7.02(a) being noted therein (each such exception, a “Bring-Down Exception”), which such certificate is provided for indemnification purposes only (without giving effect to any Bring-Down Exceptions, as noted below) and solely with respect to the Acquired Stores or Distribution Center to be transferred at such Subsequent Closing and the Distribution Center Closing (as applicable); provided, however, that it is expressly acknowledged and agreed that the inclusion of any Bring-Down Exception shall not be deemed to amend, modify or supplement any Disclosure Schedule for indemnification purposes or in any other way limit or otherwise affect any remedies available to Buyer or any other Buyer Indemnified Party under this Agreement;
 - (ii) an Operational Duplicate IT System Certificate, dated as of each Subsequent Closing Date, executed by Parent with respect to the Acquired Stores to be transferred at such Subsequent Closing;
 - (iii) a certification of non-foreign status, for purposes of Section 897 and 1445 of the Code; and
 - (iv) duly executed counterparts by Seller or any Affiliate of Seller to each of the Ancillary Agreements applicable to such Subsequent Closing and the Distribution Center Closing.

Section 2.09. Deliveries by Buyer.

- (a) At the Closing, Buyer shall deliver to Parent:

- (i) an amount of cash equal to the portion of the Purchase Price with respect to the Acquired Stores to be transferred at Closing as contemplated by Section 2.07 of the Disclosure Schedules, by wire transfer in immediately available funds, to an account or accounts as directed by Seller;
- (ii) a receipt for the Purchased Assets transferred at the Closing;
- (iii) duly executed counterparts by Buyer to each of the Ancillary Agreements applicable to the Closing; and
- (iv) a certificate, dated as of the Closing Date, executed by Buyer confirming the satisfaction of the conditions specified in Section 7.01(a).

(b) At each Subsequent Closing and the Distribution Center Closing, as applicable, Buyer shall deliver to Parent:

- (i) an amount of cash equal to the portion of the Purchase Price with respect to the Acquired Stores to be transferred at such Subsequent Closing, and the Distribution Center to be transferred at the Distribution Center Closing, in each case, as contemplated by Section 2.07 of the Disclosure Schedules, by wire transfer in immediately available funds, to an account or accounts as directed by Seller;
- (ii) a receipt for the Purchased Assets transferred at the applicable Subsequent Closing and Distribution Center Closing; and
- (iii) duly executed counterparts by Buyer to each of the Ancillary Agreements applicable to such Subsequent Closing and Distribution Center Closing.

Section 2.10. Inventory Valuation.

- (a) An Inventory Amount with respect to the Closing, a Subsequent Closing or a Distribution Center Closing shall be calculated as follows:
 - (i) The parties shall commission WIS International or another mutually acceptable inventory valuation firm (the “Inventory Service”) to conduct a physical inventory (with a representative of each of Parent and Buyer present thereat in order to observe such Inventory Audit) at certain Acquired Stores to be inventoried at the Closing or such Subsequent Closing (which shall be such Acquired Stores as are mutually agreed in good faith by Parent and Buyer prior to the Closing Date (or the applicable Subsequent Closing Date)) (such Acquired Stores so sampled are collectively referred to as the “Sampled Locations”), as described herein (each, an “Inventory Audit”). The Inventory Service shall also conduct a physical inventory (with a representative of each of Parent and Buyer present thereat in order to observe such Inventory Audit) at the Distribution Center prior to the Distribution Center Closing Date. The

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Inventory Audits shall be performed within the ten (10) days prior to the Closing Date or applicable Subsequent Closing Date or Distribution Center Closing Date. The Inventory Audits will be performed as of the close of business at each selected location on the date of its Inventory Audit. In the case of a 24-hour store, the Inventory Audit will be performed as of 11:59 PM store time. The Inventory Audits will be performed in accordance with the inventory count and valuation procedures set forth on Exhibit E attached hereto (the “Inventory Procedures”). The fees and expenses of the Inventory Service shall be paid fifty percent (50%) by Buyer and fifty percent (50%) by Seller. The Inventory Service shall conduct a physical inventory of at least 20% of the aggregate number of Acquired Stores being transferred at the Closing and any applicable Subsequent Closing.

(ii) The Inventory Service will calculate the aggregate count of Inventory counted by it at each Sampled Location with respect to the Closing or the applicable Subsequent Closing and applicable Inventory in the Distribution Center with respect to the Distribution Center Closing in accordance with the Inventory Procedures (such count with respect to each Sampled Location and the Distribution Center, the “Retail Inventory Value”). If the Book to Physical Adjustment Ratio with respect to the Sampled Locations with respect to the Closing or the applicable Subsequent Closing is greater than or equal to 5% (based on a physical inventory valuation report), the Inventory Service will conduct an Inventory Audit (an “Additional Inventory Audit”) of an additional number of Acquired Stores selected by Parent and confirmed by Buyer (each such additional Acquired Store thereafter deemed to be a Sampled Location for purposes of this Section 2.10). The Inventory Service shall conduct an Additional Inventory Audit of that number of Acquired Stores being transferred at the Closing and any applicable Subsequent Closing as may be mutually agreed by Buyer and Parent.

(b) At the conclusion of each Inventory Audit and Additional Inventory Audit, (i) the Inventory Service shall provide each of Parent, Buyer and Buyer’s financing sources with a physical inventory valuation report in the form attached hereto as Schedule 2.10(b) setting forth the Inventory Amount with respect to the Acquired Stores and Distribution Center to be transferred as of the Closing Date, applicable Subsequent Closing Date or Distribution Center Closing Date (each, an “Inventory Statement”), which such report shall be signed by each of Buyer and Parent and (ii) the Inventory Service shall provide each of Parent and Buyer prior to each of the Closing, each Subsequent Closing and to the extent applicable to the Inventory to be transferred thereat, the Distribution Center Closing, a report as to the retail and cost value of the applicable Inventory to be transferred as of such date (including in each case shown by front end, pharmacy, cigarettes and liquor) and prescription volume, in each case as of the most recent month ended prior to such date in form and substance consistent with Seller’s past practice.

Section 2.11. Prorations.

- (a) As of the Closing Date, each Subsequent Closing Date and the

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Distribution Center Closing Date (as applicable) all items set forth on Section 2.11 of the Disclosure Schedules shall be prorated as of the Closing, such Subsequent Closing or Distribution Center Closing (collectively, the “Prorated Charges”). Whenever possible, such prorations shall be based on actual, current payments by Seller or its Affiliates and to the extent such actual amounts are not available, such prorations shall be estimated as of the Closing, such Subsequent Closing and Distribution Center Closing (as applicable) based on actual amounts for the most recent comparable billing period. When the actual amounts become known, such prorations shall be recalculated by Buyer and Parent, and Buyer or Parent, as the case may be, promptly (but not later than ten (10) Business Days after notice of payment due) shall make any additional payment or refund so that the correct prorated amount is paid by each of Buyer and Parent.

(b) Percentage rent payable under each Acquired Lease shall be prorated at the end of the current lease year for each Acquired Lease in accordance with the terms of the applicable Acquired Lease, and otherwise the percentage rent payable, if any, shall be paid by Buyer when due and Seller shall promptly reimburse Buyer a portion thereof determined by multiplying (A) a fraction, the numerator of which is the amount of Seller’s or its Affiliates’ gross annual sales at such Acquired Store from the first day of such lease year to (and excluding) the Closing Date or the applicable Subsequent Closing Date (as applicable), and the denominator of which is the sum of Buyer’s and its Affiliates’ and Seller’s and its Affiliates’ gross annual sales at such Acquired Store for the entire lease year, times (B) the amount of percentage rent actually due under the Acquired Lease for such Acquired Store. Seller, upon the request of Buyer, shall promptly provide Buyer with such information as Buyer shall be required to submit to landlords under the Acquired Leases in connection with the payment of percentage rent with respect to the Acquired Stores.

(c) Buyer and Parent shall cooperate in good faith to resolve any dispute with respect to prorations. In the event Buyer and Parent are unable to resolve such dispute within twenty (20) Business Days after the date such dispute arose, Buyer and Parent shall submit the items remaining for resolution in writing, together with such written evidence as Buyer or Parent may elect to include, to an Independent Accounting Firm. The Independent Accounting Firm shall, within twenty (20) Business Days of such submission, resolve any differences between Buyer and Parent and such resolution shall, in the absence of manifest error, be final, binding and conclusive upon each of the parties. The costs, fees and expenses of the Independent Accounting Firm shall be borne equally by Buyer and Parent.

Section 2.12. Purchased Cash; Aggregate Inventory Amount Adjustment.

(a) No later than three (3) Business Days following the Closing Date, Buyer shall deliver to Parent an amount of cash equal to the Purchased Cash with respect to the Acquired Stores transferred on the Closing Date, with a receipt related thereto. No later than three (3) Business Days following each such Subsequent Closing Date, Buyer shall deliver to Parent an amount of cash equal to the Purchased Cash with respect to the Acquired Stores transferred on such Subsequent Closing, together with a receipt related thereto.

(b) No later than three (3) Business Days following the final Subsequent Closing Date, either (i) Buyer shall deliver to Parent an amount of cash equal to amount, if any,

by which the Aggregate Inventory Amount is greater than \$663,000,000 or (ii) Seller shall deliver to Buyer an amount, if any, by which the Aggregate Inventory Amount is less than \$637,000,000. Schedule A sets forth an illustrative example of the inventory valuation process, for reference purposes only.

(c) No later than three (3) Business Days following the Distribution Center Closing Date, either (i) Buyer shall deliver to Parent an amount of cash equal to amount, if any, by which the Distribution Center Inventory Amount is greater than \$25,000,000 or (ii) Seller shall deliver to Buyer an amount, if any, by which the Distribution Center Inventory Amount is less than \$20,000,000.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer that, except as set forth in the applicable subsection of the Disclosure Schedule (or deemed disclosed with respect to a particular subsection of this ARTICLE III pursuant to Section 10.10 hereof):

Section 3.01. Incorporation, Qualification and Authority of Seller. Seller is a corporation duly incorporated, validly existing and in good standing under the Laws of Delaware and has all necessary corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under the Transaction Agreements to which it is a party. Seller has the corporate power and authority to operate its business with respect to the Purchased Assets as now conducted and is duly qualified as a foreign corporation to do business, and, to the extent legally applicable, is in good standing, in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification material to the Purchased Assets, except for jurisdictions where the failure to be so qualified or in good standing has not had and would not reasonably be expected to have a Material Adverse Effect. The execution and delivery by Seller of the Transaction Agreements to which it is a party and the consummation by Seller of the transactions contemplated by, and the performance by Seller of its obligations under, the Transaction Agreements have been duly authorized by all requisite corporate action on the part of Seller. This Agreement has been, and upon execution and delivery the other Ancillary Agreements to which it is a party will be, duly executed and delivered by Seller, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes, and upon execution and delivery, the other Ancillary Agreements will constitute, legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their terms, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfer, or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.02. No Conflict. Provided that all consents, approvals, authorizations and other actions described in Section 3.03 have been obtained or taken or as otherwise provided in this ARTICLE III and except as may result from any facts or circumstances relating to Buyer or its Affiliates or except as set forth on Section 3.02 of the

Disclosure Schedules, the execution, delivery and performance by Seller of the Transaction Agreements and the consummation by Seller of the transactions contemplated by the Transaction Agreements do not and will not (a) violate or conflict with the Certificate of Incorporation or Bylaws of Seller, (b) conflict with or violate any Law or Governmental Order applicable to Seller or the Purchased Assets or (c) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, amendment, acceleration or cancellation of any of the Purchased Assets, or result in the creation of any Lien (other than a Permitted Lien) on any of the Purchased Assets pursuant to any Contract or Material Permit to which Seller (with respect to the Purchased Assets) is a party or by which any Purchased Asset is bound or affected, except, in the case of clauses (b) and (c), for any such conflicts, violations, breaches, defaults, rights or Liens as have not had and would not reasonably be expected to have a Material Adverse Effect or would not materially impair or delay the ability of Seller to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

Section 3.03. Consents and Approvals . The execution and delivery by Seller of the Transaction Agreements do not, and the performance by Seller of, and the consummation by Seller of the transactions contemplated by, the Transaction Agreements will not, require any material consent, approval, authorization or other action by, or any material filing with or notification to, any Governmental Authority, except (a) where the failure to obtain such consent, approval, authorization or action or to make such filing or notification would not prevent or materially delay the consummation by Seller of the transactions contemplated by, or the performance by Seller of any of their material obligations under, the Transaction Agreements, (b) as may be necessary as a result of any facts or circumstances relating to Buyer or its Affiliates or (c) in connection, or in compliance, with the Proposed Consent Order, the Rite Aid Consent Order, or other requests or requirements of the FTC or FTC Staff.

Section 3.04. Financial Information . Section 3.04 of the Disclosure Schedules sets forth a statement of profits and losses with respect to each Acquired Store for the twelve-month period ended October 31, 2016 (collectively, the “Financial Statements”). The Financial Statements present fairly, in all material respects, the financial condition and results of operations of the applicable Acquired Store at their respective dates and for the periods covered by such statements, which are in conformity with the Transaction Accounting Principles applied consistently and are consistent with the historical accounting principles, practices, methodologies and policies of Seller or the Seller’s applicable Affiliates, subject to normal year-end adjustments. The Financial Statements have been derived from the financial books and records of Seller and the Seller’s applicable Affiliates. Neither Seller nor any of Seller’s Affiliate (with respect to the Acquired Stores) has received any written notification from its independent accountants that Seller or any of Seller’s Affiliate (with respect to the Acquired Stores) has used any improper accounting practice that would have the effect of not reflecting or incorrectly reflecting in the books and records of Seller, any Affiliate of Seller (with respect to the Acquired Stores) or any of their subsidiaries any material properties, assets, liabilities, revenues, expenses, equity accounts or other accounts with respect to the Acquired Stores, except as has not had and would not reasonably be expected to have a Material Adverse Effect.

Section 3.05. Absence of Certain Changes or Events. Except as contemplated by this Agreement, since October 31, 2016 Seller has conducted business at the Acquired Stores and the Distribution Center in the ordinary course and there has not occurred any event that would materially impair or delay the ability of Seller to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements. Except as contemplated by this Agreement, since October 31, 2016, there has not occurred any event that has had or would reasonably be expected to have, a Material Adverse Effect.

Section 3.06. Absence of Litigation. Except for the FTC's review of the Rite Aid Acquisition and except as set forth on Section 3.06 of the Disclosure Schedule, as of the date of this Agreement there is no material Action pending or threatened in writing against Seller or any of its Affiliates (with respect to the Acquired Stores), at law or in equity or before any Governmental Authority, nor is there any material Action pending in which Seller or any of its Affiliates (with respect to the Acquired Stores) is the plaintiff or claimant, in each case, in respect of the Purchased Assets or the Assumed Liabilities. Except as set forth on Section 3.06 of the Disclosure Schedule, neither Seller nor any of Seller's Affiliates (with respect to the Acquired Stores) is a party or subject to or in default under any material unsatisfied judgment, penalty, settlement or award applicable to the Acquired Stores or the Distribution Center.

Section 3.07. Compliance with Laws. Except as set forth on Section 3.07 of the Disclosure Schedules, Seller and its Subsidiaries have not been since March 3, 2012, and are not in violation of, any Laws (other than any Environmental Laws, which are the subject of Section 3.14) or Governmental Orders applicable to the conduct of business at the Acquired Stores by it or by which any material Purchased Asset is bound or affected, except for violations the existence of which has not had and would not reasonably be expected to have, a Material Adverse Effect, and the Seller and its Subsidiaries have not received any written notice or, to the Knowledge of Seller, any other communication of any non-compliance with any such Laws, except for any such non-compliance that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 3.08. Governmental Licenses and Permits.

(a) Seller holds all governmental qualifications, registrations, filings, privileges, franchises, licenses, permits, approvals or authorizations, including Pharmacy Approvals that are necessary for the operation of business at the Acquired Stores and the Distribution Center as conducted on the date of this Agreement (" Permits "), except for those the absence of which has not had and would not reasonably be expected to have, a Material Adverse Effect (collectively, " Material Permits ").

(b) During the 24 months immediately preceding the date of this Agreement, neither Seller nor any of Seller's Affiliates (with respect to the Acquired Stores) has received written notice of any Action relating to the revocation or modification of any of the Material Permits. As of the date of this Agreement, no outstanding material violations are or have been recorded in respect of any of the Material Permits.

Section 3.09. Title to the Purchased Assets. Except for Liens created by or through Buyer or any of its Affiliates, the Purchased Assets are owned by or otherwise will be

made available as of the Closing (or the applicable Subsequent Closing or Distribution Center Closing) to Seller free and clear of all Liens (other than Permitted Liens) and Seller and its Affiliates will have good, valid and marketable title to all Purchased Assets.

Section 3.10. Taxes. Seller has, in respect of the business conducted at the Acquired Stores and the Purchased Assets, timely filed all material Tax Returns required to be filed with the appropriate Tax authorities in all jurisdictions in which such Tax Returns are required to be filed (taking into account any extension of time to file granted or to be obtained on behalf of Seller), and all Taxes shown to be payable on such Tax Returns have been paid. All monies required to be withheld by Seller from employees of the Acquired Stores and the Distribution Center for income Taxes and social security and other payroll Taxes have been collected or withheld, and either paid to the respective Tax authorities, set aside in accounts for such purpose, or accrued, reserved against and entered upon the books of the Acquired Stores and the Distribution Center.

Nothing in this Section 3.10 shall cause Seller to be liable for any Taxes for which Seller is not expressly liable pursuant to Section 5.07 (relating to liability for Taxes). This Section 3.10 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to Taxes.

Section 3.11. Employment and Employee Benefits Matters.

(a) Section 3.11(a) of the Disclosure Schedules sets forth a list of all material employee benefit plans (within the meaning of Section 3(3) of ERISA) and all material retirement, welfare benefit, bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree health or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, that are maintained, contributed to or sponsored by Seller or its respective Affiliates for the benefit of any employee of the Acquired Stores and the Distribution Center, other than governmental plans and Multiemployer Plans (the “Employee Plans”). No Employee Plans are sponsored or maintained by the Acquired Stores. Seller has provided Buyer with true and correct copies of all Employee Plans set forth on Section 3.11(a) of the Disclosure Schedules.

(b) No circumstance exists which would reasonably be expected to result in a material Liability to the Acquired Stores under ERISA other than Liabilities related to or arising out of any multiemployer plan (within the meaning of Section 3(37) of ERISA) subject to a CBA applicable to employees of the Acquired Stores (a “Multiemployer Plan”). Section 3.11(b) of the Disclosure Schedules sets forth a list of all Multiemployer Plans.

(c) Each Employee Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS that it is so qualified (or an application for such a determination letter has been filed and is pending), and, to the Knowledge of Seller, no fact or event has occurred since the date of such determination letter that would reasonably be expected to adversely affect such qualification.

(d) Each Employee Plan has been operated in all material respects in accordance with its terms and the requirements of all applicable Laws, other than

noncompliance which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(e) There are no material controversies pending or, to the Knowledge of Seller, threatened in connection with any Employee Plan that could reasonably be expected to have a Material Adverse Effect.

(f) Except as set forth on Section 3.11(f) of the Disclosure Schedules, Seller is not a party to any CBAs applicable to employees of the Acquired Stores or the Distribution Center. Seller has provided Buyer true and correct copies of all CBAs set forth on Section 3.11(f) of the Disclosure Schedules.

(g) Seller and its Affiliates are and have been in compliance, in all material respects, with all applicable Laws regarding employment, labor and wage and hour matters, including discrimination, sexual harassment, civil rights, immigration, safety and health, workers' compensation, classification of employees and independent contractors, classification of exempt and non-exempt status for overtime eligibility purposes, plant closing and layoff or other notices, including under the WARN Act, and the collection and payment of withholding taxes, Social Security taxes and similar Taxes, in each case other than noncompliance which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(h) This Section 3.11 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to employment and employee benefits matters.

Section 3.12. Real Property.

(a) Section 3.12(a) of the Disclosure Schedules sets forth a list of each parcel of real property owned by Seller or its Affiliates with respect to an Acquired Store and the Distribution Center (collectively, the "Owned Real Property") and the record owner thereof. Seller and its Affiliates have good, marketable and valid fee simple title to all of the Owned Real Property, free and clear of all Liens except for Permitted Liens.

(b) Section 3.12(b) of the Disclosure Schedules sets forth (i) a list of all leasehold interests with respect to the Acquired Stores and the Distribution Center in all real property (including with respect to any relocation site set forth on Section 3.12(b) of the Disclosure Schedules, the "Leased Real Property") and (ii) a list of all leases, subleases, licenses and other agreements for the use and occupancy by the Acquired Stores and the Distribution Center of the Leased Real Property (together with all modifications, amendments and supplements thereto, collectively, the "Acquired Leases"). Each Acquired Lease is a valid and binding obligation of Seller or one of its Affiliates, as applicable, is in full force and effect and is enforceable against such Person, as applicable, and, to the Knowledge of Seller, against the other parties thereto, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfers, or other similar Laws relating to or affecting creditors' rights generally now or hereafter in effect and

subject, as to enforceability, to any effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (i) as of the date hereof, neither the Seller nor any of Seller's Affiliates (with respect to the Acquired Stores) has received any written notice of any condemnation, requisition or taking by a Governmental Authority with respect to any Owned Real Property or Leased Real Property nor, to the Knowledge of Seller, has any such condemnation been threatened in writing, (ii) there are no unexpired option agreements, rights of first refusal or similar rights with respect to the Owned Real Property and (iii) none of Seller nor any of Seller's Affiliate (with respect to the Acquired Stores) is in default or breach of any Acquired Lease, and, to the Knowledge of Seller, no event has occurred which, with notice, lapse of time or both, would constitute a default or breach of any Acquired Lease by any of Seller nor any of Seller's Affiliates (with respect to the Acquired Stores).

Section 3.13. Inventory. The Inventory is of a quantity (including seasonal variations), quality and mix consistent with past practices and at levels historically maintained by Seller and necessary for the continued operation of the Acquired Stores as conducted on the date hereof and as of the Closing (or the applicable Subsequent Closing or Distribution Center Closing). Since December 31, 2015, the Inventory has been maintained in the ordinary course of business consistent with past practice. All such Inventory is owned free and clear of all Liens other than Permitted Liens and Liens described on Section 3.13 of the Disclosure Schedules. Substantially all of the Inventory to be transferred at Closing, each Subsequent Closing and the Distribution Center Closing will consist of, items of a quality usable or saleable in the ordinary course of business consistent with past practice and are and will be in quantities substantially sufficient for the normal operation of the Acquired Stores in accordance with past practice. The aggregate Inventory levels and prescription volumes in the Acquired Stores are not materially less than such levels and volumes, as applicable, at other retail and pharmacy stores of Seller and its Subsidiaries, taken together in the aggregate.

Section 3.14. Environmental Matters. Except as set forth on Section 3.14 of the Disclosure Schedules, each of Seller and Seller's applicable Affiliates, in each case with respect to the Purchased Assets or the Acquired Stores, (a) is in compliance in all respects with all applicable Environmental Laws and is not subject to any material liability under any Environmental Law; (b) has obtained, and is in compliance in all respects with, all Environmental Permits; (c) has not received written notice of, nor is a party to, any claim, demand or right relating to any Environmental Law or Remedial Action, in each case except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (d) there are no events or circumstances, including contamination, at any of the Owned Real Property or the real property subject to the Acquired Leases that would reasonably be expected to result in liability of Seller or any of its Affiliates (with respect to the Acquired Stores) relating to Hazardous Materials or any Environmental Laws, in each case except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth on Section 3.14 of the Disclosure Schedules, there has been no environmental investigation, study, audit, test, review or other analysis conducted within the past three (3) years that documents conditions giving rise to any material Environmental Liability in

connection with any property or facility leased by Seller in connection with the Acquired Stores or the Distribution Center. The representations and warranties contained in this Section 3.14 are the only representations and warranties being made with respect to compliance with or liability under Environmental Laws, including natural resources, related to the Acquired Stores, the Purchased Assets or Seller's ownership or operation thereof.

Section 3.15. Privacy and Data Security; Seller Rx Data. As of the date of this Agreement, the collection, use, transfer, import, export, storage, disposal, and disclosure by Seller of personally identifiable customer information, or other information relating to Persons protected by Law, has not violated in any material respect any applicable Law or any contractual obligation of Seller or Seller's Affiliates (with respect to the Purchased Assets) relating to the collection, use, privacy, security, or protection of such information (collectively, "Privacy and Security Laws"). Without limiting the generality of the foregoing, Seller is in compliance in all material respects with the privacy and security provisions of the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009. Seller has created and maintained written policies and procedures reasonably designed to protect the privacy and security of all customer information and to comply with all Privacy and Security Laws, and has implemented an information security program that includes commercially reasonable security procedures, including physical and electronic safeguards, to protect all customer information stored or transmitted by Seller in electronic form. Since January 1, 2013, there have been no material security breaches relating to, or violations of any privacy policy or security policy of Seller or Seller's Affiliates regarding, or any unauthorized access to or disclosure of, any data or information stored, transmitted or otherwise used by Seller (with respect to the Acquired Stores or the Distribution Center). Since October 31, 2016, Seller and its Subsidiaries have maintained the Seller Rx Data in all material respect in the ordinary course of business consistent with past practice.

Section 3.16. Compliance with Health Care Legal Requirements.

(a) Each Acquired Store is in compliance in all material respects with all the requirements for participation in and payment under the Medicare, Medicaid and other state or federal health care programs in which that Acquired Store participates (collectively "Programs") and is a party to valid participation agreements for payment by such Programs if that Acquired Store bills a particular Program for payment or is otherwise required to meet such requirements. Seller has not received any written notice indicating that the enrollment or participation of any such Acquired Store in a Program may be terminated or withdrawn.

(b) To the Knowledge of Seller, no Business Employee has been convicted of or charged with a Medicare, Medicaid or other Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)) related offense, or convicted of or charged with or investigated for a violation of federal or state law relating to fraud, theft, embezzlement, breach of fiduciary responsibility, financial misconduct, obstruction of an investigation or controlled substances. To the Knowledge of Seller, no Business Employee has been excluded or suspended from participation in Medicare, Medicaid or any other Federal Health Care Program, or has been debarred, suspended or are otherwise ineligible to participate in federal programs. To the Knowledge of Seller, neither Seller nor any of Seller's Affiliates has contracted on behalf of the

Acquired Stores with any individual or entity that is suspended, excluded or debarred from participation in, or otherwise ineligible to participate in, a Federal Health Care Program.

(c) Except as set forth on Section 3.16(c) of the Disclosure Schedules, Seller is not a party to any corporate integrity agreements, monitoring agreements, consent decrees, settlement orders or similar agreements with or imposed by any Governmental Authority with regard to the operation of the Acquired Stores.

Section 3.17. Brokers. Except for Bank of America Merrill Lynch, Inc. (who has been engaged by Parent), no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission from Seller or any of its Affiliates in connection with the sale of the Acquired Stores based upon arrangements made by or on behalf of Seller or any of its Affiliates.

Section 3.18. Condition and Sufficiency of Purchased Assets. The buildings, structures, furniture, fixtures, machinery, equipment, and other items of tangible personal property included in the Purchased Assets are, in all material respects, structurally sound, are in good operating condition and repair except for ordinary wear and tear, and are adequate for the uses to which they are presently used, and none of such buildings, structures, furniture, fixtures, machinery, equipment, and other items of tangible personal property is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. Except as set forth on Section 3.18 of the Disclosure Schedules, except for the Excluded Assets and except as is not material and adverse to the Purchased Assets, the Assumed Liabilities and to the business and operations at the Acquired Stores (taken as a whole), the Purchased Assets, when taken together with the rights of Buyer under the Transition Services Agreement constitute all of the rights, property and assets necessary to conduct such business in substantially the same manner as currently conducted.

Section 3.19. No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT (AS MODIFIED BY THE DISCLOSURE SCHEDULES), IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO AND IN THE ANCILLARY AGREEMENTS, NEITHER SELLER NOR ANY OTHER PERSON MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WITH RESPECT TO SELLER, THE PROBABLE SUCCESS OR PROFITABILITY OF THE ACQUIRED STORES, THE PURCHASED ASSETS, THE ACQUIRED STORES OR THE TRANSACTIONS CONTEMPLATED BY THE TRANSACTION AGREEMENTS, THE ASSUMED LIABILITIES OR ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AND SELLER DISCLAIMS ANY OTHER REPRESENTATIONS, WARRANTIES, FORECASTS, PROJECTIONS, STATEMENTS OR INFORMATION, WHETHER MADE BY SELLER OR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES. SELLER MAKES NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE BUYER'S BUSINESS OR ANY AGREEMENTS OR OTHER RELATIONSHIPS BETWEEN SELLER AND ITS AFFILIATES AND THE BUYER AND ITS AFFILIATES, OTHER THAN WITH RESPECT TO THE ANCILLARY AGREEMENTS. NEITHER SELLER NOR ANY OF ITS AFFILIATES WILL HAVE LIABILITY TO BUYER OR ANY OTHER PERSON

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RESULTING FROM THE DISTRIBUTION TO BUYER, OR BUYER'S USE OF ANY INFORMATION PROVIDED TO BUYER OR ANY OF ITS REPRESENTATIVES BY SELLER OR ANY OF ITS AFFILIATES OR REPRESENTATIVES, INCLUDING ANY INFORMATION, DOCUMENTS, PROJECTIONS, FORECASTS OR OTHER MATERIAL MADE AVAILABLE TO BUYER OR ITS REPRESENTATIVES IN ANY "DATA ROOMS" (VIRTUAL OR OTHERWISE), MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM IN EXPECTATION OF, OR IN CONNECTION WITH, THE TRANSACTIONS CONTEMPLATED HEREBY, OR IN RESPECT OF ANY OTHER MATTER OR THING WHATSOEVER (ELECTRONIC OR OTHERWISE) OR OTHERWISE IN EXPECTATION OF THE TRANSACTIONS CONTEMPLATED HEREBY. BUYER ACKNOWLEDGES AND AGREES THAT NO REPRESENTATIVE OR AFFILIATE OF SELLER HAS ANY AUTHORITY, EXPRESS OR IMPLIED, TO MAKE ANY REPRESENTATIONS, WARRANTIES OR AGREEMENTS NOT SPECIFICALLY SET FORTH IN THIS AGREEMENT OR IN ANY OTHER TRANSACTION AGREEMENT AND SUBJECT TO THE LIMITED REMEDIES HEREIN PROVIDED. OTHER THAN THE SPECIFIC REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO OR IN THE ANCILLARY AGREEMENTS, BUYER SPECIFICALLY DISCLAIMS THAT IT IS RELYING UPON OR HAS RELIED UPON ANY OTHER REPRESENTATIONS OR WARRANTIES THAT MAY HAVE BEEN MADE BY ANY PERSON, AND ACKNOWLEDGES AND AGREES THAT SELLER AND ITS AFFILIATES HAVE SPECIFICALLY DISCLAIMED AND DO HEREBY SPECIFICALLY DISCLAIM ANY SUCH OTHER REPRESENTATION OR WARRANTY MADE BY ANY PERSON. BUYER SPECIFICALLY DISCLAIMS ANY OBLIGATION OR DUTY BY SELLER OR ANY OF ITS AFFILIATES TO MAKE ANY DISCLOSURES OF FACT NOT REQUIRED TO BE DISCLOSED PURSUANT TO THE SPECIFIC REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO OR IN THE ANCILLARY AGREEMENTS.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as follows:

Section 4.01. Organization and Authority of Buyer. Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation and has all necessary limited liability company power to enter into the Transaction Agreements and to consummate the transactions contemplated by, and to carry out its obligations under, the Transaction Agreements. The execution and delivery of the Transaction Agreements by Buyer, the consummation by Buyer of the transactions contemplated by, and the performance by Buyer of its obligations under, the Transaction Agreements have been duly authorized by all requisite limited liability company action on the part of Buyer. This Agreement has been, and upon execution and delivery the other Ancillary Agreements to which Buyer is a party will be, duly executed and delivered by Buyer, and (assuming due authorization,

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execution and delivery by Seller) this Agreement constitutes, and upon execution and delivery the other Ancillary Agreements will constitute, legal, valid and binding obligations of Buyer enforceable against Buyer in accordance with their terms, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfers, or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.02. Qualification of Buyer. Buyer has all necessary limited liability company power and authority to operate its business as now conducted. Buyer is duly qualified as a foreign limited liability company to do business and, to the extent legally applicable, is in good standing in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary, except for jurisdictions where the failure to be so qualified or in good standing would not impair or delay the ability of Buyer to consummate the transactions contemplated by, or perform its obligations under, the Transaction Agreements.

Section 4.03. No Conflict. Provided that all consents, approvals, authorizations and other actions described in Section 4.04 have been obtained or taken, except as may result from any facts or circumstances relating to Seller, the execution, delivery and performance by Buyer of, and the consummation by Buyer of the transactions contemplated by, the Transaction Agreements do not and will not (a) violate or conflict with the Articles of Organization, Operating Agreement or similar organizational documents of Buyer, (b) conflict with or violate any Law or Governmental Order applicable to Buyer or (c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Lien (other than a Permitted Lien) on any of the assets or properties of Buyer pursuant to, any note, bond, mortgage, indenture, Contract, Permit or other material instrument to which Buyer is a party or by which any of such assets or properties is bound or affected, except, in the case of clauses (b) and (c), any such conflicts, violations, breaches, defaults, rights or Liens as would not impair or delay the ability of Buyer to consummate the transactions contemplated by, or perform its obligations under, the Transaction Agreements.

Section 4.04. Consents and Approvals. The execution and delivery by Buyer of the Transaction Agreements do not, and the performance by Buyer of, and the consummation by Buyer of the transactions contemplated by, the Transaction Agreements will not, require any material consent, approval, authorization or other action by, or any material filing with or notification to, any Governmental Authority, except (a) where the failure to obtain such consent, approval, authorization or action, or to make such filing or notification, would not prevent or materially delay Buyer from consummating the transactions contemplated by or performing any of its material obligations under the Transaction Agreements, (b) as may be necessary as a result of any facts or circumstances relating to Seller or its Affiliates or (c) in connection, or in compliance, with the Proposed Consent Order, the Rite Aid Consent Order, or other requests or requirements of the FTC or FTC Staff.

Section 4.05. Absence of Litigation; Compliance with Laws. As of the date of this Agreement, there is no Action pending or, to the best knowledge of Buyer, threatened in writing against Buyer, nor is there any Action pending in which Buyer is the plaintiff or claimant, that would reasonably be expected to impair or materially delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

Section 4.06. Absence of Restraints; Compliance With Laws.

(a) To the best knowledge of Buyer, there exist no facts or circumstances that would reasonably be expected to impair or delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

(b) Buyer is not in violation of any Laws or Governmental Orders applicable to it or by which any of its material assets is bound or affected, except for violations the existence of which would not reasonably be expected to impair or delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements on a timely basis.

Section 4.07. Financial Ability.

(a) Fred's has received and accepted an executed revolver loan commitment letter (the "Revolver Loan Debt Commitment Letter") and a term loan commitment letter (the "Term Loan Debt Commitment Letter", and together with the Revolver Loan Debt Commitment Letter, the "Debt Commitment Letters"), each dated as of the date hereof from the lenders party thereto (collectively, with their respective successors or assigns, the "Lenders") relating to the commitment of the Lenders to provide the full amount of the debt financing required to consummate the transactions contemplated by the Transaction Agreements on the terms contemplated thereby, and in each case to pay related fees and expenses. The debt financing required to consummate the transactions contemplated by the Transaction Agreements and to pay related fees and expenses is collectively referred to in this Agreement as the "Debt Financing." Fred's has delivered to Parent true and complete copies of each Debt Commitment Letter and true and complete copies of any fee letter (collectively, the "Fee Letter") (with only the fee amounts, the "flex" provisions and pricing caps (none of which individually or in the aggregate would reduce the amount of the Debt Financing or adversely affect the availability of the Debt Financing or delay or prevent the Closing or make the funding of the Debt Financing less likely to occur) redacted) relating to the Debt Commitment Letters and any engagement letters or other agreements relating to the Debt Financing.

(b) Except as set forth in the Debt Commitment Letters, there are no conditions precedent to the obligations of the Lenders and the Debt Financing to provide the Debt Financing or any contingencies that would permit the Lenders or the Debt Financing to reduce the total amount of the Debt Financing.

(c) Subject to its terms and conditions, the Debt Financing, when funded in accordance with the Debt Commitment Letters, will provide Fred's with acquisition financing on each of the Closing Date, each Subsequent Closing Date and the Distribution Center Closing

Date, in each case sufficient to consummate the transactions contemplated by the Transaction Agreements on the terms contemplated thereby and to pay all related fees and expenses.

(d) As of the date of this Agreement, each of the Debt Commitment Letters is valid, binding and in full force and effect and no event has occurred that, with or without notice, lapse of time, or both, would reasonably be expected to constitute a default or breach or an incurable failure to satisfy a condition precedent on the part of Buyer under the terms and conditions of such Debt Commitment Letter, other than any such default, breach or failure that has been waived by the Lenders or otherwise cured in a timely manner by Buyer to the satisfaction of the Lenders. As of the date of this Agreement, Buyer has paid in full any and all commitment fees or other fees required to be paid pursuant to the terms of each Debt Commitment Letter on or before the date of this Agreement. There are no side letters or other Contracts or arrangements (except for any fee letters, engagement letters with respect to the Debt Financing and any other agreements, each of which has been delivered to Parent) relating to the Debt Financing. Assuming the performance in all material respects by Seller and Parent of its obligations under this Agreement, Buyer has no reason to believe that it or any Lender would be unable to satisfy on a timely basis any term or condition of the Debt Financing required to be satisfied by it. Buyer has fully paid any and all commitment fees or other fees required by the Debt Financing to be paid on or before the date of this Agreement.

Section 4.08. Solvency. Immediately after giving effect to the consummation of the transactions contemplated by the Transaction Agreements (including any financings being entered into in connection therewith):

- Liabilities;
- (a) the fair saleable value (determined on a going concern basis) of the assets of Buyer will be greater than the total amount of its
 - (b) Buyer will be able to pay its respective debts and obligations in the ordinary course of business as they become due; and
 - (c) Buyer will have adequate capital to carry on its respective businesses and all businesses in which it is about to engage.

Section 4.09. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer.

Section 4.10. Investigation. BUYER ACKNOWLEDGES AND AGREES THAT IT (I) HAS MADE ITS OWN INQUIRY AND INVESTIGATION INTO, AND, BASED THEREON, HAS FORMED AN INDEPENDENT JUDGMENT CONCERNING SELLER, THE PURCHASED ASSETS, THE BUSINESS AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, THE ASSUMED LIABILITIES AND ANY OTHER ASSETS, RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AND (II) HAS BEEN FURNISHED WITH, OR GIVEN ADEQUATE ACCESS TO, SUCH INFORMATION ABOUT THE PURCHASED ASSETS, THE BUSINESS, THE ASSUMED LIABILITIES AND ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AS IT

HAS REQUESTED. BUYER FURTHER ACKNOWLEDGES AND AGREES THAT (I) THE ONLY REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS MADE BY SELLER ARE THE REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS MADE IN THIS AGREEMENT AND THE ANCILLARY AGREEMENTS AND BUYER HAS NOT RELIED UPON ANY OTHER REPRESENTATIONS OR OTHER INFORMATION MADE OR SUPPLIED BY OR ON BEHALF OF SELLER OR BY ANY AFFILIATE OR REPRESENTATIVE OF SELLER, INCLUDING ANY INFORMATION PROVIDED BY OR THROUGH MANAGEMENT PRESENTATIONS, DATA ROOMS (VIRTUAL OR OTHERWISE) OR OTHER DUE DILIGENCE INFORMATION AND THAT BUYER WILL NOT HAVE ANY RIGHT OR REMEDY ARISING OUT OF ANY SUCH REPRESENTATION OR OTHER INFORMATION, (II) ANY CLAIMS BUYER MAY HAVE FOR BREACH OF A REPRESENTATION OR WARRANTY SHALL BE BASED SOLELY ON THE REPRESENTATIONS AND WARRANTIES OF SELLER SET FORTH IN ARTICLE III HEREOF (AS MODIFIED BY THE DISCLOSURE SCHEDULES) AND (III) EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, BUYER SHALL ACQUIRE THE PURCHASED ASSETS, THE BUSINESS AND THE ASSUMED LIABILITIES WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO MERCHANTABILITY, SATISFACTORY QUALITY OR FITNESS FOR ANY PARTICULAR PURPOSE, IN “AS-IS” CONDITION AND ON A “WHERE-IS” BASIS.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.01. Conduct of Business Prior to the Applicable Closing. Except as otherwise required by applicable Law or as contemplated by or necessary to effectuate the Transaction Agreements and except for matters identified in Section 5.01 of the Disclosure Schedules, from the date of this Agreement through the Closing (and, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing), unless Buyer otherwise consents in advance (which consent shall not be unreasonably withheld, conditioned or delayed), Seller shall, and shall cause its Affiliates to, conduct its business at the Acquired Stores and the Distribution Center in the ordinary course of business (including regular repair and maintenance efforts) and use its commercially reasonable efforts to preserve intact its business organization, maintain the viability, marketability and competitiveness of the Purchased Assets and to preserve the current significant business relationships with Business Employees, suppliers and customers of the Acquired Stores. Nothing in this Section 5.01 shall be deemed to limit the transfer of Excluded Assets prior to the Closing (or, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing) or the conduct by Seller of its other businesses to the extent unrelated to the Acquired Stores or the Distribution Center. Without limiting the generality of the foregoing, except as required by applicable Law or as otherwise contemplated by or necessary to effectuate the Transaction Agreements and except for matters identified in Section 5.01 of the Disclosure Schedules, unless Buyer otherwise consents in advance (which consent shall not be unreasonably withheld, conditioned or delayed) Seller shall

not and Seller shall cause its Affiliates (with respect to the Acquired Stores) to not from the date hereof until the Closing (and, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing):

- (a) except in the ordinary course of business, grant any Lien (other than a Permitted Lien) on any Purchased Asset (whether tangible or intangible);
- (b) with respect to the Acquired Stores or the Distribution Center, incur any debt, issue any debt securities or assume, grant, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans or advances (other than in the ordinary course of business);
- (c) close any Acquired Store or sell, transfer, lease, sublease or otherwise dispose of any of the Purchased Assets other than sales of Inventory and obsolete or excess equipment sold or disposed of in the ordinary course of business;
- (d) enter into any Contract for the purchase of real property;
- (e) (i) enter into, amend, renew or modify any Acquired Lease or Contract that would be an Acquired Lease if in effect on the date of this Agreement (other than any amendment, renewal or modification that does not change the economic terms of such Acquired Lease or such Contract in a way detrimental to Seller or Buyer) or (ii) consent to the termination of (other than a termination in accordance with its terms) any Acquired Lease or Contract permitted under this Section 5.01 to be entered into on or following the date hereof that would be an Acquired Lease if in effect on the date of this Agreement; provided, however that Seller shall notify Buyer in writing in advance of the occurrence of any of the foregoing;
- (f) manage the levels and selections of Inventory with respect to the Acquired Stores in a manner other than in the ordinary course of business consistent with past practice;
- (g) (A) grant any material increase, or announce any material increase, in the wages, salaries, compensation, bonuses, incentives, pension or other benefits payable to any Transferred Employee, including any material increase or material change pursuant to any Employee Plan; (B) establish or increase or promise to increase in any material respect any benefits under any Employee Plan, in either case except in the ordinary course of business, consistent with past practice or as required by Law, the terms of any Employee Plan as in effect on the date hereof or any Contract (including any CBAs) or involving increases in the ordinary course of business, including any changes to pension or other benefits that are applicable to the employees of the Acquired Stores and Seller generally; (C) intentionally materially and adversely alter the working conditions, staffing levels and training of employees at the Acquired Stores or the Distribution Center; or (D) with respect to the Acquired Stores and the Distribution Center, fail to use commercially reasonable efforts to retain employees and replace employees when vacancies occur in the ordinary course of business, consistent with past practice;

- (h) make any change in any method of accounting or accounting practice or policy used by the Acquired Stores in the preparation of its financial statements, other than such changes as are consistent with the Transaction Accounting Principles or changes required by U.S. GAAP or otherwise applying generally to Seller;
- (i) terminate, waive, modify or fail to renew any existing Pharmacy Approval or other Material Permit, except in the ordinary course of the business;
- (j) acquire, by merger or consolidation with, or by purchase of all or a substantial portion of the assets or equity of, or by any other manner, any business or entity which would constitute a Purchased Asset or Assumed Liability;
- (k) waive any claim or compromise, settle or agree to settle any Action related to the Acquired Stores or the Distribution Center, unless such settlement only involves payment of money or remediation actions that do not create a material limitation, restriction, or obligation on the Material Permits;
- (l) display any signs or conduct any advertising (e.g., direct mailing, point-of-purchase coupons) that indicates that Seller or any of Seller's Affiliates is moving its operations at any of the Acquired Stores to another location or indicating that such Acquired Store will close;
- (m) conduct any "going out of business," "close-out," "liquidation," or similar sales or promotions at or relating to any Acquired Store; or
- (n) enter into any legally binding commitment with respect to any of the foregoing.

Section 5.02. Access to Information.

(a) From the date of this Agreement until the Closing Date (and, with respect to the Acquired Stores to be transferred at each Subsequent Closing, each Subsequent Closing Date and the Distribution Center to be transferred at the Distribution Center Closing Date, the Distribution Center Closing), upon reasonable prior notice, and except as determined in good faith to be appropriate to ensure compliance with any applicable Laws and subject to any applicable privileges (including the attorney-client privilege) and contractual confidentiality obligations, Seller shall, and shall cause its Affiliates and Representatives to

- (i) afford the Representatives of Buyer reasonable access, during normal business hours, to the offices, properties, books and records of the Acquired Stores;
- (ii) furnish to the Representatives of Buyer such additional financial and operating data and other information regarding the Acquired Stores as Buyer may from time to time reasonably request; and
- (iii) make available to the Representatives of Buyer and its Affiliates those employees of Seller and its Affiliates whose assistance, expertise, testimony, notes and recollections or presence may be necessary to assist Buyer, its Affiliates or its or their respective Representatives in connection with its inquiries, including the presence of such persons as witnesses in hearings or trials for such purposes provided, however, that such investigation shall not unreasonably interfere with any of the businesses or operations of Seller or any of its Affiliates; and provided, further, that the

auditors and accountants of Seller or any of its Affiliates shall not be obliged to make any work papers available to any Person unless and until such Person has signed a customary agreement relating to such access to work papers in form and substance reasonably acceptable to such auditors or accountants. If so requested by Seller, Buyer shall enter into a customary joint defense agreement with Seller with respect to any information to be provided to Buyer pursuant to this Section 5.02(a).

(b) In addition to the provisions of Section 5.03, from and after the Closing Date, in connection with any reasonable business purpose, including the preparation of Tax Returns, claims relating to Excluded Liabilities, financial statements, or the determination of any matter relating to the rights or obligations of Seller or any of its Affiliates under any of the Transaction Agreements, upon reasonable prior notice, and except as determined in good faith to be necessary to (i) ensure compliance with any applicable Law, (ii) preserve any applicable privilege (including the attorney-client privilege), or (iii) comply with any contractual confidentiality obligations, Buyer shall, and shall cause its Affiliates and its Representatives to, (A) afford the Representatives of Seller and its Affiliates reasonable access, during normal business hours, to the offices, properties, books and records of Buyer and its Affiliates in respect of the Acquired Stores and the Purchased Assets (and related Liabilities), (B) furnish to the Representatives of Seller and its Affiliates such additional financial and other information regarding the Acquired Stores and the Purchased Assets (and related Liabilities) as Seller or its Representatives may from time to time reasonably request and (C) make available to the Representatives of Seller and its Affiliates those employees of Buyer and its Affiliates whose assistance, expertise, testimony, notes and recollections or presence may be necessary to assist Seller, its Affiliates or its or their respective Representatives in connection with its inquiries for any of the purposes referred to above, including the presence of such persons as witnesses in hearings or trials for such purposes; provided, however, that such investigation shall not unreasonably interfere with the business or operations of Buyer or any of its Affiliates; provided, further, that the auditors and accountants of Buyer or its Affiliates shall not be obligated to make any work papers available to any Person except in accordance with such auditors' and accountants' normal disclosure procedures and then only after such Person has signed a customary agreement relating to such access to work papers in form and substance reasonably acceptable to such auditors or accountants. If so requested by Buyer, Seller or one of its Affiliates shall enter into a customary joint defense agreement with Buyer and its Affiliates with respect to any information to be provided to Seller pursuant to this Section 5.02(b).

(c) Notwithstanding anything in this Agreement to the contrary, no Party hereto shall be required, prior to the Closing, to disclose, or cause the disclosure of, to any other Party or its Affiliates or its or their Representatives (or provide access to any offices, properties, books or records of such Party or any of their Affiliates that could result in the disclosure to such persons or others of) any confidential information relating to trade secrets, proprietary know-how, processes or patent, trademark, trade name, service mark or copyright applications or product development, or pricing and marketing plans, nor shall any Party be required to permit or cause others to permit any other Party or its Affiliates or Representatives to have access to or to copy or remove from the offices or properties of such Party or any of its

Affiliates any documents, drawings or other materials that might reveal any such confidential information.

Section 5.03. Preservation of Books and Records. Parent and its Affiliates shall have the right to retain copies of all books and records of the Acquired Stores relating to periods ending on or prior to the Closing Date. Buyer agrees that it shall preserve and keep, or cause to be preserved and kept, all original books and records in respect of the Acquired Stores in the possession of Buyer or its Affiliates for the longer of (a) any applicable statute of limitations and (b) a period of seven (7) years from the final Subsequent Closing Date. During such period, (x) Representatives of Seller and its Affiliates shall, upon reasonable notice and for any reasonable business purpose, have access during normal business hours to examine, inspect and copy such books and records and (y) Buyer shall provide, or cause to be provided to, Seller or its Affiliates, access to such original books and records of the Acquired Stores as Seller or its Affiliates shall reasonably request in connection with any Action to which Seller or any of its Affiliates are parties or in connection with the requirements of any Law applicable to Seller or any of its Affiliates. Seller or its Affiliates, as applicable, shall return such original books and records to Buyer as soon as such books and records are no longer needed in connection with the circumstances described in the immediately preceding sentence. After such seven-year or longer period, before Buyer or any of its Affiliates shall dispose of any of such books and records, Buyer shall give at least ninety (90) days' prior written notice of such intention to dispose to Seller, and Seller or any of its Affiliates shall be given an opportunity, at its cost and expense, to remove and retain all or any part of such books and records as it may elect. If so requested by Buyer, Seller or any of its Affiliates shall enter into a customary joint defense agreement with Buyer or its Affiliates with respect to any information to be provided to Seller or its Affiliates pursuant to this Section 5.03.

Section 5.04. Confidentiality. The confidentiality obligations of that certain letter agreement dated as of August 17, 2016 (the "Confidentiality Agreement") between Buyer, Seller and Parent are incorporated into this Agreement by reference and shall continue in full force and effect until the later of the final Subsequent Closing and the Distribution Center Closing, at which time the confidentiality obligations under the Confidentiality Agreement shall terminate; provided, however, that Buyer's confidentiality obligations shall terminate only in respect of that portion of the confidential material subject to the terms of the Confidentiality Agreement and exclusively relating to the Acquired Stores that is the subject of the transactions contemplated by this Agreement, and Buyer's other obligations under the Confidentiality Agreement shall continue in full force and effect in accordance with the terms thereof. If, for any reason, the sale of the Purchased Assets is not consummated, the Confidentiality Agreement shall nonetheless continue in full force and effect.

Section 5.05. Regulatory and Other Authorizations; Consents.

(a) Each of Fred's and Buyer shall use its reasonable best efforts, and shall cause its Affiliates to use their respective reasonable best efforts, to (i) promptly obtain all authorizations, consents, orders and approvals of all Governmental Authorities that may be, or become, necessary for its execution and delivery of, performance of its obligations pursuant to, and consummation of the transactions contemplated by, the Transaction Agreements (including Pharmacy Approvals), (ii) take all such actions as may be requested by any such Governmental

Authority to obtain such authorizations, consents, orders and approvals and (iii) avoid the entry of, or effect the dissolution of, any decree, order, judgment, injunction, temporary restraining order or other order in any suit or proceeding, that would otherwise have the effect of preventing or materially delaying the consummation of the transactions contemplated by the Transaction Agreements. Except as permitted by Article VIII, none of Parent, Seller nor each of Fred's and Buyer nor their respective Affiliates shall take any action that would reasonably be expected to have the effect of delaying, impairing or impeding the receipt of any required authorizations, consents, orders or approvals.

(b) Each party to this Agreement shall promptly notify the other party of any oral or written communication it receives from any Governmental Authority relating to the matters that are the subject of this Agreement, permit the other party to review in advance any communication proposed to be made by such party to any Governmental Authority and provide the other party with copies of all correspondence, filings or other communications between them or any of their Representatives, on the one hand, and any Governmental Authority or members of its staff, on the other hand, subject to Section 5.02(c). No party to this Agreement shall agree to participate in any meeting or discussion with any Governmental Authority in respect of any such filings, investigation or other inquiry unless it consults with the other party in advance. Subject to the Confidentiality Agreement and to Section 5.02(c), the parties to this Agreement will coordinate and cooperate fully with each other in exchanging such information and providing such assistance as the other party may reasonably request in connection with the foregoing.

(c) Each of Parent and Seller shall use its commercially reasonable efforts to give all notices to, and obtain all consents from, all landlords party to the Acquired Leases, and Parent shall bear the costs of any payments made to landlords party to the Acquired Leases in connection therewith. Upon request from Parent or Seller, Fred's agrees to provide a guarantee of Buyer's obligations under any or all of the Acquired Leases in form and substance reasonably satisfactory to the landlord party to such Acquired Lease and Parent. Each of Parent and Seller shall provide commercially reasonable cooperation and assistance to Buyer and its Affiliates and Representatives with Buyer's timely preparation and submission of any request or application for any consent or approval required of Buyer, including the Pharmacy Approvals and any consent or approval with respect to any Government Program. Fred's and Buyer shall collectively be solely responsible for all filing fees and other costs associated with such requests and applications, including attorney fees and other costs incurred by Fred's and Buyer in connection with the preparation of such requests and applications.

(d) Each of Fred's and Buyer understands that Fred's and Buyer, and this Agreement are subject to the prior approval of the FTC and that Parent is entering into this Agreement to obtain FTC approval for the Proposed Consent Order in connection with the Rite Aid Acquisition. Each of Fred's and Buyer, as promptly as practicable after the date hereof (to the extent Fred's and Buyer have not already completed the following activities), will (i) prepare and furnish all necessary information and documents reasonably requested by the FTC, (ii) use reasonable best efforts to demonstrate to the FTC that each of Fred's and Buyer is an acceptable purchaser of the Purchased Assets and that Fred's and Buyer will compete effectively using the Purchased Assets, and (iii) reasonably cooperate with Parent and Seller in

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obtaining all FTC approvals. Nothing in this Agreement shall prevent Parent or Seller from complying with the Proposed Consent Order and neither Parent nor Seller shall be considered in breach of this Agreement for taking actions to comply with the Proposed Consent Order. Each party shall promptly notify the other parties of any communication (including oral communications) it or any of its Affiliates receives from the FTC relating to the matters that are the subject of this Agreement and consult with each other in advance of any proposed communication by the receiving party to the FTC. Each of Fred's and Buyer shall use reasonable best efforts to obtain, and agrees to take all reasonable actions that Parent reasonably requests in order to assist Parent in obtaining, FTC approvals for Fred's and Buyer, this Agreement, the Ancillary Agreements and the Rite Aid Acquisition. Parent, Seller, Fred's and Buyer shall promptly notify each other upon the occurrence (or reasonably impending occurrence) of any of the following events: (i) either Fred's or Buyer is not (or will not be) preliminarily approved by the FTC or other necessary Governmental Authority as a purchaser of the Purchased Assets hereunder; (ii) the FTC Staff informs Parent, Seller, Fred's or Buyer that the FTC Staff will not recommend approval of Fred's or Buyer as purchaser of the Purchased Assets hereunder; (iii) the FTC Staff informs Parent, Fred's or Buyer that the FTC Staff will require the transfer to Fred's or Buyer hereunder of any asset other than the Purchased Assets specified in Section 2.01 or that the FTC Staff will prohibit the transfer to Fred's and Buyer hereunder of any such Purchased Asset; or (iv) the FTC Staff informs Parent or Seller that it has or will approve another buyer for Purchased Assets other than Fred's and Buyer.

(e) With respect to any changes, amendments, modifications or waivers to this Agreement requested by the FTC, each of Fred's, Buyer, Parent and Seller agrees to negotiate in good faith with the other party any such change, amendment, modification or waiver, and to the extent that the FTC requires the divestiture of additional pharmacy and retail stores of Seller in connection with the Proposed Consent Order and Parent agrees to sell such pharmacy and retail stores, in which case such stores shall be "Acquired Stores" and each of Fred's and Buyer agrees to purchase all assets of Seller and its Affiliates that will become Purchased Assets and assume all liabilities that will become Assumed Liabilities by virtue of such stores becoming Acquired Stores, in each case, at a purchase price determined in accordance with the pricing methodology set forth on Section 5.05(e) of the Disclosure Schedules as applicable to the Acquired Stores as of the date hereof and the calculation of the amounts payable pursuant to Section 2.12 shall be modified accordingly. In addition, "Acquired Stores" shall be deemed to include such stores, "Purchased Assets" shall be deemed to include such assets and "Assumed Liabilities" shall be deemed to include such liabilities, with the provisions of this Agreement to apply mutatis mutandis to such stores, assets and liabilities.

Section 5.06. Use of Names. Except as expressly set forth in Section 2.01, neither Parent nor Seller is conveying ownership rights or granting Buyer or its Affiliates a license to use any of the tradenames, service marks or trademarks of Seller or any Affiliate of Seller (collectively, the "Retained Names and Marks") and, after the Closing, Buyer and its Affiliates shall not use in any manner the names or marks of Seller or any Affiliate of Seller or any word that is similar in sound or appearance to such names or marks, except (i) the Intellectual Property set forth on Section 2.01(l) of the Disclosure Schedules or as otherwise provided in this Section 5.06, (ii) the sale of any Inventory under a label owned by Seller, and (iii) as would constitute nominative fair use or otherwise be permitted under applicable Law. In

the event Buyer or any Affiliate of Buyer violates any of its obligations under this Section 5.06, Seller and its Affiliates may proceed against it in Law or in equity for such damages or other relief as a court may deem appropriate. Buyer acknowledges that a violation of this Section 5.06 may cause Seller and its Affiliates irreparable harm which may not be adequately compensated for by money damages. Buyer therefore agrees that in the event of any actual or threatened violation of this Section 5.06, Seller and its Affiliates shall be entitled, in addition to other remedies that they may have, to seek a temporary restraining order and to seek preliminary and final injunctive relief against Buyer or such Affiliate of Buyer to prevent any violations of this Section 5.06, without the necessity of posting a bond.

Section 5.07. Taxes.

(a) Liability for Taxes. Seller shall be liable for and shall pay all Taxes imposed with respect to the conduct of the business of the Acquired Stores or the ownership or use of the Purchased Assets at or prior to the Closing (or each Subsequent Closing or Distribution Center Closing, as applicable); provided, however, that Seller shall not be liable for or pay Transfer Taxes described in Section 5.07(b). Buyer shall be liable for and shall pay all Taxes imposed with respect to the conduct of the business of the Acquired Stores or the ownership or use of the Purchased Assets after the Closing (or each Subsequent Closing Date or Distribution Center Closing, as applicable). Notwithstanding anything to the contrary in this Section 5.07, the provisions of Section 2.11 (Prorations) shall control with respect to the Tax matters addressed therein.

(b) Notwithstanding Section 5.07(a), any sales Tax, use Tax, real property transfer Tax, documentary stamp Tax or similar Tax attributable to the sale or transfer of the Acquired Stores or the Purchased Assets (collectively, the “Transfer Taxes”) shall be split equally by Seller and Buyer (Seller’s portion of which shall be “Seller’s Allocable Portion”). Buyer will pay all Transfer Taxes other than Seller’s Allocable Portion. Buyer will timely file all necessary Tax Returns with respect to the Transfer Taxes, provided that Seller will file any Tax Returns with respect to the Transfer Taxes that Seller is required to file under Law. Each Party will afford the other Party a reasonable opportunity to review and comment upon tax information required to be included in such Tax Returns prior to filing and will strive to incorporate reasonable good faith comments of the other Party into such Tax Returns. Each of Buyer and Seller agrees to timely sign and deliver such certificates or forms as may be reasonably necessary or appropriate to establish an exemption from (or otherwise reduce) Taxes described in this Section 5.07(b).

(c) Seller, on the one hand, or Buyer on the other hand, as the case may be, shall provide reimbursement for any Tax paid by one party all or a portion of which is the responsibility of the other party in accordance with the terms of this Section 5.07. Within a reasonable time prior to the payment of any such Tax, the party paying such Tax shall give notice to the other party of the Tax payable and the portion which is the liability of each party, although failure to do so will not relieve the other party from its liability hereunder.

(d) Buyer shall promptly notify Seller in writing upon receipt by Buyer or any of its Affiliates of notice of any pending or threatened federal, state, local or foreign Tax audits, examinations or assessments which may materially affect the amount of any Tax which is, in

whole or in part, an Excluded Liability. Notwithstanding anything to the contrary in Section 9.03, Seller shall have the sole right to control any Tax audit or administrative or court proceeding relating to any Tax which is, in whole or in part, an Excluded Liability and to employ counsel of its choice at its expense. Neither Buyer nor any of its Affiliates may settle any Tax claim relating in whole or in part to any Tax which is an Excluded Liability without the prior written consent of Seller, which consent may be withheld in the sole discretion of Seller.

(e) After the Closing Date, each of Seller and Buyer shall (and shall cause their respective Affiliates to): (i) assist the other party in preparing any Tax Returns in respect of the business conducted at the Acquired Stores or the Purchased Assets which such other party is responsible for preparing and filing; (ii) cooperate fully in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns in respect of the Acquired Stores or the Purchased Assets; (iii) make available to the other party and to any taxing authority as reasonably requested all information, records, and documents relating to Taxes in respect of the Acquired Stores or the Purchased Assets; (iv) provide timely notice to the other party in writing of any pending or threatened Tax audits or assessments relating to Taxes in respect of the Acquired Stores or the Purchased Assets for taxable periods for which the other party may have a liability under this Section 5.07; and (v) furnish the other party with copies of all correspondence received from any taxing authority in connection with any Tax audit or information request with respect to any such taxable period.

Section 5.08. Ancillary Agreements.

(a) At or prior to the Closing, Parent, Seller, Fred's and Buyer shall execute and deliver the Transition Services Agreement substantially in the form attached as Exhibit C (the "Transition Services Agreement").

(b) At or prior to Closing and each Subsequent Closing or Distribution Center Closing (as applicable), Seller and Buyer shall execute and deliver an executed bill of sale, assignment, transfer, conveyance and assumption in respect of the Purchased Assets and Assumed Liabilities as is necessary to effect the transactions contemplated by the Transaction Agreements substantially in the form attached as Exhibit D-1 or Exhibit D-2 as applicable (the "Bill of Sale, Assignment and Assumption Agreement").

(c) At or prior to the Closing, Seller and Buyer shall execute and deliver the Transitional Trademark License Agreement substantially in the form attached as Exhibit F (the "Transitional Trademark License Agreement").

(d) At or prior to the Closing, Seller and Buyer shall execute and deliver one or more Trademark Assignment Agreements substantially in the form attached as Exhibit G (each, a "Trademark Assignment Agreement").

Section 5.09. Further Action.

(a) Except as permitted by ARTICLE VIII, each of Seller and Buyer shall (i) execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably

required to carry out the provisions of the Transaction Agreements and give effect to the transactions contemplated by the Transaction Agreements, (ii) refrain from taking any actions that would reasonably be expected to impair, delay or impede the Closing, any Subsequent Closing or Distribution Center Closing and (iii) without limiting the foregoing, use its commercially reasonable efforts to cause all of the conditions to the obligations of the other party to consummate the transactions contemplated by this Agreement to be met as promptly as practicable; provided, however, that following the Closing, nothing in this Section 5.09(a) shall require Seller or any of its Affiliates, on the one hand, or Buyer or any of its Affiliates, on the other hand, to pay money to, commence or participate in any Action with respect to, or offer or grant any accommodation (financial or otherwise) to, any third Person.

(b) Each of Seller and Buyer shall keep each other reasonably apprised of the status of the matters relating to the completion of the transactions contemplated by the Transaction Agreements, including with respect to the negotiations relating to the satisfaction of the conditions set forth in ARTICLE VII. From time to time following the Closing, Seller and Buyer shall, and shall cause their respective Affiliates, to execute, acknowledge and deliver all reasonable further conveyances, notices, assumptions, releases and acquittances and such instruments, and shall take such reasonable actions as may be necessary or appropriate to make effective the transactions contemplated hereby as may be reasonably requested by the other party.

Section 5.10. Solvency After Closing. After the Closing, Buyer agrees that it shall not take or cause to be taken or omit to take any action that could result in a determination pursuant to applicable Law that, after giving effect to the transactions contemplated by the Transaction Agreements (or after giving effect to such transactions and to such other subsequent actions or omissions), Buyer (a) was insolvent at the time of the Closing or any Subsequent Closing, (b) became insolvent as a result of the transactions contemplated by the Transaction Agreements, (c) was left with unreasonably small capital with which to engage in its business or (d) incurred debts beyond its ability to pay such debts as they mature, such that the payment of the Purchase Price may be deemed a “fraudulent conveyance” or impermissible dividend or distribution under applicable Law or otherwise subject to claims of any creditors of Buyer or its trustees in bankruptcy proceedings.

Section 5.11. Non-Solicitation of Employees. During the period beginning as of the Closing Date and ending on the earlier of the thirty-month anniversary of the Closing Date and the two-year anniversary of the final Subsequent Closing Date (the “Restricted Period”), each of Parent and Seller shall not, and each shall cause its Affiliates not to, directly or indirectly, solicit, or otherwise attempt to induce any Transferred Employee to terminate his or her employment with Buyer or any of its Affiliates nor induce any employees of Seller or Seller’s Affiliates who are offered employment by the Buyer pursuant to Section 6.01(a) to reject that offer; provided, however, that nothing in this Section 5.11 shall prohibit Parent, Seller or any of their Affiliates from taking the following actions:

(a) advertising for employees in newspapers, trade publications, or other media, or engaging recruiters to conduct general employee search activities, in either case not targeted specifically at Transferred Employees; or

(b) hiring or communicating with any Transferred Employee who applies for employment with Seller or any of its Affiliates, whether or not such Transferred Employee was involuntarily terminated, so long as such Transferred Employee was not solicited by Seller or any of its Affiliates in violation of this Section 5.11.

Section 5.12. Financing.

(a) Prior to the Closing, Seller shall, and shall cause Seller's Affiliates to, provide to Fred's, and shall use commercially reasonable efforts to cause its and their respective Representatives to provide to Fred's, commercially reasonable cooperation and assistance reasonably requested by Fred's in connection with the arrangement, syndication and consummation of any Debt Financing (including the marketing efforts in connection therewith) undertaken by Fred's in connection with the transactions contemplated by the Transaction Agreements, in each case in a timely manner, including using commercially reasonable efforts to:

(i) furnish Fred's financing sources, as promptly as practicable, with (A) the Financial Statements, and (B) all financial information and all other information regarding the Acquired Stores reasonably required for Fred's to prepare Fred's pro forma financial statements, as well as Fred's financial projections after giving effect to the transactions contemplated by the Transaction Agreements, in each case consistent with the type required for the Debt Financing and in Seller's possession;

(ii) upon reasonable notice, during business hours and at Fred's expense, provide reasonable cooperation with the marketing efforts of Fred's and the lenders, underwriters or initial purchasers for the Debt Financing, including using commercially reasonable efforts to cause its Representatives (including senior management and advisors of Seller) to participate in a reasonable number of meetings or conference calls;

(iii) assist with the preparation of customary materials for rating agency presentations, offering documents, road show presentations and similar documents reasonably necessary or advisable in connection with the Debt Financing;

(iv) cause Seller's independent auditors to provide, consistent with customary practice, (A) assistance in the preparation of pro forma financial statements by Fred's; and (B) assistance to and cooperation with Fred's, including participating in accounting due diligence sessions;

(v) execute and deliver reasonably necessary representation and authorization letters to accountants and auditors, customary closing certificates and other reasonably necessary certificates, letters and documents as may be reasonably requested by Fred's;

(vi) facilitate the granting of a security interest (and perfection thereof) in collateral, including by (x) reasonably cooperating with Fred's to arrange for customary pay-off letters, lien terminations, notices and instruments of discharge to be delivered at the Closing (or any Subsequent Closing or Distribution Center Closing, as applicable) providing for the pay-off, discharge and termination on the Closing Date (or any Subsequent Closing Date or Distribution Center Closing Date, as applicable) of all indebtedness and Liens (subject to receipt from Fred's of the funds necessary to effectuate the pay-off contemplated by such pay-off letters, lien terminations and instruments of discharge), (y) to obtain customary landlord lien waivers and access agreements for leaseholds related to the Distribution Center, so long as the agreement pertaining thereto is provided to Seller prior to the fifth Business Day following the date hereof and (z) with respect to the Distribution Center and Owned Real Property, executing and delivering any documents reasonably necessary to determine whether the Distribution Center or applicable Owned Real Property is in a flood zone and delivering copies of any existing title policies with respect thereto;

(vii) provide Fred's and its financing sources with all necessary documentation and other information regarding the Seller and any applicable Affiliate of Seller required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including the USA Patriot Act of 2001, as amended from time to time;

(viii) provide customary authorization letters with respect to the Purchased Assets, in a form reasonably acceptable to Seller, to Fred's financing sources authorizing the distribution of information to prospective lenders;

(ix) enter into the cooperation and license agreement, to be effective as of the Closing, contemplated by Exhibit C of the Debt Commitment Letters; and

(x) reasonably cooperate in good faith with Fred's financing sources and their respective agents with respect to their due diligence, including (A) giving access to documentation reasonably requested by persons in connection with the Debt Financing and (B) permitting Fred's' financing sources and other lenders to evaluate the Purchased Assets for the purposes of establishing collateral arrangements as of the Closing (or each Subsequent Closing or Distribution Center Closing, as applicable) (and using commercially reasonable efforts to provide all relevant information or documentation reasonably requested in connection therewith).

(b) Notwithstanding the foregoing, (i) none of the Seller, the Seller's Affiliates or their respective Representatives shall be required to (A) authorize, execute or enter into or perform any agreement (other than authorization and representation letters as set forth herein) with respect to the Debt Financing that is not contingent upon the Closing or that would be effective prior to the Closing, (B) take any action that would unreasonably interfere with the ongoing operations of the business or Seller (it being understood that appraisals and field

examinations of collateral conducted in accordance with customary procedures would not so interfere), (C) take any action that would cause any representation or warranty in this Agreement to be breached, (D) take any action that would cause any condition to Closing set forth in Article VII to fail to be satisfied, (E) except as provided by Section 5.12(a)(ix), approve or adopt any Debt Financing or agreements related thereto (or any alternative financing) at or prior to the Closing, (F) except as provided by Section 5.12(a)(ix), enter into any agreements or certificates in connection with any Debt Financing (or any alternative financing) at or prior to the Closing or (G) be responsible for any adjustments to any pro forma financial information required to be provided in accordance with the Debt Commitment Letters; (ii) Seller shall not be required to make any representation, warranties or certifications as to which, after Seller's use of commercially reasonable efforts to cause such representation, warranty or certification to be true, Seller in its good faith determination that such representation, warranty or certification is not true; and (iii) nothing shall obligate Seller to provide, or cause to be provided, any legal opinion by its counsel, or to provide any information or take any action to the extent it would result in a violation of any applicable Law or loss of any privilege. None of Seller or any of its Subsidiaries shall be required to pay any commitment or other similar fee or make any other payment (other than for reasonable out-of-pocket costs or expenses that are reimbursed by Fred's as provided below in this Section 5.12(b)) or incur any other Liability or provide or agree to provide any indemnity in connection with the Debt Financing or any of the foregoing prior to the Closing. Fred's shall, promptly upon request by Seller, reimburse Seller for all documented and reasonable out-of-pocket costs and expenses incurred by Seller or any of its Subsidiaries in connection with such cooperation. Each of Fred's and Buyer shall indemnify and hold harmless Seller and its Subsidiaries and representatives from and against any and all Liabilities suffered or incurred by them in connection with the Debt Financing and any information utilized in connection therewith (other than historical information provided by Seller or any of its Subsidiaries).

(c) From the date hereof through the Distribution Center Closing, each of Fred's and Buyer shall use its reasonable best efforts and do all things necessary or advisable to arrange and obtain the Debt Financing as soon as reasonably practicable and, in any event, not later than the date the Closing is required to be effected in accordance with this Agreement, on the terms and conditions (including, to the extent applicable, the "flex" provisions) described in the Debt Commitment Letters (for purposes of this Section 5.12(c), the Debt Commitment Letters shall include any fee letter), including using reasonable best efforts to (i) enter into definitive agreements with respect to each Debt Commitment Letter on the terms and conditions (as such terms may be modified or adjusted in accordance with the terms of, and within the limits of the flex provisions contained in any fee letter) contemplated by such Debt Commitment Letter (collectively, the "Definitive Debt Financing Agreements"), (ii) satisfy on a timely basis all conditions and covenants, including with respect to the payment of any commitment, engagement or placement fees, applicable to Fred's in the Fee Letter, each Debt Commitment Letter or the Definitive Debt Financing Agreements, (iii) consummate the Debt Financing at or prior to Closing, a Subsequent Closing or the Distribution Center Closing, as applicable and (iv) prior to the Distribution Center Closing, enforce Fred's rights under the Debt Commitment Letters and the Definitive Debt Financing Agreements, including by affirmatively bringing lawsuits or other proceedings. Neither Fred's nor Buyer shall agree to any amendments or modifications to, or grant any waivers of, any condition or other provision under any Debt

Commitment Letter or the definitive agreements relating to the Debt Financing without the prior written consent of Parent (including any amendment of either Debt Commitment Letter or the definitive agreements relating to the Debt Financing to add lenders, lead arrangers, bookrunners, syndication agents or similar entities who had not executed the applicable Debt Commitment Letter as of the date hereof) if such amendment, modification or waiver would (or could be reasonably expected to) (A) reduce the aggregate amount of the Debt Financing (including by changing the amount of fees to be paid or original issue discount of the Debt Financing or similar fee) unless, in the case of any reduction in the amount of the Purchase Price, the Debt Financing is reduced by a corresponding amount, (B) impose new or additional conditions, or otherwise amend, modify or expand any conditions, to the receipt of the Debt Financing, (C) delay or prevent the Closing, a Subsequent Closing or the Distribution Center Closing, as applicable (D) make the funding of the Debt Financing (or satisfaction of the conditions to obtaining any of the Debt Financing) less likely to occur or (E) adversely impact the ability of Fred's to enforce its rights against the other parties to the Debt Commitment Letters or the Definitive Debt Financing Agreements, the ability of Fred's to timely consummate the transactions contemplated hereby or the likelihood of consummation of the transactions contemplated hereby. Each of Fred's and Buyer shall use its reasonable best efforts to maintain in effect the Debt Commitment Letters (including any Definitive Debt Financing Agreements) until the transactions contemplated hereby are consummated. Fred's shall not release or consent to the termination of the obligations of the Lenders under either Debt Commitment Letter, except that Fred's shall be permitted to consent to an assignment or other transfer of the commitments of any Lender thereunder, provided that such assignment or transfer shall not relieve such Lender from its obligations to fund upon the initial funding under either Debt Commitment Letter except to the extent that such Lender's portion of such initial funding is otherwise funded. Notwithstanding anything herein to the contrary, each of the Parties hereby agrees to, and agrees that Fred's shall be permitted to consent to, (i) (A) Citizens Bank, N.A. and its Affiliates and (B) any other Lenders consented to by the Sellers (such consent not to be unreasonably withheld or delayed), becoming a party to the Revolver Loan Debt Commitment Letter (pursuant to a customary joinder agreement to the Revolver Loan Debt Commitment Letter) and, upon the execution and delivery of such a customary joinder agreement, Citizens Bank, N.A. or such other Lender shall join the Revolver Loan Debt Commitment Letter as a "Commitment Party" and an "Initial Lender" thereunder and each other "Commitment Party" and "Initial Lender" thereunder shall be relieved of its obligations with respect to the commitments so assigned or transferred to Citizens Bank, N.A. or such other Lender and (ii) Pathlight BGC Ltd. and its Affiliates, becoming a party to the Term Loan Debt Commitment Letter (pursuant to a customary joinder agreement to the Term Loan Debt Commitment Letter) and, upon the execution and delivery of such a customary joinder agreement, Pathlight BGC Ltd. shall join the Term Loan Debt Commitment Letter as a "Commitment Party" and an "Initial Lender" thereunder and each other "Commitment Party" and "Initial Lender" thereunder shall be relieved of its obligations with respect to the commitments so assigned or transferred to Pathlight BGC Ltd..

(d) Notwithstanding anything to the contrary contained in this Agreement, in no event shall Fred's nor any of its Affiliates (which for purposes of this Section 5.12(d) shall be deemed to include each direct or indirect investor or potential investor in Fred's, or any of Fred's or its Affiliates or any such investor's financing sources or potential financing sources or other representatives acting at the direction of or on behalf of Fred's) engage any bank or investment

bank or other potential provider of debt or equity financing on an exclusive basis or otherwise on terms that prohibit or are designed to prevent such provider from providing or seeking to provide such financing or other services to any Person in connection with a transaction relating to the Acquired Stores in connection with the transactions contemplated hereby.

(e) Neither Fred's nor Buyer shall, without the prior written consent of Parent, prior to or in connection with the Closing, permit or arrange any debt financing to which Seller or any of its Affiliates will be a party or by which any of their respective assets shall be subject or bound, other than the Debt Financing. If any portion of the Debt Financing becomes unavailable on the terms and conditions (including any "flex" provisions) contemplated in the Debt Commitment Letters, each of Fred's and Buyer shall use its reasonable best efforts to, as promptly as practicable, arrange and obtain from alternative sources of debt financing an amount sufficient to satisfy the payment of all amounts due by Fred's and Buyer pursuant to the Transaction Agreements, on terms and conditions (including any "flex" provisions) that are at least as favorable to Parent and Fred's in the aggregate as those contained in the applicable Debt Commitment Letter, which shall not expand upon the conditions precedent or contingencies to the funding on the Closing Date of the Debt Financing as set forth in the applicable Debt Commitment Letter in effect on the date hereof or otherwise adversely affect the ability or likelihood of Fred's or Buyer to timely consummate the transactions contemplated hereby. The new debt commitment letter and fee letter entered into in connection with such alternative financing are referred to, respectively, as a "New Debt Commitment Letter" and a "New Fee Letter." In the event Fred's enters into any such New Debt Commitment Letter, (i) any reference in this Agreement to the "Debt Financing" shall mean the debt financing contemplated by the Debt Commitment Letters as modified pursuant to clause (ii) below, and (ii) any reference in this Agreement to the "Debt Commitment Letters" (and any definition incorporating the term "Debt Commitment Letter," including the definition of Definitive Debt Financing Agreements) shall be deemed to include the Debt Commitment Letters and any Fee Letter to the extent not superseded by a New Debt Commitment Letter or New Fee Letter, as the case may be, at the time in question and any New Debt Commitment Letter or New Fee Letter to the extent then in effect.

(f) From the date hereof through the Distribution Center Closing, each of Fred's and Buyer shall, and shall cause its respective representatives to, keep Parent informed as promptly as practicable in reasonable detail of the status of its efforts to arrange the Debt Financing and substantially concurrently provide copies of all documents provided to or from the Lenders or otherwise related to the Debt Financing to Parent. Without limiting the generality of the foregoing, from the date hereof through the Distribution Center Closing, each of Fred's and Buyer shall (i) furnish Parent complete, correct and executed copies of any amendments to either Debt Commitment Letter promptly upon their execution and (ii) give Parent prompt written notice (A) of any default or breach (or any event that, with or without notice, lapse of time or both, would (or could reasonably be expected to) give rise to any default or breach) by any party under any of the Debt Commitment Letters or the definitive agreements relating to the Debt Financing of which Fred's becomes aware, (B) of any termination of either of the Debt Commitment Letters, (C) of the receipt of any written notice or other communication from any Person with respect to any (1) actual or potential default, breach, termination or repudiation of any Debt Commitment Letter, any definitive agreement relating to the Debt Financing or any provision of either Debt Commitment Letter or the definitive agreements relating to the Debt

Financing, in each case by any party thereto, or (2) material dispute or disagreement between or among any parties to either Debt Commitment Letter or the definitive agreements relating to the Debt Financing, and (D) if for any reason Fred's believes in good faith that they will not be able to obtain all or any portion of the Debt Financing on the terms, in the manner or from the sources contemplated by the Debt Commitment Letters or the definitive agreements relating to the Debt Financing.

(g) Each of Fred's and Buyer shall take all actions necessary to cause the condition set forth in (i) clause (e) of Exhibit C to each Debt Commitment Letter to be satisfied on the Closing Date and (ii) clause (b) of the definition of "Subsequent Acquisition Conditions" in the term sheet attached to such Debt Commitment Letter to be satisfied on each Subsequent Closing Date. Each of Fred's and Buyer will promptly (and in any event, within three (3) Business Days) notify Seller in writing if Excess Availability (as defined in each Debt Commitment Letter) is less than 35% of the Loan Cap (as each such term is defined in each Debt Commitment Letter or, on and following the Closing Date, as defined in the Definitive Debt Financing Agreements) for more than three (3) consecutive Business Days.

Section 5.13. Destruction of Purchased Assets; Store Removal. Notwithstanding any other provision herein, if any of the Acquired Stores and/or the Distribution Center is rendered unsaleable or unusable due to acts of God, including earthquakes, fire, hurricanes, tornadoes, floods, tsunamis, or other natural disasters or any other types of damage, at Parent's option, (i) if permitted by the FTC, such Acquired Stores and/or the Distribution Center and all of the related assets shall be retained by Parent and the Purchase Price shall be reduced as set forth on Section 2.07 of the Disclosure Schedules (and the amounts payable pursuant to Section 2.12 shall be reduced accordingly), (ii) such Acquired Stores and/or the Distribution Center shall be sold to Buyer and the parties shall negotiate in good faith with respect to a reduction to the Purchase Price taking into account the allocation of the Purchase Price attributed to such Acquired Store as set forth on Section 2.07 of the Disclosure Schedules or (iii) if Parent has within thirty (30) days of such act of God restored such Acquired Stores and/or the Distribution Center to usable or salable condition substantially equivalent to the condition of such Acquired Store immediately prior to such act of God (at Parent's cost), then such Acquired Stores and/or the Distribution Center shall be sold to Buyer in accordance with and subject to the terms of this Agreement. In the event Parent elects clause (i) with respect to an Acquired Store, the term "Acquired Stores" shall be deemed to be modified to exclude any such store or the Distribution Center, as applicable, "Purchased Assets" shall be deemed to be modified to exclude any facility that was to be "Purchased Assets" because such facility was an Acquired Store or the Distribution Center, and "Assumed Liabilities" shall be deemed to be modified to exclude any Liabilities that were to be "Assumed Liabilities" because such facility was an Acquired Store or the Distribution Center. In the event that Parent and Buyer mutually agree that neither Parent nor Seller shall sell, transfer, assign, convey or deliver to Buyer one or more Acquired Stores, the parties shall negotiate in good faith to amend the terms of this Agreement and any other Transaction Agreement as necessary to appropriately reflect the terms of such arrangement, and "Purchased Assets" shall be deemed to be modified to exclude any facility that was to be "Purchased Assets" because such facility was an Acquired Store, and "Assumed Liabilities" shall be deemed to be modified to exclude any Liabilities that were to be "Assumed Liabilities" because such facility was an Acquired Store.

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Section 5.14. Restriction on Use of Customer Data.

(a) During the Restricted Period, Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, use the Seller Rx Data that is, or any other information or data that is, in each case related to the Acquired Stores and regarding the applicable client's or customer's behavior in an Acquired Store and acquired from or through its acquisition of Seller, to specifically solicit any client or customer of any of the Acquired Stores (the "Restricted Data"), in a manner intended to cause an adverse effect to the relationship between such Acquired Store and such client or customer, or to divert such client's or customer's business from any of the Acquired Stores. In addition, during the Restricted Period, Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, solicit any supplier or licensor of any of the Acquired Stores to terminate or adversely modify the relationship between Buyer and such supplier or licensor Agreement. Notwithstanding anything herein to the contrary, nothing shall prevent Parent or any of its Subsidiaries (other than Seller and its Subsidiaries) from conducting solicitations in the ordinary course of business consistent with past practice with respect to its stores (other than the Acquired Stores) that do not rely on or employ the use of Restricted Data, and neither Parent nor any of its Affiliates shall be in breach of this Section 5.14 because it solicits, without relying on or employing the use of Restricted Data, any Person (i) who contacts Parent or any of its Affiliates on its, his or her own initiative, (ii) if such client's, customer's, supplier's, licensor's or Person's name is sourced, given to Parent or any of its Affiliates, or otherwise is present on any marketing list or other source that Parent or any of its Affiliates owns or to which it is granted access or (iii) in a general solicitation.

(b) Each of Parent and Seller acknowledges that a breach or threatened breach of this Section 5.14 would give rise to irreparable harm to Buyer, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by Parent or Seller of any such obligations, Buyer shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

Section 5.15. Commercial Assistance. After the date hereof until the expiration of the term of the Transition Services Agreement, Parent shall, and shall cause Parent's Affiliates to, provide to Buyer, and shall use commercially reasonable efforts to cause its and their respective Representatives to provide to Buyer, all commercially reasonable cooperation and assistance reasonably requested by Buyer in connection with Buyer's negotiation and execution of the license agreements set forth on Section 5.15 of the Disclosure Schedules, and agrees not to enforce any exclusivity covenants with respect to the proposed counterparties to such agreements.

Section 5.16. Conversion of Stores. Subject to receipt of necessary legal and regulatory approvals, Parent shall, and shall cause Parent's Affiliates to, use its reasonable best efforts not to operate any Rite Aid-branded store set forth on Section 5.16 of the Disclosure Schedules utilizing exterior signage containing the Rite Aid banner as of the later of (1) the date that is one hundred eighty (180) days after the consummation of the Rite Aid Acquisition or (2) in the case of all Rite Aid branded stores located in any given Core Based Statistical Area

(“ CBSA ”), the date that is sixty (60) days after the consummation of the purchase and sale of the first Acquired Store in such CBSA under this Agreement as further set forth on Section 5.16 of the Disclosure Schedules (i.e. sixty (60) days after the Closing or applicable Subsequent Closing, as applicable to such Acquired Store)

Section 5.17. RediClinic. Parent and Buyer shall use reasonable best efforts to have Seller or its Affiliates continue to operate the RediClinic in-store clinics in the Acquired Stores as of the Closing Date until the one (1) year anniversary of the Closing Date (subject to an extension at Buyer’s discretion of until the earlier of the second anniversary of the Closing and the date on which Parent and its Affiliates cease operating RediClinic in-store clinics in the majority of its stores in which RediClinic in-store clinics exist as of the Closing Date (other than the Acquired Stores)). Parent shall provide Buyer with ninety (90) days’ prior written notice in the event Parent decides in its sole discretion to terminate the RediClinic in-store clinics in Parent’s and its Affiliates stores (other than the Acquired Stores).

Section 5.18. Acquired Leases. After the Closing Date, Buyer will not, and will not permit any of its Affiliates to (and shall cause its successors or assigns not to), renew, extend, amend or supplement any Acquired Lease resulting in the term of such Acquired Lease extending beyond ten (10) years following the Closing without Parent’s prior written consent unless Buyer provides Parent with evidence reasonably satisfactory to Parent that Parent’s obligations with respect to such extended period under the Acquired Leases have been irrevocably and fully released (the effective date of any such release being a “ Release Date ”). Any cash or other collateral posted by Parent or its Affiliates in respect of such obligations shall be delivered to Parent promptly following such release. From the Closing Date to the applicable Release Date, Buyer shall provide Parent with prompt written notice upon entering into any renewal, extension, amendment or supplement of any Acquired Lease resulting in an extension of such Acquired Lease. In the event that Buyer desires to transfer an Acquired Store, Buyer shall, as a condition to such transfer, have the transferee agree in writing to be bound by the covenant in this Section 5.18, with such written agreement being delivered to Parent prior to the execution of such transfer.

Section 5.19. Duplicate IT System. Seller shall use commercially reasonable efforts to complete the development and establishment of the Duplicate IT System and use commercially reasonable efforts to cause the Duplicate IT System to be operational in a manner consistent with the operation of Seller’s comparable information technology system consistent with past practice, in each case subject to the exceptions set forth on Schedule B, as soon as reasonably practicable after the date hereof. Representatives of Seller shall test the Duplicate IT System prior to the Closing Date utilizing customary testing procedures, which procedures shall be presented to Buyer in writing as soon as reasonably practicable after the date hereof (the “ Developed Testing Procedures ”). Seller shall provide representatives of Buyer a reasonable opportunity to be present during such testing and to see the results of such testing. Seller shall use its commercially reasonable efforts to remove the functionality limitations set forth on Schedule B in a manner reasonably acceptable to Buyer as soon as reasonably practicable after the date hereof.

ARTICLE VI

EMPLOYEE MATTERS

Section 6.01. Employee Matters.

(a) Buyer will make an offer of employment at least two (2) weeks prior to the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) (it being acknowledged and agreed that to the extent Buyer makes written offers of employment to any District Manager, Pharmacy District Manager, Human Resources District Manager, Asset Protection District Manager, Regional Vice President, Regional Pharmacy Vice President, Senior Human Resources Manager, or Regional Asset Protection Director or corporate Business Employees, Seller shall, upon request, use commercially reasonable efforts to assist Buyer in preparing, printing and delivering the applicable written offer letters). Such offer of employment will be provided to each individual listed on an employee census (the “Employee Census”), who is employed by Seller or an Affiliate of Seller on the Closing Date (or the applicable Subsequent Closing Date or Distribution Closing Date) for employment beginning on the first Business Day following such date (the “Employment Start Date”) and shall be for the same position held by such Business Employee, and at the same location(s) at which such Business Employee worked, immediately prior to the Employment Start Date. The Employee Census shall first be delivered to Buyer prior to the date of this Agreement and shall state each Business Employee’s name, title, employment classification, salary or pay rate and status with respect to whether he or she is currently on long-term disability or otherwise on a leave of absence. The Employee Census shall be updated by Seller no sooner than three (3) weeks prior to the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) for any Business Employee and with respect to any Business Employee added to the Employee Census pursuant to such an update, Buyer will make an offer of employment as soon as practicable thereafter but no later than the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date). Each non-Union Business Employee listed on the Employee Census will receive an offer which will provide for compensation (including salary, wages, incentive compensation and bonus opportunities) that is no less favorable than that provided immediately prior to the Employment Start Date and employee benefits (including retirement, welfare and fringe benefits) that are equivalent to those provided to such non-Union Business Employee immediately prior to the Employment Start Date (subject to any eligibility requirements but taking into account prior service with Seller or Seller’s Affiliates). Each Union Business Employee listed on the Employee Census will receive an offer which will provide for compensation and employee benefits in accordance with the terms of the applicable CBA (taking into account prior service with Seller or Seller’s Affiliates). Each Business Employee that accepts an offer of employment from Buyer will be referred to as a “Transferred Employee”. Each offer of employment by Buyer to a Business Employee shall be on an employment “at-will” basis except as required by any CBA. Except as otherwise required by the terms of a CBA with respect to Union Business Employees and subject to Section 6.01(k), hereof, for a period of at least one (1) year following the Employment Start Date, Buyer shall provide each Transferred Employee compensation (including salary, wages, incentive compensation and bonus opportunities) that is no less favorable than that provided immediately prior to the Employment Start Date and employee benefits (including retirement,

welfare and fringe benefits) that are equivalent to those provided to such Transferred Employee immediately prior to the Employment Start Date (subject to any eligibility requirements but taking into account prior service with Seller or Seller's Affiliates). Transferred Employees will cease to be employees of the Seller or Seller's Affiliates, as applicable, and become employees of Buyer or its Affiliates on the Employment Start Date and shall cease any further participation in (and shall cease to accrue benefits under) all Employee Plans as of the Employment Start Date. Seller (or its Affiliates) will pay to all Transferred Employees (A) any unpaid personal holidays or other vacation leave accrued by such Transferred Employees as of the date immediately preceding the Employment Start Date and (B) any accrued but unpaid bonus for any bonus periods that have commenced but not yet concluded before the Employment Start Date with respect to the portion of the applicable bonus period occurring before the Employment Start Date, in each case, in accordance with Seller's (or its Affiliate's) programs and policies. Buyer agrees that it will (or will cause its Affiliates to) take any and all commercially reasonable actions necessary to allow any Business Employees on a work visa to become employed with Buyer or its Affiliates. For those Business Employees who become Transferred Employees and who are employed on a work visa, Buyer will serve as the successor-in-interest and thus accept all applicable rights and obligations related to the work visa and any corresponding permanent residence petition.

(b) Open Positions; Employee Data. As soon as reasonably practicable following the date on which the FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition (which such Proposed Consent Order shall identify Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder), Seller shall use reasonable efforts to identify for Buyer at least two (2) individuals with respect to each open (i) (A) district manager, pharmacy district manager, regional vice president or regional pharmacy vice president position, and (B) field district support team member or field regional support member position whose function is to provide services related to asset protection, human resources or administration (and not, for the avoidance of doubt, services related to information technology, compliance or merchandising) and (ii) corporate position, in each case as listed on Section 6.01(b) of the Disclosure Schedules. Such individuals shall be current employees of Seller and shall, in the aggregate, consist of a mix of tenured and "ready to be promoted now" individuals and all such identified individuals shall have received an annual performance rating of at least "meets expectations" for the most recent two (2) performance periods ending on or prior to the identification date and shall not have had any disciplinary action taken against them within the twelve (12) month period immediately preceding the identification date. Additionally, Seller shall provide to Buyer, no sooner than ten (10) days prior to the Closing Date or the applicable Subsequent Closing Date or Distribution Center Closing Date the 2015 and 2016 overall annual performance reviews and ratings (with all definitions related thereto), to the extent available, for all Transferred Employees in management positions (i.e., Store Manager, Assistant Store Manager and Pharmacy Manager positions), all Transferred Employees who are pharmacists, and all Transferred Employees in regional and district management and field support roles. Seller makes no representation that the annual performance reviews and ratings are indicative of all aspects of employee performance which is based on a number of factors, reflects only a certain period of time, and reflects evaluations by completely different managers with differing expectations. Buyer shall indemnify and hold Seller harmless for (A) all Liabilities incurred by Buyer arising from or in

connection with Seller's disclosure of the information provided pursuant to this Section or Buyer's actions in reliance on the information provided pursuant to this Section and (B) all Liabilities incurred by Seller as a result of Buyer's non-compliance with applicable Laws in connection with Buyer's or Buyer's Affiliate's selection or hiring process with respect to the open positions described herein.

(c) Severance Benefits. Seller shall be responsible (and Buyer shall have no responsibility) to pay any severance pay and benefits claimed to be owed to its employees as a result of (i) the Rite Aid Acquisition, or (ii) the transactions that are the subject of the Transaction Agreements, provided that Buyer has offered employment to Business Employees in accordance with Section 6.01(a). Following the Employment Start Date, Buyer agrees to provide Transferred Employees whose employment with Buyer or its Affiliates is terminated during the one (1) year period beginning on the Employment Start Date with a severance plan or program that provides (A) severance pay that is no less favorable than the severance pay payable under the Employee Plans as in effect immediately prior to the Employment Start Date and (B) post-termination employee benefits (including retirement, welfare and fringe benefits) that are equivalent to those provided to similarly situated employees of Buyer (subject to any eligibility requirements), taking into account such Transferred Employee's additional service with the Buyer or its Affiliates and calculated on the basis of the Transferred Employee's compensation at the time of the termination or immediately prior to the Employment Start Date, whichever is greater; provided, however that, if different, Union Business Employees will be provided with severance pay and post-termination employee benefits in accordance with the applicable CBA (taking into account prior service with Seller or Seller's Affiliates); provided further, however, that Buyer is in no event obligated to provide severance pay with respect to any period of service for which severance pay has been paid or is payable by Seller..

(d) Credit for Service. To the extent permitted by Law and to the extent that service is relevant for purposes of eligibility and vesting (and, in order to calculate the amount of any vacation, sick days, short-term disability, salary continuation, severance and similar benefits, but not for purposes of defined benefit pension benefit accruals) under any retirement plan, employee benefit plan, program or arrangement established or maintained by Buyer or any of its Affiliates for the benefit of the Transferred Employees following the Employment Start Date, such plan, program or arrangement shall credit all Transferred Employees for service earned prior to the Employment Start Date with Seller or any of their Affiliates or predecessors, as if such service had been performed for Buyer, in addition to service earned with Buyer or any of Buyer's Affiliates on and after the Employment Start Date.

(e) Preexisting Conditions; Coordination. Following the Employment Start Date, Buyer shall: (i) waive limitations on eligibility, enrollment and benefits relating to any preexisting medical conditions of the Transferred Employees and their eligible dependents, and (ii) recognize for purposes of annual deductible and out of pocket limits under its health and dental plans (the "Buyer Plans") for the plan year of the applicable Buyer Plan that includes the Employment Start Date, deductible and out of pocket expenses paid by Transferred Employees and their respective dependents under the applicable health and dental Employee Plans in the portion of the plan year ending on the date each such Transferred Employee begins participating

in the analogous Buyer Plan to the extent the Transferred Employees participate in any such Buyer Plans.

(f) Paid Time Off. Except as otherwise required by the terms of an applicable CBAs with respect to Union Business Employees, Buyer shall continue a paid time off program for the benefit of the Transferred Employees through at least the end of the calendar year in which the Employment Start Date occurs that is at least as favorable as the paid time off program of Seller in effect immediately prior to the Employment Start Date.

(g) FSA. Buyer shall have in effect, or cause to be in effect, as of the Employment Start Date, health or dependent care flexible spending accounts qualifying under Section 125 of the Code (the “Buyer FSA”) in which Transferred Employees who participate in health or dependent care flexible spending accounts maintained by Seller or any of its Affiliate (the “Seller FSA”) may participate. Buyer or an Affiliate of Buyer shall cause the balance of each Transferred Employee’s accounts under the Seller FSA as of such Transferred Employee’s Employment Start Date to be credited to the Transferred Employee’s corresponding accounts under the Buyer FSA in which such employee participates following the Employment Start Date; provided, however, that no such crediting shall be required or occur for a medical flexible spending account in the event the applicable Transferred Employee elects COBRA coverage with respect to such Transferred Employee’s medical flexible spending account under the Seller FSA. On and after the Employment Start Date, Buyer shall assume and be solely responsible for all claims for reimbursement by Transferred Employees, whether incurred prior to, on or after the Employment Start Date, that have not been paid in full as of the Employment Start Date, which claims shall be paid pursuant to and under the terms of the Buyer FSA, and Buyer shall indemnify and hold harmless Seller and its Affiliates from any and all claims by or with respect to Transferred Employees for reimbursement under the Seller FSA that have not been paid in full as of the Employment Start Date. Seller will continue to process any Seller FSA claims filed before the Employment Start Date and advise Buyer as to the approval or disapproval of payment of such claims. Buyer agrees to cause the Buyer FSA to honor and continue through the end of the plan year in which the Employment Start Date occurs the elections made by each Transferred Employee under the Seller FSA in respect of the flexible spending reimbursement accounts that are in effect immediately prior to the Employment Start Date. As soon as practicable following the Employment Start Date, Seller or Seller’s Affiliate shall cause to be transferred to Buyer an amount in cash equal to (A) the sum of all contributions to any Seller FSA made by all Transferred Employees before the Employment Start Date with respect to the plan year in which the Employment Start Date occurs, reduced by (B) the sum of (i) all claims incurred by the Transferred Employees and paid by Seller during the plan year in which the Employment Start Date occurs, plus (ii) all contributions to any medical flexible spending account under the Seller FSA made by Transferred Employees who elect COBRA coverage in connection with their termination of employment by Seller (or its Affiliate) due to the transactions contemplated by this Agreement.

(h) WARN; Workers’ Compensation Liabilities. Buyer shall be responsible for, and indemnify Seller against, all liabilities or obligations under the Worker Adjustment and Retraining Notification Act (the “WARN Act”), and any similar state or local law resulting from Buyer’s actions following the Employment Start Date. Seller shall be responsible for, and

indemnify Buyer against, all liabilities or obligations (including but not limited to reasonable attorneys fees and costs incurred by Buyer) under the WARN Act, and any similar state or local law or contractual obligation to give notice of this transaction to its employees and unions. To the extent that any of the Seller's employees are entitled to payments of wages and benefits in lieu of sufficient notice under the WARN Act (or any similar state or local law) for any plant closing or mass layoff, as defined in the WARN Act, occurring up to and including the Employment Start Date, and including any employees who are terminated by Seller either before or after the Employment Start Date for rejecting Buyer's offer of employment, Seller shall be responsible to provide such wages and benefits, and shall indemnify Buyer against all Liabilities or obligations in regard to such employees, including but not limited to reasonable attorneys fees and legal costs incurred by the Buyer. To the extent that any of the Transferred Employees are entitled to payments of wages and benefits in lieu of sufficient notice under the WARN Act (or any similar state or local law) for any plant closing or mass layoff, as defined in the WARN Act, occurring after Employment Start Date, Buyer shall be responsible to provide such wages and benefits, and shall indemnify Seller against all Liabilities or obligations in regard to such employees, including but not limited to reasonable attorneys fees and legal costs incurred by the Seller. With respect to incidents which have or will occur through the Employment Start Date, that have or will result in the payment of claims, Seller will be responsible for all liabilities and obligations under any state workers' compensation or similar requirements of Law payable to or with respect to any employee or former employee of the Acquired Stores who was employed by Seller on the date the claim arose or the incident on which the claim is based occurred. Buyer shall be responsible for all liabilities and obligations under any state workers' compensation or similar requirements of Law with respect to any Transferred Employee to the extent that such claim arises, or the incident on which the claim is based occurs, after the Employment Start Date.

(i) 401(k) Plan. Buyer shall permit each Transferred Employee participating in the Employee Plan that is a defined contribution plan with a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Seller 401(k) Plan") to effect, and Buyer agrees to cause its defined contribution plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Buyer 401(k) Plan") to accept, in accordance with requirements of Law, a "direct rollover" (within the meaning of Section 401(a)(31) of the Code) of his or her account balances (including earnings thereon through the date of transfer and any promissory note evidencing an outstanding loan but excluding any loans in default) under the Seller 401(k) Plan if such rollover to the Buyer 401(k) Plan is elected in accordance with applicable Law by such Transferred Employee.

(j) Obligations Pertaining to Multiemployer Plans. Seller and Buyer intend that no complete or partial withdrawal of Seller and its Affiliates under Section 4203 or 4205 of ERISA from any Multiemployer Plan shall occur because of the consummation of the transactions contemplated by this Agreement, by reason of compliance with all of the applicable requirements of Section 4204 of ERISA. With respect to any Multiemployer Plan that is identified in Schedule 6.01(j)(iv), but not with respect to any Multiemployer Plan that is not identified in Schedule 6.01(j)(iv), Buyer and Seller agree to comply with the provisions of Section 4204 of ERISA as follows:

(i) To the extent needed to comply with Section 4204(a)(1)(A) of ERISA, Buyer shall assume the obligation to contribute to the Multiemployer Plan with respect to the Acquired Stores for substantially the same number of contribution base units (as defined in Section 4001(a)(11) of ERISA) for which Seller and its Affiliates had an obligation to contribute to such Multiemployer Plan, it being intended that no withdrawal liability under Section 4201 of ERISA will be incurred by Seller as a result of the consummation of the transactions contemplated by this Agreement. Buyer agrees that the determination of the number of contribution base units necessary to satisfy Section 4204 of ERISA shall be made in accordance with Section 4204 of ERISA and the applicable terms of each Multiemployer Plan.

(ii) Prior to the first plan year of each Multiemployer Plan beginning after the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), Buyer may, at Buyer's cost and expense, seek a variance from the requirements of Section 4204(a)(1)(B) of ERISA that a bond be obtained or an amount be held in escrow as provided in said section. Buyer and Seller agree to cooperate with respect to obtaining any such variance (including upon request of Buyer, Seller jointly with Buyer notifying the Multiemployer Plan of the parties intent that the transaction contemplated hereby be covered by Section 4204 of ERISA), sharing such information as may be necessary to determine whether there is a basis for applying for a variance from the applicable bonding requirements. If no such variance is timely requested by Buyer, or if a Multiemployer Plan determines that the request does not qualify for a variance, then Buyer shall, at Buyer's cost and expense, provide to the Multiemployer Plan for the first plan year beginning after the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), and for each of the four (4) plan years thereafter, a bond or escrow (or letter of credit or other security that is acceptable to the Multiemployer Plan) that complies with Section 4204(a)(1)(B) of ERISA, in an amount equal to one hundred percent (100%) (or two hundred percent (200%) if and to the extent required by Section 4204(b)(2) of ERISA) of the greater of:

(A) the average annual contribution that Seller and its Affiliates were required to make with respect to the Acquired Stores to the applicable Multiemployer Plan for the three (3) plan years preceding the plan year in which the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) occurs, or

(B) the annual contribution that Seller and its Affiliates were required to make with respect to the Acquired Stores to the Multiemployer Plan for the last plan year completed before the plan year in which the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) occurs.

Any such bond or escrow (or letter of credit or other security) shall provide that it shall be paid to the Multiemployer Plan if Buyer withdraws from such Multiemployer Plan, or fails to make a contribution to such Multiemployer Plan when due, at any time during the five (5) full plan years beginning after the Closing Date (and/or each Subsequent Closing

Date or Distribution Center Closing Date, as applicable). Buyer shall deliver to the Multiemployer Plan, by the date required by Section 4204 and the regulations thereunder, with copies to Seller, either the bond, letter of credit or evidence of the establishment of an escrow described in the preceding sentence.

(iii) If Buyer withdraws from the Multiemployer Plan in a complete withdrawal, or there occurs a partial withdrawal with respect to the Acquired Stores, during such five (5) years, Seller will, to the extent required by Section 4204 of ERISA, be secondarily liable for any withdrawal liability it would have had to the Multiemployer Plan with respect to the Acquired Stores, but for this Agreement, if and to the extent the liability of Buyer with respect to the Multiemployer Plan is not paid. Buyer agrees to provide Seller with reasonable advance notice of any action or event which would reasonably be expected to result in the imposition of withdrawal liability contemplated hereunder, and in any event Buyer shall immediately furnish Seller with a copy of any notice of withdrawal liability Buyer or its Affiliates may receive with respect to the Multiemployer Plan, together with all pertinent details. In the event that any such withdrawal liability shall be assessed against Buyer or its Affiliates, Buyer further agrees to provide Seller with reasonable advance notice (but not less than sixty (60) days advance notice) of any intention on the part of Buyer or such Affiliate not to make full payment of any withdrawal liability when the same shall become due and payable.

(iv) The parties recognize and agree, for purposes of this Agreement, that certain potential withdrawal liability exists with respect to Multiemployer Plans in which Transferred Employees have participated prior to Closing, and will continue to participate after Closing based upon contributions to those plans by Buyer. In the event that Buyer incurs withdrawal liability with respect to any Multiemployer Plan during the five year period commencing on the Closing (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), Seller shall reimburse Buyer in an amount equal to the lesser of (A) such withdrawal liability or (B) 50% of Seller's Attributable Withdrawal Liability with respect to such Multiemployer Plan. For these purposes, the term "Attributable Withdrawal Liability," with respect to each Multiemployer Plan, shall mean the amount equal to difference between (X) the estimated withdrawal liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such Multiemployer Plan in a complete withdrawal on the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) (which the parties agree to be the per store amount with respect to each Multiemployer Plan as set forth under "Column A" on Section 6.01(j)(iv) of the Disclosure Schedule multiplied by the applicable number of in scope stores purchased by Buyer), and (Y) if applicable, any reductions attributable to (i) the estimated application of the "20 year payment cap" on Seller's potential withdrawal liability with respect to the Acquired Stores pursuant to Section 4219(c)(1)(B) of ERISA (which the parties agree to result in the amount with respect to each Multiemployer Plan produced from taking the midpoint of the applicable amount under "Column B" and "Column C" on Section 6.01(j)(iv) of the Disclosure Schedule) and/or (ii) for each Multiemployer Plan that uses the "presumptive method" of calculating withdrawal liability as defined in Section 4211(b) of ERISA, the portion of Seller's withdrawal

liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such Multiemployer Plan in a complete withdrawal on the Closing Date that is in excess of the withdrawal liability attributable to the five year contribution history that Buyer proposes to assume pursuant to Section 4204(b)(1) of ERISA. To the extent that either Buyer or Seller makes a reasonable challenge to a withdrawal liability assessment, the parties shall bear the costs associated with such challenge in proportion to their respective percentage shares of such withdrawal liability. Buyer shall determine the allocation of any withdrawal liability assessment as between Buyer and Seller using an actuary engaged whose costs shall be borne equally by Buyer and Seller (the “Buyer’s Actuary”). The Buyer’s Actuary shall provide to Seller within fourteen (14) Business Days of any withdrawal liability assessment a report setting forth its calculations regarding the withdrawal liability allocation (the “Withdrawal Liability Allocation Report”). Seller may engage an actuary at its own cost (the “Seller’s Actuary”) to verify the Withdrawal Liability Allocation Report of the Buyer’s Actuary, and shall cause the Seller’s Actuary to notify the Buyer’s Actuary in writing in the event that the Seller’s Actuary does not agree with the Withdrawal Liability Allocation Report within thirty (30) days of its receipt of such report. If the Seller’s Actuary notifies the Buyer’s Actuary that he or she does not agree with the Withdrawal Liability Allocation Report, Buyer and Seller shall negotiate with each other in good faith with a view to agreeing to an allocation of the applicable withdrawal liability assessment. If, however, Buyer and Seller fail to agree within fifteen (15) days of the notice of disagreement by the Seller’s Actuary, the matter shall be referred to a third actuary to be appointed by agreement between the Seller’s Actuary and the Buyer’s Actuary (the “Third Party Actuary”). The Third Party Actuary shall act as an expert and not as an arbitrator; however, his or her decision shall be final and binding on the parties hereto, unless either party can demonstrate a manifest error on the part of the Third Party Actuary. The Third Party Actuary’s costs shall be borne equally by Buyer and Seller.

(v) Buyer shall notify the Multiemployer Plan of the transactions contemplated by this Agreement and agrees to provide the Multiemployer Plan with any information that the Multiemployer Plan requires to demonstrate compliance with the terms of Section 4204 of ERISA.

(vi) Notwithstanding any other provisions of this Section, Section 4204 of ERISA or anything else contained in this Agreement to the contrary, it is expressly agreed that if Seller incurs any secondary withdrawal liability pursuant to Section 4204(a)(2) of ERISA as a result of Buyer’s withdrawal from a Multiemployer Plan, Buyer shall indemnify and hold Seller harmless from any and all losses incurred by Seller by reason of such liability, after taking into account any amount Seller has agreed to indemnify Buyer for pursuant to Section 6.01(j)(iv). In addition, if Seller or any of its Affiliates incurs any liability as a result of Buyer’s failure to comply with the terms of this Agreement relating to Section 4204 of ERISA, Buyer shall indemnify and hold each of them harmless from any withdrawal liability and other losses incurred by Seller or any of its Affiliates by reason of such failure; provided, however, that such indemnification shall not apply to any amounts in excess of the estimated withdrawal liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such

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Multiemployer Plan in a complete withdrawal on the Closing Date less any reductions attributable to the estimated application of the “20 year payment cap” on Seller’s potential withdrawal liability pursuant to Section 4219(c)(1)(B) of ERISA (in each case, determined in the manner set forth in Section 6.01(j)(iv)); provided, however, that the parties agree that Buyer shall not be deemed to have failed to have complied with the terms of Section 4204(a)(1)(A) of ERISA for purposes of this Section 6.01(j)(vi) where it contributes to the Multiemployer Plan for substantially the same number of contribution base units for which Seller and its Affiliates had an obligation to contribute to such Multiemployer Plan for a period beginning on the Closing Date and ending on the last day of the plan year of the Multiemployer Plan that first commences immediately following the Closing Date. In the event that the requirements of Section 4204 of ERISA are not satisfied for any reason other than Buyer’s failure to comply with the terms of this Agreement relating to Section 4204, and withdrawal liability is triggered and imposed upon Seller in connection with the transaction, the Attributable Withdrawal Liability under Section 6.01(j)(iv) will be reduced by any actual withdrawal liability that Seller is required to pay in connection therewith.

(k) Nothing in this Section 6.01, express or implied, is intended to confer on any person other than the parties hereto or their respective successors or assigns any rights, remedies, obligations or liabilities under or by reason of this Section 6.01 and no Transferred Employee or current or former employee of Seller, or any beneficiary or dependent thereof, or any other person not a party to this Agreement shall be entitled to assert any claim hereunder. Nothing in this Section 6.01 is intended to be, shall constitute or shall be construed as an amendment or modification to any Employee Plans or any other employee benefit plans or arrangements of Seller, Buyer or any of their respective Affiliates or in any way limit the right of Seller, Buyer or any of their respective Affiliates to amend, modify or terminate any of their respective employee benefit plans or arrangements. Notwithstanding any provision herein to the contrary, neither Buyer nor any of its Affiliates shall be obligated to continue to employ any Business Employee or Union Business Employee for any specific period of time following the Employment Start Date, subject to applicable requirements of Laws or the terms of any applicable CBA.

(l) Leasing Arrangement. In respect of the Transferred Employees, Seller and Buyer may mutually agree to enter into an employee leasing agreement pursuant to which all Transferred Employees shall temporarily remain employed by Seller or one of its Affiliates for the period following the Closing Date until such time as the final Subsequent Closing Date has occurred in order to reduce the administrative burdens associated with multiple closings and to facilitate a more orderly transition of employment from Seller and its Affiliates to Buyer and its Affiliates. In the event that Seller and Buyer mutually agree to enter into such an agreement, Seller and Buyer agree to negotiate in good faith to amend the terms of this Agreement and any other Transaction Agreement as necessary to appropriately reflect the terms of such arrangement.

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ARTICLE VII

CONDITIONS TO CLOSING

Section 7.01. Conditions to Obligations of Parent and Seller. The obligation of Parent and Seller to consummate the Closing shall be subject to the fulfillment, or waiver by Parent in its sole discretion (and, in the case of Section 7.01(f), Parent and Seller in their respective sole discretion), at or prior to the Closing, of each of the following conditions:

- (a) Representations and Warranties; Covenants. Each of (i) the representations and warranties of Buyer contained in this Agreement and in any certificate delivered pursuant hereto shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date as if made on such date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all material respects as of such date); (ii) the covenants contained in this Agreement required to be complied with by Buyer on or before the Closing shall have been complied with in all material respects; and (iii) Seller shall have received a certificate of Buyer to such effect signed by a duly authorized executive officer.
- (b) Governmental Approvals. The filings or approvals of applicable state boards of pharmacy required to be made or obtained prior to Closing specified on Section 7.01(b) of the Disclosure Schedules shall have been made or obtained.
- (c) No Governmental Order. There shall be no Governmental Order in existence that prohibits the sale of the Purchased Assets or the other transactions contemplated by the Transaction Agreements, and there shall be no Action pending by any Governmental Authority seeking such a Governmental Order.
- (d) Ancillary Agreements. Buyer shall have executed and delivered to Seller and Parent all of the Ancillary Agreements to be delivered at Closing.
- (e) FTC Preliminary Approval. The FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition and such Proposed Consent Order shall identify Fred's or the Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder.
- (f) Rite Aid Closing. The Rite Aid Closing shall have occurred.
- (g) Duplicate IT System. Parent shall have (a) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing using the Developed Testing Procedures and (b) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate.

Section 7.02. Conditions to Obligations of Buyer. The obligations of Buyer to consummate the Closing shall be subject to the fulfillment, or waiver by Buyer in its sole discretion, at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties; Covenants. Each of (i) (A) the representations and warranties of Seller contained in this Agreement and in any certificate delivered pursuant hereto that is qualified by Material Adverse Effect shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date as if made on such date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all respects as of such date) and (B) all other representations and warranties of Seller contained in this Agreement and in any certificate delivered pursuant hereto shall be true and correct in all respects as of the Closing as if made on the Closing Date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all respects as of such date), except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect; (ii) the covenants contained in this Agreement required to be complied with by Seller on or before the Closing shall have been complied with in all material respects; and (iii) Buyer shall have received a certificate of Seller to such effect signed by a duly authorized representative of Seller.

(b) Governmental Approvals. The filings or approvals of applicable state boards of pharmacy required to be made or obtained prior to Closing specified on Section 7.01(b) of the Disclosure Schedules shall have been made or obtained.

(c) No Governmental Order. There shall be no Governmental Order in existence that prohibits the sale of the Purchased Assets or the other transactions contemplated by the Transaction Agreements, and there shall be no Action pending by any Governmental Authority seeking such a Governmental Order.

(d) Ancillary Agreements. Seller and Parent shall have executed and delivered to Buyer all of the Ancillary Agreements to be executed and delivered by Seller and Parent, as the case may be, at Closing.

(e) Absence of Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or circumstance that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect that is continuing.

(f) FTC Preliminary Approval. The FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition and such Proposed Consent Order shall identify Fred's or the Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder.

(g) Duplicate IT System. Parent shall have (a) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing using the Developed Testing Procedures and (b) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate.

(h) Rite Aid Closing. The Rite Aid Closing shall have occurred.

Section 7.03. Frustration of Closing Conditions. Neither Seller nor Buyer may rely on the failure of any condition set forth in this ARTICLE VII to be satisfied if such failure was caused by such party's failure to act in good faith or to use its reasonable best efforts to cause the Closing to occur, including as required by Section 5.05.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

Section 8.01. Termination. This Agreement may be terminated prior to the Closing:

- (a) by the mutual written consent of Parent and Buyer;
- (b) by either Parent, Seller or Buyer in the event of the issuance of a final, nonappealable Governmental Order permanently restraining or prohibiting the sale of the Purchased Assets;
- (c) by Buyer (i) in the event of any material breach by Seller of any of Seller's agreements, representations or warranties contained herein which breach would give rise to the failure of a condition set forth in Section 7.02 and, if such breach is curable, the failure of Seller to cure such breach within twenty (20) Business Days after receipt of notice from Buyer requesting such breach to be cured; or (ii) upon the occurrence after the date hereof of an event that has had or would reasonably be expected to have a Material Adverse Effect not arising from a breach by Seller and which is not curable by Seller within such twenty (20) Business Day notice period;
- (d) by Parent in the event of any material breach by Buyer of any of Buyer's agreements, representations or warranties contained herein which breach would give rise to the failure of a condition set forth in Section 7.01 and, if such breach is curable, the failure of Buyer to cure such breach within twenty (20) Business Days after receipt of notice from Parent requesting such breach to be cured;
- (e) by Parent, if Fred's or the Buyer is not preliminarily approved by the FTC or other necessary Governmental Authority as purchaser of the Purchased Assets hereunder;
- (f) by Parent, if the FTC Staff informs Parent or its Affiliates in writing that the Director of the Bureau of Competition will not recommend approval of Fred's or the Buyer as purchaser of the Purchased Assets hereunder;
- (g) by any of Parent, Seller or Buyer in the event that the Agreement and Plan of Merger, dated as of as of October 27, 2015, among Parent, Seller and the other parties thereto (as the same may be amended, modified or supplemented) with respect to the Rite Aid Acquisition shall have been terminated in accordance with its terms; or
- (h) by Parent or Buyer, upon written notice to the other, in the event that the Closing has not occurred on or before June 30, 2017; provided , however , that the right to

terminate this Agreement under this Section 8.01(h) shall not be available to any party whose failure to take any action required to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to such date.

Section 8.02. Notice of Termination. Any party desiring to terminate this Agreement pursuant to Section 8.01 shall give written notice of such termination to the other party to this Agreement.

Section 8.03. Effect of Termination. In the event of the termination of this Agreement as provided in Section 8.01, this Agreement shall forthwith become void and there shall be no liability on the part of any party to this Agreement, except as set forth in Section 5.04 and ARTICLE X; provided, however, that nothing in this Agreement shall relieve either Seller or Buyer from liability for (a) any breach or failure to perform the obligations set forth in Section 5.04 or (b) any willful breach of this Agreement or willful failure to perform its other obligations under this Agreement.

Section 8.04. Extension; Waiver; Rescission. At any time prior to the Closing, Parent or Buyer may (a) extend the time for the performance of any of the obligations or other acts of the other Person, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement, or (c) waive compliance with any of the agreements or conditions contained in this Agreement, but such waiver of compliance with such agreements or conditions shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party granting such extension or waiver. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder. If, after the public comment period, at the time the FTC determines to make final and effective its Decision and Order concerning the acquisition of the Purchased Assets, the FTC notifies Parent and Seller that Buyer is not an acceptable purchaser of the assets being transferred to Buyer pursuant to this Agreement, then each of the Parent, Seller and Buyer shall have the right immediately to rescind this Agreement, and the termination provisions of this Agreement in ARTICLE VIII shall be applicable as if a termination of this Agreement has occurred.

ARTICLE IX

INDEMNIFICATION

Section 9.01. Indemnification by Seller.

(a) From and after the Closing (with respect to the Acquired Stores to be transferred on the Closing Date) and each Subsequent Closing (with respect to the Acquired Stores to be transferred on such Subsequent Closing Date), and subject to Section 9.01(b), Section 9.03, Section 9.05, Section 9.06, Section 9.07, Section 9.08 and Section 10.01, Seller shall indemnify, defend and hold harmless Buyer and its Affiliates and Representatives

(collectively, the “Buyer Indemnified Parties”) against, and reimburse any Buyer Indemnified Party for, all Losses that such Buyer Indemnified Party may suffer or incur, or become subject to, as a result of:

(i) any breach of any warranty or the inaccuracy of any representation of Seller contained or referred to in this Agreement or any certificate delivered by or on behalf of Seller pursuant hereto as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date, any Subsequent Closing Date or the Distribution Center Closing Date (except that for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of such representation or warranty will be determined with reference to such specified date); provided that the disclosure of any and all Bring-Down Exceptions shall be expressly disregarded for purposes of determining the existence of any such breach or inaccuracy;

(ii) any breach or failure by Seller to perform any of its covenants or obligations contained in this Agreement to be performed before, on or after the Closing (or such Subsequent Closing or Distribution Center Closing, as applicable);

(iii) the matters set forth in Section 6.01 with respect to which Seller may be obligated to provide indemnification thereunder; or

(iv) any Excluded Liability.

(b) Notwithstanding any other provision of this Agreement to the contrary: (i) Seller shall not be required to indemnify, defend or hold harmless any Buyer Indemnified Party against, or reimburse any Buyer Indemnified Party for, any Losses pursuant to Section 9.01(a)(i) (A) with respect to any claim unless such claim involves Losses in excess of \$25,000 and (B) until the aggregate amount of Buyer Indemnified Parties’ Losses exceeds \$1,000,000 (the “Deductible Amount”), after which Seller shall only be obligated for such aggregate Losses of Buyer Indemnified Parties in excess of the Deductible Amount; (ii) the cumulative indemnification obligation of Seller under Section 9.01(a)(i) (other than the indemnification obligation of Seller with respect to representations and warranties made in Sections 3.01 or 3.10) shall in no event exceed \$95,000,000; and (iii) the cumulative indemnification obligation of Seller under this ARTICLE IX and Section 5.07 shall in no event exceed the Purchase Price.

(c) The Seller’s obligation under this Section 9.01 to indemnify any Buyer Indemnified Party for any Loss resulting from an inaccurate representation made by Seller in this Agreement or any certificate delivered by or on behalf of Seller pursuant hereto will not be affected if the Buyer has knowledge of that inaccuracy, whether obtained before, on or after the Closing, any Subsequent Closing or the Distribution Center Closing.

Section 9.02. Indemnification by Buyer.

(a) From and after the Closing (with respect to the Acquired Stores to be transferred on the Closing Date) and each Subsequent Closing (with respect to the Acquired Stores to be transferred on such Subsequent Closing Date), and subject to Section 9.03, Section

9.05, Section 9.06, Section 9.08 and Section 10.01, Buyer shall indemnify, defend and hold harmless Seller and its Affiliates (collectively, the “Seller Indemnified Parties”) against, and reimburse any Seller Indemnified Party for, all Losses that such Seller Indemnified Party may suffer or incur, or become subject to, as a result of:

- (i) any breach of any warranty or the inaccuracy of any representation of Buyer contained or referred to in this Agreement or any certificate delivered by or on behalf of Buyer pursuant hereto as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date, any Subsequent Closing Date or the Distribution Center Closing Date (except that for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of such representation or warranty will be determined with reference to such specified date);
- (ii) any breach or failure by Buyer to perform any of its covenants or obligations contained in this Agreement to be performed before, on or after the Closing (or such Subsequent Closing or Distribution Center Closing, as applicable);
- (iii) any Assumed Liability; or
- (iv) the matters set forth in Section 2.01(g) and Section 6.01 with respect to which Buyer may be obligated to provide indemnification thereunder.

(b) Notwithstanding any other provision of this Agreement to the contrary: (i) Buyer shall not be required to indemnify, defend or hold harmless any Seller Indemnified Party against, or reimburse any Seller Indemnified Party for, any Losses pursuant to Section 9.02(a)(i) until the aggregate amount of Seller Indemnified Parties’ Losses exceeds the Deductible Amount, after which Buyer shall only be obligated for such aggregate Losses of Seller Indemnified Parties in excess of the Deductible Amount; and (ii) the cumulative indemnification obligation of Buyer under Section 9.02(a)(i) shall in no event exceed the Purchase Price.

Section 9.03. Notification of Claims.

(a) A Person that may be entitled to be indemnified under this ARTICLE IX (the “Indemnified Party”), shall promptly notify the party or parties liable for such indemnification (the “Indemnifying Party”) in writing of any pending or threatened claim, demand or circumstance that the Indemnified Party has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement (including a pending or threatened claim or demand asserted by a third party against the Indemnified Party, such claim being a “Third Party Claim”), describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim, demand or circumstance; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this ARTICLE IX except to the extent the Indemnifying Party is prejudiced by such failure, it being understood that notices for claims in respect of a breach of a representation, warranty, covenant or agreement must be delivered prior

to the expiration of any applicable survival period specified in Section 10.01 for such representation, warranty, covenant or agreement.

(b) Upon receipt of a notice of a claim for indemnity from an Indemnified Party pursuant to Section 9.03(a), with respect to any Third Party Claim, the Indemnifying Party shall have the right (but not the obligation) to assume the defense and control of any Third Party Claim and, in the event that the Indemnifying Party assumes the defense and control of such claim, it shall allow the Indemnified Party a reasonable opportunity to participate in the defense of such Third Party Claim with its own counsel and at its own expense. The party that shall control the defense of any such Third Party Claim (the “Controlling Party”) shall select counsel, contractors and consultants of recognized standing and competence after consultation with the other party and shall take all steps reasonably necessary in the defense or settlement of such Third Party Claim.

(c) Seller or Buyer, as the case may be, shall, and shall cause each of its Affiliates and Representatives to, cooperate fully with the Controlling Party in the defense of any Third Party Claim. The Indemnifying Party shall be authorized to consent to a settlement of, or the entry of any judgment arising from, any Third Party Claim, without the consent of any Indemnified Party; provided, that the Indemnifying Party shall (i) pay or cause to be paid all amounts arising out of such settlement or judgment concurrently with the effectiveness of such settlement (subject to Section 9.01(b) and Section 9.02(b), if applicable), (ii) not encumber any of the material assets of any Indemnified Party or agree to any restriction or condition that would apply to or materially adversely affect any Indemnified Party or the conduct of any Indemnified Party’s business and (iii) obtain, as a condition of any settlement or other resolution, a complete release of any Indemnified Party potentially affected by such Third Party Claim.

(d) If any Indemnifying Party receives a notice of a claim for indemnity from an Indemnified Party pursuant to Section 9.03(a) that does not involve a Third Party Claim, the Indemnifying Party shall notify the Indemnified Party within thirty (30) days following its receipt of such notice if the Indemnifying Party disputes its liability to the Indemnified Party under this ARTICLE IX. If the Indemnifying Party does not so notify the Indemnified Party, the claim specified by the Indemnified Party in such notice shall be conclusively deemed to be a Liability of the Indemnifying Party under this ARTICLE IX, and the Indemnifying Party shall pay, subject to the limitations set forth in Section 9.01(b) and Section 9.02(b), if applicable, the amount of such Liability to the Indemnified Party on demand or, in the case of any notice in which the amount of the claim (or any portion of the claim) is estimated, on such later date when the amount of such claim (or such portion of such claim) becomes finally determined. If the Indemnifying Party has timely disputed its liability with respect to such claim as provided above, the Indemnifying Party and the Indemnified Party shall resolve such dispute in accordance with Section 10.11.

Section 9.04. Exclusive Remedies. Except with respect to the matters covered by ARTICLE II, and other than with respect to any equitable remedies contemplated by Section 10.13, Seller and Buyer acknowledge and agree that, following the Closing, the indemnification provisions of Section 9.01 and Section 9.02 shall be the sole and exclusive remedies of any Seller Indemnified Party and any Buyer Indemnified Party, respectively, for any

Losses (including any Losses from claims for breach of contract, warranty, tortious conduct (including negligence) or otherwise and whether predicated on common law, statute, strict liability, or otherwise) that it may at any time suffer or incur, or become subject to, as a result of, or in connection with, any breach of any representation or warranty in this Agreement by Buyer or Seller, respectively, or any failure by Buyer or Seller, respectively, to perform or comply with any covenant or agreement set forth herein. Without limiting the generality of the foregoing, the parties hereto hereby irrevocably waive any right of rescission they may otherwise have or to which they may become entitled. The provisions of this Section were specifically bargained for among the parties and were taken into account by the parties in arriving at the Purchase Price and the terms and conditions of this Agreement. Seller has specifically relied upon the provisions of this Section in agreeing to the Purchase Price and the terms and conditions of this Agreement. No Person who is not a party to this Agreement or the Ancillary Agreements, including any past, present or future director, officer, employee, incorporator, member, partner, manager, stockholder, Affiliate, agent, attorney, or representative of, and any financial advisor or lender to, any party hereto, or any director, officer, employee, incorporator, member, partner, manager, stockholder, Affiliate, agent, attorney, or representative of, and any financial advisor or lender to, any of the foregoing shall have any liability (whether in contract or in tort, in law or in equity, or granted by statute) for any claims, Liabilities or causes of action arising under, out of, in connection with, or related in any manner to this Agreement or the Ancillary Agreements or based on, in respect of, or by reason of this Agreement or the Ancillary Agreements or its or their negotiation, execution, performance, or breach; and, to the maximum extent permitted by law, each party hereto hereby waives and releases all such claims, Liabilities and causes of action against any such Persons.

Section 9.05. Additional Indemnification Provisions.

(a) With respect to each indemnification obligation contained in this ARTICLE IX (i) all Losses shall be net of any third-party insurance proceeds that have been recovered or are recoverable by the Indemnified Party in connection with the facts giving rise to the right of indemnification, (ii) Seller shall have no liability to indemnify any Buyer Indemnified Party with respect to any Losses caused by or resulting from any action (A) that Seller is required, permitted or requested to take pursuant to this Agreement (including with the consent of Buyer) or (B) that Seller, having sought Buyer's consent pursuant to this Agreement, did not take as a result of Buyer having withheld or delayed the requested consent and (iii) each such obligation shall be calculated on an After-Tax Basis.

(b) If an Indemnifying Party makes any payment for any Losses suffered or incurred by an Indemnified Party pursuant to the provisions of this ARTICLE IX, such Indemnifying Party shall be subrogated, to the extent of such payment, to all rights and remedies of the Indemnified Party to any insurance benefits or other claims of the Indemnified Party with respect to such Losses and with respect to the claim giving rise to such Losses.

(c) Buyer and Seller agree that, for purposes of computing the amount of any indemnification payment under this ARTICLE IX, any such indemnification payment shall be treated as an adjustment to the Purchase Price for all Tax purposes.

Section 9.06. Mitigation. Each of the parties shall, and shall cause its applicable Affiliates and Representatives to, take all reasonable steps to mitigate their respective Losses upon and after becoming aware of any event or condition that would reasonably be expected to give rise to any Losses that are indemnifiable hereunder.

Section 9.07. Third Party Remedies. If any Buyer Indemnified Party is at any time entitled (whether by reason of a contractual right, a right to take or bring an Action, availability of insurance, or a right to require a payment discount or otherwise) to recover from another Person any amount in respect of any matter giving rise to a Loss (whether before or after Seller has made a payment to an Buyer Indemnified Party hereunder and in respect thereof), Buyer shall (and shall cause its applicable Affiliate to) (i) promptly notify Seller and provide such information as Seller may require relating to such right of recovery and the steps taken or to be taken by Buyer in connection therewith, (ii) if so required by Seller (subject to Buyer being indemnified to its reasonable satisfaction by Seller against all reasonable out-of-pocket costs and expenses incurred by Buyer in respect thereof) and before being entitled to recover any amount from Seller under this Agreement, first take all steps (whether by making a claim against its insurers, commencement of an Action or otherwise) as Seller may reasonably require to pursue such recovery, and (iii) keep Seller fully informed of the progress of any action taken in respect thereof. Thereafter, any claim against Seller shall be limited (in addition to the limitations on the liability of Seller referred to in this Agreement) to the amount by which the Losses suffered by Buyer Indemnified Party exceed the amounts so recovered by Buyer Indemnified Party or any Affiliate of Buyer. If Buyer Indemnified Parties recover any amounts in respect of Losses from any third party at any time after Seller has paid all or a portion of such Losses to Buyer Indemnified Parties pursuant to the provisions of this ARTICLE IX, Buyer shall, or shall cause such Buyer Indemnified Parties to promptly (and in any event within two (2) Business Days of receipt) pay over to Seller the amount so received (to the extent previously paid by Seller).

Section 9.08. Limitation on Liability. In no event shall any party have any liability to the other (including under this ARTICLE IX) for any consequential, special, incidental, indirect or punitive damages, lost profits or similar items (including loss of revenue, income or profits, diminution of value or loss of business reputation or opportunity relating to a breach or alleged breach hereof); provided, that such limitation with respect to lost profits shall not limit either party's right to recover contract damages in connection with the other party's failure to close in violation of this Agreement.

Section 9.09. Parent Guaranty.

(a) Parent hereby, subject to the limitations set forth in this Article IX, unconditionally and irrevocably guarantees (the "Parent Guaranty") by way of an independent obligation to Buyer the due and punctual performance of the obligations of Seller under this Agreement to the extent to be performed from or after the closing of the Rite Aid Acquisition when and as the same shall arise and become due and payable in accordance with the terms of and subject to the conditions contained in this Agreement (the "Seller Obligations").

(b) Notwithstanding anything to the contrary herein, following the Rite Aid Closing Buyer shall, prior to bringing any Action against Parent with respect to the Seller Obligations or otherwise seeking any recourse with respect thereto, use commercially

reasonable efforts to seek resolution against Seller with respect to the subject matter giving rise to such Action, and provided that Buyer has made such efforts:

(i) Parent waives any and all notice of the creation, renewal, extension or accrual of the Seller Obligations, any defenses (other than those that may be available to Seller under this Agreement) and notice of or proof of reliance by Buyer upon this Parent Guaranty or acceptance of this Parent Guaranty. The Seller Obligations shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Parent Guaranty. All dealings between Buyer and Seller shall be conclusively presumed to have been had or consummated in reliance upon this Parent Guaranty. Parent agrees that any notice provided under this Agreement (including any demand for payment or notice of default or non-payment) to Seller shall be deemed to constitute notice to Parent for purposes hereof; and

(ii) this is a guaranty of payment, not merely of collection. If for any reason whatsoever Seller shall fail or be unable to perform or comply with the Seller Obligations, Parent will promptly upon receipt of notice thereof from Buyer forthwith perform the Seller Obligations then obligated.

(c) Parent represents that: (i) Parent has full right, authority and capacity to join in this Agreement and provide the guaranty as set forth in this Section 9.09; (ii) the execution, delivery and performance by Parent of this Agreement has been duly authorized, and no other action on the part of Parent is required in connection therewith; and (iii) this Agreement constitutes a valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

Section 9.10. Fred's Guaranty.

(a) Fred's hereby, subject to the limitations set forth in this Article IX, unconditionally and irrevocably guarantees (the "Fred's Guaranty") by way of an independent obligation to Parent the due and punctual performance of the obligations of Buyer under this Agreement to the extent to be performed from or after the date of this Agreement when and as the same shall arise and become due and payable in accordance with the terms of and subject to the conditions contained in this Agreement (the "Buyer Obligations").

(b) Notwithstanding anything to the contrary herein, with respect to Buyer Obligations in respect of Purchased Assets and Assumed Liabilities that have been transferred to Buyer pursuant to this Agreement, Parent shall, prior to bringing any Action against Fred's with respect to such Buyer Obligations or otherwise seeking any recourse with respect thereto, use commercially reasonable efforts to seek resolution against Buyer with respect to the subject matter giving rise to such Action, and provided that Parent has made such efforts:

(i) Fred's waives any and all notice of the creation, renewal, extension or accrual of the Buyer Obligations, any defenses (other than those that may be available to Buyer under this Agreement) and notice of or proof of reliance by Parent upon this Fred's Guaranty or acceptance of this Fred's Guaranty. The Buyer Obligations shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Fred's Guaranty. All dealings between Buyer and Parent shall be conclusively presumed to have been had or consummated in reliance upon this Fred's Guaranty. Fred's agrees that any notice provided under this Agreement (including any demand for payment or notice of default or non-payment) to Buyer shall be deemed to constitute notice to Fred's for purposes hereof; and

(ii) this is a guaranty of payment, not merely of collection. If for any reason whatsoever Buyer shall fail or be unable to perform or comply with the Buyer Obligations, Fred's will promptly upon receipt of notice thereof from Parent forthwith perform the Buyer Obligations then obligated.

(c) Fred's represents that: (i) Fred's has full right, authority and capacity to join in this Agreement and provide the guaranty as set forth in this Section 9.10; (ii) the execution, delivery and performance by Fred's of this Agreement has been duly authorized, and no other action on the part of Fred's is required in connection therewith; and (iii) this Agreement constitutes a valid and binding obligation of Fred's, enforceable against Fred's in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

ARTICLE X

GENERAL PROVISIONS

Section 10.01. Survival. The representations and warranties of Seller and Buyer contained in or made pursuant to this Agreement shall survive in full force and effect until the date that is twenty-four (24) months after the Closing Date, at which time they shall terminate (and no claims shall be made for indemnification for breaches of any representations or warranties under Section 9.01 or Section 9.02 thereafter); provided that the representations and warranties made in Section 3.10, Section 3.11, Section 3.14 and Section 5.07 shall survive until the expiration of the statute of limitations applicable to the matters related thereto; provided, further, that the representations and warranties made in Sections 3.01, 3.03, 4.01, 4.02 and 4.04 shall survive in full force and effect until the fifth (5th) anniversary of the Closing Date, at which time they shall terminate (and no claims shall be made for indemnification under Section 9.01 or Section 9.02 thereafter); provided, further, that the covenants and agreements that by their terms apply or are to be performed in whole or in part after the Closing Date, shall survive for the period provided in such covenants and agreements, if any, or until fully performed.

Section 10.02. Expenses. Except as may be otherwise specified in the Transaction Agreements, all costs and expenses, including fees and disbursements of counsel,

financial advisers and accountants, incurred in connection with the Transaction Agreements and the transactions contemplated by the Transaction Agreements shall be paid by the Person incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 10.03. Notices. All notices, requests, claims, demands and other communications under the Transaction Agreements shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by facsimile with receipt confirmed (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10.03):

(i) if to Seller:

Rite Aid Corporation
30 Hunter Lane
Camp Hill, PA 17011
Attention: James J. Comitale
Email: jcomitale@riteaid.com
Facsimile: (717) 760-7867

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Chris Abbinante; Scott R. Williams
Email: cabbinate@sidley.com; swilliams@sidley.com
Facsimile: (312) 853-7036

and, if prior to Rite Aid Closing:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, NY 10036
Attention: Paul T. Schnell; Marie L. Gibson
Email: paul.schnell@skadden.com; marie.gibson@skadden.com
Facsimile: (212) 735-2000

(ii) if to Parent:

Walgreens Boots Alliance, Inc.
108 Wilmot Road
Deerfield, IL 60015
Attention: Marco Pagni
Email: marco.pagni@wba.com
Facsimile: (847) 315-8570

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Chris Abbinante; Scott R. Williams
Email: cabbinate@sidley.com; swilliams@sidley.com
Facsimile: (312) 853-7036

(iii) if to Fred's:

Fred's, Inc.
4300 New Getwell Road
Memphis, TN 38118
Attention: General Counsel

with a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
First Tennessee Building
165 Madison Avenue
Suite 2000
Memphis, TN 38103
Attention: Sam Chafetz; Drew Yonchak
Email: schafetz@bakerdonelson.com; dyonchak@bakerdonelson.com
Facsimile: (901) 577-0854

(iv) if to Buyer:

AFAE, LLC
c/o Fred's, Inc.
4300 New Getwell Road
Memphis, TN 38118
Attention: General Counsel

with a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
First Tennessee Building
165 Madison Avenue
Suite 2000
Memphis, TN 38103
Attention: Sam Chafetz; Drew Yonchak
Email: schafetz@bakerdonelson.com; dyonchak@bakerdonelson.com
Facsimile: (901) 577-0854

Section 10.04. Public Announcements. No party to this Agreement or any Affiliate or Representative of such party shall issue or cause the publication of any press release or public announcement or otherwise communicate with any news media in respect of this Agreement or the transactions contemplated by this Agreement without the prior written consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed), except as may be required by Law or stock exchange rules, in which case the party required to publish such press release or public announcement shall allow the other party a reasonable opportunity to comment on such press release or public announcement in advance of such publication, to the extent practicable.

Section 10.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any Law or as a matter of public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible.

Section 10.06. Entire Agreement. The Transaction Agreements and the Expense Reimbursement Letter, dated as of November 10, 2016, among Parent and Buyer constitute the entire agreement of Parent, Seller and/or their respective Affiliates, on the one hand, and Buyer and/or its Affiliates, on the other hand, with respect to the subject matter of the Transaction Agreements and supersede all prior agreements, undertakings and understandings, both written and oral, other than the Confidentiality Agreement to the extent not in conflict with this Agreement, between or on behalf of Seller and/or its Affiliates, on the one hand, and Buyer and/or its Affiliates, on the other hand, with respect to the subject matter of the Transaction Agreements.

Section 10.07. Assignment. This Agreement shall not be assigned by operation of Law or otherwise without the prior written consent of Parent, Fred's, Seller and Buyer; provided that (i) Buyer may assign its right to acquire any of the Purchased Assets to any wholly-owned, domestic Subsidiary of Buyer, in its sole discretion (it being acknowledged and agreed that no such assignment shall relieve Buyer of any of its obligations hereunder or materially delay or impede the consummation of the transactions contemplated hereby); and (ii) Buyer may (in connection with any Debt Financing) collaterally assign and transfer to the applicable Lenders, for the benefit of the secured parties under such Debt Financing, this Agreement and any Ancillary Agreement (including all rights, remedies, powers and authority of Buyer under this Agreement and any Ancillary Agreement) and in connection therewith, Parent, Fred's, Seller and Buyer agree (A) that such Lenders (or any agent therefor) shall have the right to (1) enforce (solely in connection with the enforcement of any remedies of such Lenders in connection with the Debt Financing (an "Enforcement Event")) any rights of Fred's or Buyer under this Agreement and any Ancillary Agreement, (2) in connection with any Enforcement Event, compromise or settle any disputed claims as to rights of Fred's or Buyer under this

Agreement and any Ancillary Agreement or (3) in connection with any Enforcement Event, give releases or acquittances of rights of Fred's or Buyer under this Agreement and any Ancillary Agreement; and (B) to reasonably cooperate with such Lender (or any agent thereof) in connection with the enforcement of any such rights and remedies of the Lenders in connection with any Enforcement Event; provided, that such no such cooperation results in any Liability of Parent, Seller or any of their Affiliates to Buyer, the Lenders or any other Person. Any attempted assignment in violation of this Section 10.07 shall be void. This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by the parties hereto and their successors and permitted assigns.

Section 10.08. No Third-Party Beneficiaries. Except (a) as provided in ARTICLE IX with respect to Seller Indemnified Parties and Buyer Indemnified Parties and (b) this Section 10.08, the proviso of Section 10.07, the proviso of Section 10.09, Section 10.11, Section 10.16 and Section 10.17 (in each case, with respect to the Lender Related Parties), this Agreement is for the sole benefit of the parties to this Agreement and their permitted successors and assigns and nothing in this Agreement or any other Transaction Agreements, express or implied, is intended to or shall confer upon any other Person, including any employee or former employee of Seller or the Acquired Stores, or entity any legal or equitable right, benefit or remedy of any nature whatsoever, including any rights of employment for any specified period, under or by reason of this Agreement. This Section 10.08, the proviso of Section 10.07, the proviso of Section 10.09, Section 10.11, Section 10.16 and Section 10.17 are each intended to benefit the Lender Related Parties, and each Lender Related Party shall be deemed an intended third-party beneficiary of this Agreement with respect thereto and such provisions shall be enforceable by the Lender Related Parties.

Section 10.09. Amendment. No provision of this Agreement or any other Transaction Agreement, including any Exhibits or Schedules hereto or thereto, may be amended, supplemented or modified except by a written instrument making specific reference hereto or thereto signed by all the parties to such agreement. No consent from any Indemnified Party under ARTICLE IX (other than the parties to this Agreement) shall be required in order to amend this Agreement; provided, however, that no provisions of this Agreement to which any Lender Related Party is a third-party beneficiary may be amended in a manner materially adverse to the interests of the Lender Related Parties without the prior written consent of the Lenders.

Section 10.10. Disclosure Schedules. Any disclosure set forth in the Disclosure Schedules with respect to a Section or Schedule of this Agreement shall be deemed to be disclosed for other Sections or Schedules of this Agreement solely to the extent that such disclosure is reasonably sufficient on its face so that the relevance of such disclosure would be reasonably apparent to a reader of such disclosure. Matters reflected in any Section or Schedule of this Agreement are not necessarily limited to matters required by this Agreement to be so reflected. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. No reference to or disclosure of any item or other matter in any Section or Schedule of this Agreement shall be construed as an admission or indication that such item or other matter is material or that such item or other matter is required to be referred to or disclosed in this Agreement. Without limiting the foregoing, no such reference to or disclosure of a possible breach or violation of any Contract, Law or

Governmental Order shall be construed as an admission or indication that breach or violation exists or has actually occurred.

Section 10.11. Governing Law; Submission to Jurisdiction. This Agreement and each other Transaction Agreement (and any claims, causes of action or disputes that may be based upon, arise out of or relate hereto or thereto, to the transactions contemplated hereby and thereby, to the negotiation, execution or performance hereof or thereof, or to the inducement of any party to enter herein and therein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed in accordance with the internal Laws (as opposed to the conflicts of law provisions) of the State of Delaware. Each of Seller and Buyer agrees that any dispute, controversy or claim arising out of or relating to the transactions contemplated by the Transaction Agreements, or the validity, interpretation, breach or termination of any such agreement, including claims seeking redress or asserting rights under any Law (a “Dispute”) shall be resolved only in the Courts of the State of Delaware sitting in the County of New Castle or the United States District Court for the District of Delaware and the appellate courts having jurisdiction of appeals in such courts, provided that, any suit, action, litigation, proceeding or claim against any Lender Related Party (whether in law or equity or in contract, tort or otherwise) in connection with any aspect of the Debt Financing will be governed, including as to validity, interpretation, and effect, by the laws of the State of New York and shall be tried and litigated only in the state courts, and to the extent permitted by applicable law, federal courts, in each case located in New York County, New York and each of the parties hereto submits to the exclusive jurisdiction and venue of such courts relative to any such claim, controversy or dispute. In that context, and without limiting the generality of the foregoing, each of Parent, Seller and Buyer by this Agreement irrevocably and unconditionally:

- (a) submits for itself and its property in any Action relating to the Transaction Agreements, or for recognition and enforcement of any judgment in respect thereof, to the exclusive jurisdiction of the Courts of the State of Delaware sitting in the County of New Castle, the court of the United States of America for the District of Delaware, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Action shall be heard and determined in such Delaware State court or, to the extent permitted by Law, in such federal court;
- (b) consents that any such Action may and shall be brought in such courts and waives any objection that it may now or hereafter have to the venue or jurisdiction of any such Action in any such court or that such Action was brought in an inconvenient court and agrees not to plead or claim the same;
- (c) agrees that service of process in any such Action may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at its address as provided in Section 10.03; and
- (d) agrees that nothing in the Transaction Agreements shall affect the right to effect service of process in any other manner permitted by the Laws of the State of Delaware.

Notwithstanding the foregoing, any suit, action, litigation, proceeding or claim against any Lender Related Party (whether in law or equity or in contract, tort or otherwise) will be governed, including as to validity, interpretation, and effect, by the laws of the State of New York and shall be tried and litigated only in the state courts, and to the extent permitted by applicable law, federal courts, in each case located in New York County, New York and each of the parties hereto submits to the exclusive jurisdiction and venue of such courts relative to any such claim, controversy or dispute.

Section 10.12. Bulk Sales Laws. Buyer and Seller each hereby waive compliance by Seller and its Affiliates with the provisions of the “bulk sales”, “bulk transfer” or similar Laws of any state or any jurisdiction outside the United States that may otherwise be applicable with respect to the sale of any of the Purchased Assets.

Section 10.13. Specific Performance. Each party acknowledges and agrees that the breach of this Agreement would cause irreparable damage to the other party hereto and that neither party will have an adequate remedy at law. Therefore, the obligations of Seller under this Agreement, including Seller’s obligation to sell the Purchased Assets to Buyer, and the obligations of Buyer under this Agreement, including Buyer’s obligation to purchase and acquire the Purchased Assets from Seller, shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. Such remedies shall, however, be cumulative and not exclusive and shall be in addition to any other remedies which any party may have under this Agreement or otherwise. Each of the parties hereto expressly disclaims that it is owed any duties not expressly set forth in this Agreement, and waives and releases any and all tort claims and causes of action that may be based upon, arise out of or relate to this Agreement, or the negotiation, execution or performance of this Agreement.

Section 10.14. Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation,” (b) the word “or” is not exclusive and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. Unless the context otherwise requires, references herein (i) to Articles, Sections, Annexes, Exhibits and Schedules mean the Articles and Sections of, and the Annexes, Exhibits and Schedules attached to, this Agreement, (ii) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement, (iii) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder and (iv) to a Person means such Person and its predecessors and successors and permitted assigns. The Schedules, Annexes and Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein. Titles to Articles and headings of Sections are inserted for convenience of reference only and shall not be deemed a part of or to affect the meaning or interpretation of this Agreement. This Agreement and the Ancillary Agreements shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. All payments to be made hereunder are to be

made by wire transfer of immediately available funds to an account specified in writing by the party to be paid.

Section 10.15. Counterparts. Each of the Transaction Agreements may be executed in counterparts, and by the different parties to each such agreement in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to any Transaction Agreement by facsimile or .pdf shall be as effective as delivery of a manually executed counterpart of any such Agreement.

Section 10.16. Waiver of Jury Trial. EACH PARTY HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY OTHER TRANSACTION AGREEMENTS OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY (INCLUDING WITH RESPECT TO ANY DEBT FINANCING). EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER TRANSACTION AGREEMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.16.

Section 10.17. Non-Recourse. Except as set forth in Section 9.09, no past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Seller or its Affiliates shall have any liability for any Liabilities of Seller under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Parent or its Affiliates shall have any liability for any Liabilities of Parent under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Buyer or its Affiliates shall have any liability for any Liabilities of Buyer under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. Notwithstanding any provision of this Agreement, each of Seller and Parent agrees on its behalf and on behalf of its past, present or future directors, officers, employees, incorporators, members, partners, stockholders, Affiliates, agents, attorneys and representatives (collectively, the “Seller Parties”) that none of the Lender Related Parties shall have any liability or obligation to Seller Parties relating to this Agreement, any Ancillary Agreement or any of the transactions contemplated herein or therein (including the Debt Financing), whether at law, in equity in contract, in tort or otherwise and in no event will the Seller Parties seek or obtain any damages of any kind against any Lender Related Parties (including consequential, special, indirect or

punitive damages or damages of a tortious nature), in each case, relating to or arising out of this Agreement, any Ancillary Agreement, the Debt Financing, or the transactions contemplated hereby or thereby or the failure of the transactions contemplated hereby or thereby to be consummated.

Section 10.18. Time is of the Essence. With respect to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on the date first written above by their respective duly authorized officers.

RITE AID CORPORATION

By: /s/ James J. Comitale
Name: James J. Comitale
Title: Senior Vice President, General Counsel and Secretary

**WALGREENS BOOTS ALLIANCE, INC. (solely for purposes of
Section 2.06, Section 2.09 through Section 2.12, Section 5.03 through
Section 5.06, Section 5.08, Section 5.11 through Section 5.19, Section 9.09,
Article VIII and Article X)**

By: /s/ Mark Vainisi
Name: Mark Vainisi
Title: Senior Vice President, WBA Mergers & Acquisitions

AFAE, LLC

By: Fred's, Inc., its sole member

By: /s/ Michael K. Bloom

Name: Michael K. Bloom

Title: President and Chief Executive Officer

FRED'S, INC. (solely for purposes of Section 4.07, Section 5.05, Section 5.12, Section 9.10 and Article X)

By: /s/ Michael K. Bloom

Name: Michael K. Bloom

Title: President and Chief Executive Officer

[Signature Page to Asset Purchase Agreement]

DEFINITIONS

“Acquired Leases” shall have the meaning set forth in Section 3.12(b).

“Acquired Stores” means the stores located at the Leased Real Property and Owned Real Property.

“Action” means any claim, action, suit, arbitration, inquiry, proceeding, audit, hearing, litigation (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) or investigation commenced, brought, conducted or heard by or before, or otherwise involving any Governmental Authority or arbitrator.

“Additional Inventory Audit” shall have the meaning set forth in Section 2.10(a)(ii).

“Affiliate” means, with respect to any specified Person, any other Person that, at the time of determination, directly or indirectly through one or more intermediaries, Controls, is Controlled by or is under common Control with such specified Person.

“After-Tax Basis” means that, in determining the amount of the payment necessary to indemnify any party against, or reimburse any party for, Losses, the amount of such Losses shall be determined taking into account all reductions in federal, state, local and foreign Taxes (including estimated Taxes) realized by the indemnified party as a result of the event giving rise to such Losses (the “Indemnified Event”) and all increases therein realized by the indemnified party as a result of receipt of such indemnification payment. All calculations shall be made at the time of the relevant indemnification payment using reasonable assumptions (as agreed to by the indemnifying and indemnified party) and present value concepts (using a discount rate equal to the applicable federal rate in effect at the time of the Indemnified Event (based on the Federal mid-term rate) using semi-annual compounding.

“Aggregate Inventory Amount” means the sum of the Inventory Amount as determined with respect to the Acquired Stores to be transferred at the Closing plus the Inventory Amount as determined with respect to the Acquired Stores to be transferred at each Subsequent Closing.

“Agreement” means this Asset Purchase Agreement dated as of December 19, 2016 between Seller and Buyer, including the Disclosure Schedules and the Exhibits, and all amendments to such agreement made in accordance with Section 10.09.

“Allocation Schedule” shall have the meaning set forth in Section 2.07(b).

“Ancillary Agreements” means the Bill of Sale, Assignment and Assumption Agreement and the Transition Services Agreement.

“Assumed Liabilities” shall have the meaning set forth in Section 2.03.

“Attributable Withdrawal Liability” shall have the meaning set forth in Section 6.01(j)(iv).

“Base Purchase Price” shall have the meaning set forth in Section 2.07(a).

“Benefits Arrangements” shall have the meaning set forth in Section 2.02(f).

“Bill of Sale, Assignment and Assumption Agreement” shall have the meaning set forth in Section 5.08(b).

“Book to Physical Adjustment Ratio” means the Inventory Amount with respect to the Sampled Locations with respect to the Closing or the applicable Subsequent Closing, *divided by* the aggregate Reported Inventory Value with respect to such Sampled Locations.

“Bring-Down Exception” shall have the meaning set forth in Section 2.08(b)(i).

“Business Day” means any day that is not a Saturday, a Sunday or other day on which commercial banks in the City of New York, New York are required or authorized by Law to be closed.

“Business Employee” means any employee of Seller or its Subsidiaries who: (a) provides services exclusively related to the Acquired Stores or the Distribution Center, including those employed at a regional or district office of Seller or its Subsidiaries, (b) is a retail operations or pharmacy field district leader or a field district support team member, serving in a function related to asset protection, human resources or administration in one or more districts, with respect to whom Acquired Stores comprise 35% or more of the total stores assigned to such leader or team member, (c) is a retail operations or pharmacy field regional leader or a field regional support member, serving in a function related to asset protection, human resources or administration in one or more regions, with respect to whom Acquired Stores comprise 50% or more of the total stores assigned to such leader or team member, (d) is a floater pharmacist across one or more districts, with respect to whom Acquired Stores comprise 50% or more of the total stores assigned to such floater pharmacist or (e) is identified by Seller with respect to an open position as described in Section 6.01(b) and listed in Section 6.01(b) of the Disclosure Schedules. For the avoidance of doubt, any employees of Seller or its Affiliates that serve in a function related to information technology, compliance or merchandising shall not be Business Employees.

“Buyer” shall have the meaning set forth in the Preamble.

“Buyer 401(k) Plan” shall have the meaning set forth in Section 6.01(i).

“Buyer FSA” shall have the meaning set forth in Section 6.01(g).

“Buyer Indemnified Parties” shall have the meaning set forth in Section 9.01(a).

“Buyer Obligations” shall have the meaning set forth in Section 9.10(a).

“Buyer Plan” shall have the meaning set forth in Section 6.01(e).

“Buyer’s Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“CBA” means any collective bargaining agreement, side agreement or letter, memorandum of understanding, or other binding commitment with any labor or trade union, works council, or other labor organization representing Business Employees.

“CBSA” shall have the meaning set forth in Section 5.16.

“Closing” shall have the meaning set forth in Section 2.06(a).

“Closing Date” shall have the meaning set forth in Section 2.06(a).

“Code” means the United States Internal Revenue Code of 1986, as amended.

“Company Expenses” means any expenses, costs or fees incurred by Seller in connection with the transactions contemplated by this Agreement, including (a) any amount owed to legal counsel, accountants, brokers, financial advisors and any other agents, advisors, consultants and experts employed or engaged by Seller, (b) broker fees, if any, and (c) change in control payments, bonus payments, retention bonuses or similar payment made or required to be made to any current or former stockholder, officer, director or employee of Seller (either because of the transactions contemplated by this Agreement alone or in connection with any other event).

“Confidentiality Agreement” shall have the meaning set forth in Section 5.04.

“Contracts” means all written contracts, subcontracts, agreements, leases, licenses, commitments, sales and purchase orders, and other instruments, arrangements or understandings of any kind, that are related exclusively to the Acquired Stores and to which Seller is a party or by which it is bound, other than (i) all contracts, agreements or other arrangements or instruments of any kind relating to Tax, (ii) Benefits Arrangements, (iii) Insurance Arrangements, (iv) Intellectual Property, or (v) contracts, agreements or other arrangements or instruments that are Excluded Assets.

“Control” means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. The terms “Controlled by,” “Controlled,” “under common Control with” and “Controlling” shall have correlative meanings.

“Controlling Party” shall have the meaning set forth in Section 9.03(b).

“Copyrights” means United States and non-U.S. copyrights in works of authorship of any type, including mask works, registrations and applications for registration thereof throughout the world, all rights therein provided by international treaties and conventions, all moral and common law rights thereto, and all other rights associated therewith, whether registered or unregistered.

“Debt Commitment Letters” shall have the meaning set forth in Section 4.07(a).

“Debt Financing” shall have the meaning set forth in Section 4.07(a).

“Deductible Amount” shall have the meaning set forth in Section 9.01(b).

“Definitive Debt Financing Agreements” shall have the meaning set forth in Section 5.12(c).

“Developed Testing Procedures” shall have the meaning set forth in Section 5.19.

“Disclosure Schedules” means the disclosure schedules dated as of the date hereof delivered by Seller to Buyer and which forms a part of this Agreement.

“Dispute” shall have the meaning set forth in Section 10.11.

“Distribution Center” shall mean Seller’s Distribution Center located in Woodland, California.

“Distribution Center Closing” shall have the meaning set forth in Section 2.06(b).

“Distribution Center Closing Date” shall have the meaning set forth in Section 2.06(b).

“Distribution Center Inventory Amount” means (x) the Retail Inventory Value of the Inventory at the Distribution Center to be transferred at the Distribution Center Closing less any Inventory thereat that is damaged, obsolete or unsalable as determined in a manner consistent with Seller’s historical valuation practices multiplied by (y) the acquisition cost per unit, as reflected in the books and records of Parent.

“Duplicate IT System” means a separate logical partition (LPAR) within Seller’s mainframe that stores a duplicate copy of Seller’s prescription dispensing system as of Closing, which is commonly referred to as “NextGen”.

“Employee Census” shall have the meaning set forth in Section 6.01(a).

“Employee Plan” shall have the meaning set forth in Section 3.11(a).

“Employment Start Date” shall have the meaning set forth in Section 6.01(a).

“Enforcement Event” shall have the meaning set forth in Section 10.07.

“Environmental Law” means any Law treaty, judicial decision, judgment, Permit or governmental restriction or any agreement with any Governmental Authority or other third party, whether now or hereafter in effect, relating to the environment, human health and safety or to pollution, contamination, waste or chemicals, toxic, radioactive, ignitable, corrosive, reactive or the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials. Without limiting the generality of the foregoing, Environmental Laws shall include the Comprehensive Environmental Response, Compensation and Liability Act”, 42 U.S.C. § 9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; the Safe Drinking

Water Act, 42 U.S.C. 300(f) et seq.; and the Hazardous Materials Transportation Act, 49 U.S.C. § 5101 et seq., each as amended to date, regulations promulgated thereunder, and analogous state and local statutes, regulations, rule and ordinances, including, without limitation, product stewardship or extended producer responsibility laws and the California Safe Drinking Water and Toxic Enforcement Act of 1986, also known as Proposition 65.

“Environmental Liability” means any Liability or Loss, including the cost of any Remedial Action, arising in connection with (a) the use, generation, storage, treatment, manufacture, distribution, transportation, processing, handling, disposal or Release of any Hazardous Materials, (b) the violation of or liability under any Environmental Laws or of any authorization of any Governmental Authority relating to any Hazardous Materials or (c) any claim or demand by any third party or Action relating to any Hazardous Materials or Environmental Laws.

“Environmental Permits” means all Permits of any Governmental Authority required pursuant to applicable Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder.

“Excluded Assets” shall have the meaning set forth in Section 2.02.

“Excluded Liabilities” shall have the meaning set forth in Section 2.04.

“Extrapolated Inventory Value” means, with respect to the Acquired Stores to be transferred at the Closing or a Subsequent Closing (other than the Sampled Locations), the Reported Inventory Value for such Acquired Stores (other than the Sampled Locations) *multiplied by* the Book to Physical Adjustment Ratio.

“Fee Letter” has the meaning set forth in Section 4.07(a).

“Financial Statements” shall have the meaning set forth in Section 3.04.

“Fred’s” shall have the meaning set forth in the Preamble.

“Fred’s Guaranty” shall have the meaning set forth in Section 9.10(a).

“FTC” shall have the meaning set forth in Recital A.

“FTC Staff” means the staff of the FTC.

“Government Program” means any state program for medical assistance administered under Title XIX of the Social Security Act, including managed Medicaid programs and programs operated pursuant to a waiver and other healthcare programs administered or funded by a Governmental Authority or contractor thereof.

“Governmental Authority” means any United States federal, state or local or any supra-national or non-U.S. government, political subdivision, governmental, regulatory or

administrative authority, instrumentality, agency, body or commission, self-regulatory organization or any court, tribunal, or judicial or arbitral body.

“Governmental Order” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Hazardous Materials” means (a) petroleum, petroleum products, by-products or breakdown products, radioactive materials, friable asbestos or polychlorinated biphenyls, and (b) any chemical, material or substance defined in, regulated as toxic or as a pollutant, contaminant or waste under, or for which liability, obligations or standards of care are imposed by any Environmental Law.

“Indemnified Party” shall have the meaning set forth in Section 9.03(a).

“Indemnifying Party” shall have the meaning set forth in Section 9.03(a).

“Independent Accounting Firm” means the Memphis, Tennessee office of Ernst & Young LLP.

“Insurance Arrangements” shall have the meaning set forth in Section 2.02(c).

“Intellectual Property” means, collectively, Copyrights, Patents, Trademarks and Technology.

“Inventory” means all inventories owned by Seller, including (a) all pharmaceutical and non-pharmaceutical inventories for resale at the Acquired Stores; (b) all other pharmaceutical and non-pharmaceutical inventories for resale owned by Seller or in transit with respect to the Acquired Stores; (c) all of the raw materials, work-in-process and packaging items and similar items with respect to the Acquired Stores in connection with pharmaceutical and non-pharmaceutical inventories for resale; and (d) all will-call inventory (i.e., pharmaceutical inventory that is filled but not yet physically picked up by the patient as of the time of the Inventory Audit); provided, however, that with respect to the Distribution Center, Inventory shall not include any private-label inventory and shall exclude any inventory removed from the Distribution Center prior to the Distribution Center Closing in accordance with Section 5.01.

“Inventory Amount” means the aggregate amount of Sampled Location Inventory Value for all Sampled Locations to be transferred at the Closing or applicable Subsequent Closing plus the Extrapolated Inventory Value for all Acquired Stores to be transferred at the Closing or a Subsequent Closing (other than the Sampled Locations).

“Inventory Audit” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Procedures” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Service” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Statement” shall have the meaning set forth in Section 2.10(b).

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“IRS” means the Internal Revenue Service.

“Knowledge of Seller” means the actual or constructive knowledge of Darren Karst, James Comitale (with respect to matters of fact only) and Douglas Donley after due inquiry.

“Law” means any U.S. federal, state, local or non-U.S. statute, law, ordinance, regulation, rule, code, order or other requirement or rule of law, including the common law.

“Leased Real Property” shall have the meaning set forth in Section 3.12(b).

“Lender Related Parties” means the Lenders and any of their respective former, current or future directors, officers, employees, agents, general or limited partners, managers, management companies, members, stockholders, equityholders, Affiliates, attorneys-in-fact, representatives, successors or assigns or any former, current or future director, officer employee agent, general or limited partner, manager, management company, member, stockholder, equityholder, Affiliate, attorney-in-fact, representative, successor or assign of any of the foregoing.

“Liabilities” means any debt, liability, claim, demand, expense, commitment or obligation (whether direct or indirect, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due) of every kind and description and including all costs and expenses related thereto.

“Lien” means any mortgage, deed of trust, pledge, hypothecation, security interest, Lien, claim, lien or charge of any kind.

“Lenders” shall have the meaning set forth in Section 4.07(a).

“Losses” means all losses, damages, costs, expenses, Liabilities of any kind (including any Action brought by any Governmental Authority or Person and including reasonable attorneys’ fees); provided, that Losses shall not include (i) punitive, exemplary, incidental, special, treble, consequential or indirect damages or (ii) the loss of anticipated or future business or profits, income or revenue, loss of reputation, opportunity cost damages or diminution in value (and, in particular, no “multiple of profits” or “multiple of cash flow” or similar valuation methodology shall be used in calculating the amount of any Losses).

“Material Adverse Effect” means a material adverse effect on the financial condition or results of operations of the Acquired Stores, taken as a

whole, but shall not be deemed to include any adverse effect arising out of, resulting from or attributable to: (a) an event or circumstance or series of events or circumstances affecting (i) the United States (or any other country or jurisdiction) or the global economy generally or capital, financial, banking, credit or securities markets generally, including changes in interest or exchange rates, (ii) political conditions generally of the United States or any other country or jurisdiction in which Seller or its Affiliates operates or (iii) any of the industries generally in which Seller or any customers thereof operates (including demand for, and the availability and pricing of, pharmaceutical drugs) or in which products or services of the Acquired Stores are used or distributed, (b) the negotiation, execution or the announcement of, the consummation of the transactions

contemplated by, or the performance of obligations under, this Agreement or the other Transaction Agreements, including effects related to compliance with the covenants or agreements contained herein or the failure to take any action as a result of any restrictions or prohibitions set forth herein, and any adverse effect proximately caused by (A) shortfalls or declines in revenue, margins or profitability, (B) loss of, or disruption in, any customer, supplier, and/or vendor relationships, or (C) loss of any personnel, (c) any changes in applicable Law or U.S. GAAP, or accounting principles, practices or policies that Seller is required to adopt, or the enforcement or interpretation thereof, (d) actions specifically permitted to be taken or omitted pursuant to this Agreement or taken with Buyer's consent, (e) the effect of any action taken by Buyer or its Affiliates with respect to the transactions contemplated hereby or with respect to Seller or its Affiliates, (f) any acts of God, including any earthquakes, hurricanes, tornadoes, floods, tsunami, or other natural disasters, or any other damage to or destruction of assets caused by casualty, (g) any hostilities, acts of war (whether or not declared), sabotage, terrorism or military actions, or any escalation or worsening of any such hostilities, act of war, sabotage, terrorism or military actions, (h) any failure to meet internal or published projections, estimates or forecasts of revenues, earnings, or other measures of financial or operating performance for any period (provided that the underlying causes of such failures (subject to the other provisions of this definition) shall not be excluded) or (i) any adverse change or effect that is cured prior to Closing (or each Subsequent Closing, as applicable); provided, however, that if the event or circumstance described in any of the foregoing clauses (a) or (c), individually or in the aggregate, has a disproportionate effect on the Acquired Stores relative to other industry participants, the exception described in any of the foregoing clauses (a) or (c) shall not apply with respect to the portion of such event or circumstance that had such a disproportionate effect on the Acquired Stores.

“ Material Permits ” shall have the meaning set forth in Section 3.08(a) .

“ Multiemployer Plan ” shall have the meaning set forth in Section 3.11(b) .

“ New Debt Commitment Letter ” shall have the meaning set forth in Section 5.12(e) .

“ New Fee Letter ” shall have the meaning set forth in Section 5.12(e) .

“ Operational Duplicate IT System Certificate ” a certificate from Parent to Buyer certifying that Parent has tested the operational readiness of the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing or the applicable Subsequent Closing, as the case may be, using the Developed Testing Procedures and the results of such test were that: (i) the configuration of the LPAR and related network infrastructure within Seller's mainframe was complete, (ii) the prescription dispensing system of Seller as of Closing commonly referred to as the “NextGen” application had been installed on the LPAR, (iii) the migration of the Seller Rx Data with respect to the applicable Acquired Stores was tested and validated as ready for use within the Duplicate IT System, (iv) the security controls and monitoring for Duplicate IT System were validated as effective within customary industry standards and (v) system integration and user acceptance testing were complete, in the case of each of clauses (i) through (v), subject to the exceptions set forth on Schedule B .

“Owned Real Property” shall have the meaning set forth in Section 3.12(a).

“Parent” shall have the meaning set forth in the Preamble.

“Parent Guaranty” shall have the meaning set forth in Section 9.09(a).

“Patents” means United States and non U.S. patents, patent applications and statutory invention registrations, continuation applications of all types, including reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof, all inventions disclosed therein and improvements thereto, and all rights therein provided by international treaties and conventions.

“Permits” shall have the meaning set forth in Section 3.08(a).

“Permitted Liens” means the following Liens: (a) Liens for Taxes, assessments or other governmental charges or levies that are not yet due or payable or that are being contested in good faith by appropriate proceedings or that may thereafter or otherwise be paid without penalty; (b) statutory and contractual Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen, workmen, repairmen and other Liens imposed by Law for amounts not yet due; (c) Liens incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance or other types of social security; (d) defects or imperfections of title, easements, covenants, rights-of-way, restrictions, rights of recapture and other similar charges or Liens not materially interfering with the ordinary conduct of business at the Acquired Stores; (e) purchase money Liens and Liens securing rental payments under capital lease arrangements of Seller incurred in the ordinary course of business at the Acquired Stores; (f) Liens not created by Seller that affect the underlying fee interest of any Leased Real Property; (g) Liens resulting from any facts or circumstances relating to Buyer or its Affiliates; (h) any set of facts an accurate up-to-date survey would show, provided such facts do not materially interfere with the ordinary conduct of business at the Acquired Stores; (i) in the case of Intellectual Property and Technology, licenses, options to license or covenants not to assert claims of infringement in each case in existence as of the date hereof from Seller or any of its Affiliates to third parties; (j) zoning, building and other generally applicable land use restrictions; and (k) Liens that have been placed by a third party on the fee title of Leased Real Property over which Seller has easement rights, and subordination or similar agreements relating thereto.

“Person” means any natural person, general or limited partnership, corporation, limited liability company, limited liability partnership, firm, association or organization or other legal entity.

“Pharmacy Approvals” means any consents, waivers, permits or other approvals to be obtained from applicable Food and Drug Administration, DEA, Medicare/Medicaid, state boards of pharmacy and governmental controlled substances, durable medical equipment, third party administrator and liquor authorities.

“Privacy and Security Laws” shall have the meaning set forth in Section 3.15.

“Programs” shall have the meaning set forth in Section 3.16(a).

Aid Acquisition. “Proposed Consent Order” means the proposed final judgment relating to the Acquired Stores accepted by the FTC in connection with the Rite

“Prorated Charges” shall have the meaning set forth in Section 2.11(a).

“Purchase Price” shall have the meaning set forth in Section 2.07(a).

“Purchased Assets” shall have the meaning set forth in Section 2.01.

“Purchased Cash” shall have the meaning set forth in Section 2.01(i).

“Release” means (i) any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, or other release of any Hazardous Material at, in, on, into, or onto the environment; (ii) the abandonment or discard of barrels, containers, tanks, or other receptacles containing or previously containing any Hazardous Material; or (iii) any release, emission, or discharge, as those terms are defined in any applicable Environmental Laws.

“Release Date” shall have the meaning set forth in Section 5.18.

“Remedial Action” means investigation, evaluation, risk assessment, monitoring, response, removal, clean-up, remediation, corrective action or other terms of similar import and any related closure, post-closure, operations and maintenance or engineering control activities.

“Reported Inventory Value” means the value of Seller’s reported gross general ledger balance of inventory with respect to an Acquired Store (calculated in accordance with the Transaction Accounting Principles) *less* applicable recorded general ledger shrink reserves, in each case as of the date of the applicable Inventory Audit.

“Representative” of a Person means the directors, officers, employees, advisors, agents, attorneys, consultants, accountants, investment bankers or other representatives of such Person.

“Restricted Data” shall have the meaning set forth in Section 5.14(a).

“Restricted Period” shall have the meaning set forth in Section 5.11.

“Retail Inventory Value” shall have the meaning set forth in Section 2.10(a)(ii).

“Retail-to-cost Conversion Ratio” means Seller’s “Retail-to-cost” conversion ratio with respect to an Acquired Store (which represents the ratio of cost to retail selling price of the inventory on-hand within such Acquired Store) as shown in the general ledger of Seller.

“Retained Names and Marks” shall have the meaning set forth in Section 5.06.

“Revolver Loan Debt Commitment Letter” shall have the meaning set forth in Section 4.07(a).

“Rite Aid Acquisition” has the meaning set forth in Recital A.

“Rite Aid Closing” means the closing of the Rite Aid Acquisition.

“Rite Aid Consent Order” means that certain consent order between Seller and the FTC which terminates on November 12, 2030 and requires Seller to (among other things) (i) establish a Comprehensive Information Security Program, (ii) obtain a Biannual Independent Audit of Seller’s Information Security Program and (iii) refrain from any misrepresentations of its information security practices.

“Sampled Location Inventory Value” means, with respect to a Sampled Location, the Retail Inventory Value with respect to such Sampled Location multiplied by the Retail-to-cost Conversion Ratio.

“Sampled Locations” shall have the meaning set forth in Section 2.10(a)(i).

“Seller” shall have the meaning set forth in the Preamble.

“Seller 401(k) Plan” shall have the meaning set forth in Section 6.01(i).

“Seller FSA” shall have the meaning set forth in Section 6.01(g).

“Seller Indemnified Parties” shall have the meaning set forth in Section 9.02(a).

“Seller Obligations” shall have the meaning set forth in Section 9.09(a).

“Seller Parties” shall have the meaning set forth in Section 10.17.

“Seller Rx Data” shall have the meaning set forth in Section 2.01(g).

“Seller’s Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“Seller’s Allocable Portion” shall have the meaning set forth in Section 5.07(b).

“Software” shall mean computer software programs and software systems, including all databases, compilations, tool sets, compilers, higher level or “proprietary” languages, related documentation and materials, whether in source code, object code or human readable form.

“Subsequent Closing” shall have the meaning set forth in Section 2.06(b).

“Subsequent Closing Conditions” shall have the meaning set forth in Section 2.06(b).

“Subsequent Closing Date” shall have the meaning set forth in Section 2.06(b).

“Subsidiary” of any Person means any corporation, general or limited partnership, joint venture, limited liability company, limited liability partnership or other Person that is a

legal entity, trust or estate of which (or in which) (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors (or a majority of another body performing similar functions) of such corporation or other Person (irrespective of whether at the time capital stock of any other class or classes of such corporation or other Person shall or might have voting power upon the occurrence of any contingency), (b) more than 50% of the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) more than 50% of the beneficial interest in such trust or estate, is at the time of determination directly or indirectly owned or Controlled by such Person.

“Tax” or “Taxes” means all income, excise, gross receipts, ad valorem, sales, use, employment, franchise, profits, gains, property, transfer, use, payroll, intangibles or other similar taxes, fees, stamp taxes, duties, charges, levies or assessments (whether payable directly or by withholding), together with any interest and any penalties, additions to tax or additional amounts imposed by any Tax authority with respect thereto.

“Tax Returns” means all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority relating to Taxes.

“Technology” means, collectively, all designs, formulas, algorithms, procedures, techniques, ideas, know-how, programs, models, routines, databases, tools, inventions, creations, improvements, works of authorship, and all recordings, graphs, drawings, reports, analyses, other writings, and any other embodiment of the above, in any form, whether or not specifically listed herein, all of which derive value, monetary or otherwise, from being maintained in confidence.

“Term Loan Debt Commitment Letter” shall have the meaning set forth in Section 4.07(a).

“Third Party Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“Third Party Claim” shall have the meaning set forth in Section 9.03(a).

“Third Party Rights” shall have the meaning set forth in Section 2.05.

“Trademark Assignment Agreement” shall have the meaning set forth in Section 5.08(d).

“Trademarks” means United States and non-U.S. trademarks, service marks, trade dress, logos, trade names, corporate names, URL addresses, domain names, slogans, moral rights, designs and other indicia of source or origin and general intangibles of like nature, whether registered or unregistered, including the goodwill of the business symbolized thereby or associated therewith, all common law rights thereto, registrations, pending registrations and applications for registration thereof throughout the world, all rights therein provided by international treaties and conventions, and all other rights associated therewith.

“Transaction Accounting Principles” means the principles as set forth on Exhibit B.

“Transaction Agreements” means this Agreement and each of the Ancillary Agreements.

“Transferred Employees” shall have the meaning set forth in Section 6.01(a).

“Transfer Taxes” shall have the meaning set forth in Section 5.07(b).

“Transition Services Agreement” shall have the meaning set forth in Section 5.08(a).

“Transitional Trademark License Agreement” shall have the meaning set forth in Section 5.08(c).

“U.S. GAAP” means the generally accepted accounting principles used in the United States.

“Union Business Employee” means any Business Employee whose employment is subject to a CBA.

“WARN Act” shall have the meaning set forth in Section 6.01(h).

“Withdrawal Liability Allocation Report” shall have the meaning set forth in Section 6.01(j)(iv).

RITE AID CORPORATION AND SUBSIDIARIES
STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

We have calculated the ratio of earnings to fixed charges in the following table by dividing earnings by fixed charges. For this purpose, earnings include pre-tax income from continuing operations plus fixed charges, before capitalized interest. Fixed charges include interest, whether expensed or capitalized, amortization of debt expense, preferred stock dividend requirement and that portion of rental expense which is representative of the interest factor in those rentals.

	March 4, 2017 (53 Weeks)	February 27, 2016 (52 Weeks)	Year Ended February 28, 2015 (52 Weeks) (dollars in thousands)	March 1, 2014 (52 Weeks)	March 2, 2013 (52 Weeks)
Fixed charges:					
Interest expense	\$ 431,991	\$ 449,574	\$ 397,612	\$ 424,591	\$ 515,421
Interest portion of net rental expense(1)	339,105	324,449	321,495	317,592	317,080
Fixed charges before capitalized interest and preferred stock dividend requirements	771,096	774,023	719,107	742,183	832,501
Preferred stock dividend requirements(2)	—	—	—	16,636	21,056
Capitalized interest	195	196	145	197	399
Total fixed charges	771,291	774,219	719,252	759,016	853,956
Earnings:					
Income before income taxes	48,445	278,404	426,820	250,218	7,505
Preferred stock dividend requirements(2)	—	—	—	(16,636)	(21,056)
Fixed charges before capitalized interest	771,096	774,023	719,107	758,819	853,557
Total adjusted earnings	819,541	1,052,427	1,145,927	992,401	840,006
Earnings to fixed charges excess (deficiency)	\$ 48,250	\$ 278,208	\$ 426,675	\$ 233,385	\$ (13,950)
Ratio of earnings to fixed charges(3)	1.06	1.36	1.59	1.31	—

- (1) The interest portion of net rental expense is estimated to be equal to one-third of the minimum rental expense for the period.
- (2) The preferred stock dividend requirement is computed as the pre-tax earnings that would be required to cover preferred stock dividends.
- (3) For the year ended March 2, 2013, earnings were insufficient to cover fixed charges by approximately \$14.0 million. For the years ended March 1, 2014, February 28, 2015, February 27, 2016, and March 4, 2017 earnings were sufficient to cover fixed charges by approximately \$233.4 million, \$426.7 million, \$278.2 million, and \$48.3 million, respectively.

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[Exhibit 12](#)

[RITE AID CORPORATION AND SUBSIDIARIES STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES](#)

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
112 Burleigh Avenue Norfolk, LLC	Virginia
1515 West State Street Boise, Idaho, LLC	Delaware
1740 Associates, LLC	Michigan
3581 Carter Hill Road—Montgomery Corp.	Alabama
4042 Warrensville Center Road—Warrensville Ohio, Inc.	Ohio
5277 Associates, Inc.	Washington
5600 Superior Properties, Inc.	Ohio
657 - 659 Broad St. Corp.	New Jersey
Advance Benefits, LLC	Florida
Apex Drug Stores, Inc.	Michigan
Ascend Health Technology, LLC	Delaware
Broadview and Wallings—Broadview Heights Ohio, Inc.	Ohio
Design Rx, LLC	Wyoming
Design Rxclusives, LLC	Wyoming
Design Rx Holdings, LLC	Delaware
Eagle Managed Care Corp.	Delaware
Eckerd Corporation	Delaware
EDC Drug Stores, Inc.	North Carolina
England Street—Asheland Corporation	Virginia
Envision Insurance Company	Ohio
Envision Medical Solutions, LLC	Florida
Envision Pharmaceutical Holdings LLC	Delaware
Envision Pharmaceutical Services, LLC	Nevada
Envision Pharmaceutical Services, LLC	Ohio
EnvisionRx Puerto Rico, Inc.	Delaware
First Florida Insurers of Tampa, LLC	Florida
GDF, Inc.	Maryland
Genovese Drug Stores, Inc.	Delaware
Harco, Inc.	Alabama
Health Dialog Services Corporation	Delaware
Hunter Lane, LLC	Delaware
JCG (PJC) USA, LLC	Delaware
JCG Holdings (USA), Inc.	Delaware
K&B Alabama Corporation	Alabama
K&B Louisiana Corporation	Louisiana
K&B Mississippi Corporation	Mississippi
K&B Services, Incorporated	Louisiana
K&B Tennessee Corporation	Tennessee
K&B Texas Corporation	Texas
K&B, Incorporated	Delaware
Keystone Centers, Inc.	Pennsylvania
Lakehurst and Broadway Corporation	New Jersey
Laker Software, LLC	Minnesota
Maxi Drug North, Inc.	Delaware
Maxi Drug South, L.P.	Delaware
Maxi Drug, Inc.	Delaware
Maxi Green, Inc.	Vermont
MedTrak Services, L.L.C.	Delaware
Munson & Andrews, LLC	Delaware

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
Name Rite, LLC	Delaware
Orchard Pharmaceutical Services, LLC	Ohio
P.J.C. Distribution, Inc.	Delaware
P.J.C. Realty Co., Inc.	Delaware
Patton Drive and Navy Boulevard Property Corporation	Florida
PDS-1 Michigan, Inc.	Michigan
Perry Distributors, Inc.	Michigan
Perry Drug Stores Inc.	Michigan
PJC Dorchester Realty LLC	Delaware
PJC East Lyme Realty LLC	Delaware
PJC Haverhill Realty LLC	Delaware
PJC Hermitage Realty LLC	Delaware
PJC Hyde Park Realty LLC	Delaware
PJC Lease Holdings, Inc.	Delaware
PJC Manchester Realty LLC	Delaware
PJC Mansfield Realty LLC	Delaware
PJC New London Realty LLC	Delaware
PJC of Massachusetts, Inc.	Massachusetts
PJC of Rhode Island, Inc.	Rhode Island
PJC of Vermont, Inc.	Vermont
PJC Peterborough Realty LLC	Delaware
PJC Providence Realty LLC	Delaware
PJC Realty MA, Inc.	Massachusetts
PJC Realty N.E. LLC	Delaware
PJC Revere Realty LLC	Delaware
PJC Special Realty Holdings, Inc.	Delaware
Ram—Utica, Inc.	Michigan
RDS Detroit, Inc.	Michigan
READ's Inc.	Maryland
RediClinic LLC	Delaware
Rite Aid Drug Palace, Inc.	Delaware
Rite Aid Hdqtrs. Corp.	Delaware
Rite Aid Hdqtrs. Funding, Inc.	Delaware
Rite Aid Lease Management Company	California
Rite Aid of Alabama, Inc.	Alabama
Rite Aid of Connecticut, Inc.	Connecticut
Rite Aid of Delaware, Inc.	Delaware
Rite Aid of Florida, Inc.	Florida
Rite Aid of Georgia, Inc.	Georgia
Rite Aid of Illinois, Inc.	Illinois
Rite Aid of Indiana, Inc.	Indiana
Rite Aid of Kentucky, Inc.	Kentucky
Rite Aid of Maine, Inc.	Maine
Rite Aid of Maryland, Inc.	Maryland
Rite Aid of Massachusetts, Inc.	Massachusetts
Rite Aid of Michigan, Inc.	Michigan
Rite Aid of New Hampshire, Inc.	New Hampshire
Rite Aid of New Jersey, Inc.	New Jersey
Rite Aid of New York, Inc.	New York
Rite Aid of North Carolina, Inc.	North Carolina
Rite Aid of Ohio, Inc.	Ohio

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
Rite Aid of Pennsylvania, Inc.	Pennsylvania
Rite Aid of South Carolina, Inc.	South Carolina
Rite Aid of Tennessee, Inc.	Tennessee
Rite Aid of Vermont, Inc.	Vermont
Rite Aid of Virginia, Inc.	Virginia
Rite Aid of Washington, D.C., Inc.	Washington DC
Rite Aid of West Virginia, Inc.	West Virginia
Rite Aid Online Store Inc.	Delaware
Rite Aid Payroll Management Inc.	Delaware
Rite Aid Realty Corp.	Delaware
Rite Aid Rome Distribution Center, Inc.	New York
Rite Aid Services, LLC	Delaware
Rite Aid Specialty Pharmacy LLC	Delaware
Rite Aid Transport, Inc.	Delaware
Rite Fund, Inc.	Delaware
Rite Investments Corp.	Delaware
Rite Investments Corp., LLC	Delaware
Rx Choice, Inc.	Delaware
Rx Initiatives, LLC	Utah
Rx Options, LLC	Ohio
Silver Springs Road—Baltimore, Maryland/One, LLC	Delaware
Silver Springs Road—Baltimore, Maryland/Two, LLC	Delaware
The Jean Coutu Group (PJC) USA, Inc.	Delaware
The Lane Drug Company	Ohio
Thrift Drug Inc.	Delaware
Thrifty Corporation	California
Thrifty PayLess, Inc.	California
Tyler and Sanders Roads—Birmingham, Alabama, LLC	Delaware

[Exhibit 21](#)

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Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-61734, 333-107824, 333-124725, 333-146531, 333-167720, 333-182320 and 333-196904 on Forms S-8 and of our reports dated May 3, 2017, relating to the financial statements and financial statement schedule of Rite Aid Corporation and subsidiaries, and the effectiveness of Rite Aid Corporation and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Rite Aid Corporation for the year ended March 4, 2017.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

May 3, 2017

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[Exhibit 23](#)

[CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John T. Standley, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 3, 2017

By: /s/ JOHN T. STANDLEY

John T. Standley
Chairman and Chief Executive Officer

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[Exhibit 31.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER](#)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Darren W. Karst, Senior Executive Vice President, Chief Financial Officer and Chief Administrative Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 3, 2017

By: /s/ DARREN W. KARST

Darren W. Karst
Senior Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

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[Exhibit 31.2](#)

[CERTIFICATION OF CHIEF FINANCIAL OFFICER](#)

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Rite Aid Corporation (the "Company") for the annual period ended March 4, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John T. Standley, as Chairman and Chief Executive Officer of the Company, and Darren W. Karst, as Senior Executive Vice President, Chief Financial Officer and Chief Administrative Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN T. STANDLEY

Name: John T. Standley
Title: *Chairman and Chief Executive Officer*
Date: May 3, 2017

/s/ DARREN W. KARST

Name: Darren W. Karst
Title: *Senior Executive Vice President, Chief Financial Officer and Chief Administrative Officer*
Date: May 3, 2017

QuickLinks

[Exhibit 32](#)

[Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)