

RITE AID CORP  
Form 10-K  
April 24, 2012

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

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**FORM 10-K**

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

**For The Fiscal Year Ended March 3, 2012**

**OR**

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

**For The Transition Period From                      To  
Commission File Number 1-5742**

**RITE AID CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**17011**  
(Zip Code)

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

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

**Title of each class**  
Common Stock, \$1.00 par value

**Name of each exchange on which registered**  
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 ý No o

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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, or a non-accelerated filer. See definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer       Accelerated Filer       Non-Accelerated Filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether 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, 2011 was approximately \$682,941,816. For purposes of this calculation, executive officers, directors and 5% shareholders are deemed to be affiliates of the registrant.

As of April 10, 2012 the registrant had outstanding 898,966,064 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 June 21, 2012 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 senior secured credit facility and other debt agreements;

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

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

our ability to realize same store sales growth;

our ability to hire and retain qualified personnel;

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

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

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

our ability to manage expenses and our investment in working capital;

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

changes in state or federal legislation or regulations, and the impact of healthcare reform, including the forthcoming Supreme Court ruling on the Patient Protection and Affordable Care Act,

the outcome of lawsuits and governmental investigations;

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

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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.

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**PART I**

**Item 1. Business**

**Overview**

We are the third largest retail drugstore chain in the United States based on revenues and number of stores. We operate our drugstores in 31 states across the country and in the District of Columbia. As of March 3, 2012, we operated 4,667 stores.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front end" products. In fiscal 2012, prescription drug sales accounted for 68.1% of our total sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to favorable industry trends, including an aging population, increased life expectancy, anticipated growth in the federally funded Medicare Part D prescription program as "baby boomers" start to enroll, expanded coverage for uninsured Americans as the result of the Patient Protection and Affordable Care Act and the discovery of new and better drug therapies. We carry a full assortment of front end products, which accounted for the remaining 31.9% of our total sales in fiscal 2012. Front end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, seasonal merchandise and numerous other everyday and convenience products, as well as photo processing. We attempt to distinguish our stores from other national chain drugstores, in part, through our wellness + loyalty program, private brands and our strategic alliance with GNC, a leading retailer of vitamin and mineral supplements. We offer a wide variety of products under our private brands, which contributed approximately 17.0% and 16.0% of our front end sales in the categories where private brand products were offered in fiscal 2012 and fiscal 2011, respectively.

The overall average size of each store in our chain is approximately 12,600 square feet. The average size of our stores is larger in the western United States. As of March 3, 2012, 60% of our stores were freestanding; 51% of our stores included a drive-thru pharmacy; 24% included one-hour photo shops; and 46% included a GNC store-within-Rite Aid-store.

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.

**Industry Trends**

The rate of pharmacy sales growth in the United States in recent years has slowed, driven by the decline in new blockbuster drugs, a longer FDA approval process, drug safety concerns, higher copays, the loss of individual health insurance with the rise of unemployment and an increase in the use of generic (non-brand name) drugs, which are less expensive but generate higher gross margins. However, we expect prescription sales to grow in the coming years due to the aging population, increased life expectancy, "baby boomers" becoming eligible for the federally funded Medicare prescription program and new drug therapies. Furthermore, we expect the estimated additional 33 million people who will be covered by health insurance in 2014, and the closing of the "donut hole" in Medicare Part D to be good for our business.

Generic prescription drugs help lower overall costs for customers and third party payors. We believe the utilization of existing generic pharmaceuticals will continue to increase. Further, a significant number of new generics are expected to be introduced in 2012 and 2013 as many popular branded drugs are scheduled to lose patent protection. The gross profit from a generic drug prescription in the retail drugstore industry is greater than the gross profit from a brand drug prescription, however, the sale amount can be substantially less.

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The retail drugstore industry is highly competitive and has been experiencing consolidation. We believe that the continued consolidation of the drugstore industry, continued new store openings, increased competition from internet based providers and aggressive generic pricing programs at competitors such as Wal-Mart and various supermarket chains will further increase competitive pressures in the industry. The pharmacy business has become increasingly promotional, 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. 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 or entirely offset by controlling expenses, dispensing more higher margin generics and dispensing more prescriptions overall.

**Strategy**

Our primary goal for fiscal 2013, consistent with fiscal 2012, is to grow same stores sales, which is critical for our future financial success. Same store sales growth will enable us to take full advantage of the improvements that we have made in the areas of cost control and working capital management. We also plan to take advantage of the costs savings and gross profit improvement opportunities that will result from the conversion of numerous brand drugs to generic alternatives in fiscal 2013 and beyond. We also plan to increase our capital investment in our store base, which we expect to lead to additional sales growth. We expect these initiatives to lead to growth in long term shareholder value. Following is a description of these initiatives:

*wellness +* We rolled out our *wellness +* loyalty program in April of 2010. *wellness +* is a free customer loyalty program that provides benefits to enrolled members based on the accumulation of points for certain front end and prescription purchases. This program provides significant value to customers who achieve Gold, Silver, and Bronze tier levels in the program and has been very well received by our customers. As of April 2012, we had over 52 million members enrolled in the *wellness +* program. At the end of our fiscal year, *wellness +* members accounted for 74% of front end sales and 68% of prescriptions filled. *wellness +* members have higher basket sizes than non-members and also have a much higher rate of prescription retention. *wellness +* members also are eligible to receive plus-up rewards, which are discounts on certain items featured in our weekly circular and provide members with additional savings for return shopping trips. Beginning in January 2012, we added additional features to the program, which include the creation of a Bronze member tier and the rollout of our Load2Card feature. The Bronze tier is achieved when a member reaches 250 points, Bronze tier members receive 10% off on the purchase of all Rite Aid private brand merchandise and a one-time 10% shopping pass. Load2Card is a new coupon management program and is the first of its kind in the drugstore retailer space. It enables customers to save, manage and redeem Rite Aid and manufacturer coupons available throughout the internet via their *wellness +* card. Customers have responded favorably to these enhancements.

We believe that the *wellness +* program has contributed to the improvement in our fiscal 2012 sales trends. We plan on making additional incremental investments in *wellness +* in fiscal 2013, primarily in additional discounts, as we expect more customers to move into the Gold, Silver, and Bronze levels.

*Express Scripts customers* As of January 1, 2012, the Express Scripts pharmacy benefit management network decreased the number of participating pharmacies. This has contributed to an

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increase in same store script volume in the fourth quarter of fiscal 2012. To the extent that the Express Scripts pharmacy benefit management network continues to exclude other pharmacies from their network, we have the opportunity to pick up incremental share. We plan to work proactively to ensure that we attract and retain as many new customers as possible. Efforts to do so will include adjusting pharmacy staffing levels where appropriate, encouraging customers to sign up for wellness +, and continuing to communicate in print, signage and other advertising channels that we accept Express Scripts pharmacy benefit management network patients.

*Wellness remodels* During fiscal 2012, we introduced our new Wellness format store. These stores offer expanded clinical pharmacy services and new health and wellness product offerings. They are staffed with our unique Wellness Ambassadors, who serve as an added customer resource and bridge from the front end of the stores to the pharmacy. We completed 274 wellness remodels in fiscal 2012 and expect to complete an additional 500 in fiscal 2013. Our customers have responded favorably to this unique store format and recent sales results in these stores have been encouraging.

*Healthcare services* During fiscal 2012, we increased the number of Rite Aid immunizing pharmacists to 11,000, expanded our immunization services to all of our stores and administered 1.5 million flu shots. In addition to flu shots, we also expanded the scope of our immunization services to 14 different disease states. Continuing to expand the volume and types of immunizations that we can perform will be an area of focus for fiscal 2013. In conjunction with Optum Health, last August we introduced NowClinic Online Care services inside select Rite Aid pharmacies in the greater Detroit area. These clinics provide on-line access to a physician, who has the ability to diagnose and potentially write prescriptions for our patients. We have also introduced wellness + for diabetes, the first extension of our wellness + program to provide discounts on front-end products and resources for diabetes patients and caregivers. One such resource is "Diabetes Head2Toe", a unique collaboration with Web MD to provide online tools to help patients manage and live well with diabetes. We are focused on healthcare-related services because we believe these services will help build loyalty with existing customers and attract new ones.

*Script file purchases* We intend to increase the amount of capital allocated to the purchase of prescription files from \$35.0 million in fiscal 2012 to \$50.0 million in fiscal 2013.

*Private brands* During fiscal 2011, we began the rollout of a new private brand architecture, which includes the consolidation of our private brands in three separate tiers. We have converted about 2,900 items to the new architecture and have improved our private brand penetration by 100 basis points over the prior year. We expect to have approximately 3,000 items in these brands in fiscal 2013. Many of the new items are in our price fighter brand, Simplify, and we believe customers have found these products to be of high quality and provide great value.

*Customer service* We have put programs in place in store operations to stress the importance of greeting our customers more frequently and assisting them with their purchases. We made investments in technology in fiscal 2011 and 2012 that make it easier for our store associates to perform necessary tasks, such as price changes and backroom inventory management, which will free up their time to focus on the customer. During fiscal 2012, we increased the amount of dollars spent on training our store and field associates on customer service skills. We believe this additional focus has helped drive our same store sales increases in fiscal 2012 and this will continue to be an area of focus for us in fiscal 2013.

We made significant reductions to our SG&A expense over the past few years through better control of store labor and other controllable costs in the stores, consolidation of our distribution center network, a centralized indirect procurement function for all non-merchandise purchases and through initiatives aimed to simplify our processes in the stores and at our Corporate office. We will continue to focus on controlling costs in fiscal 2013 so that we can maximize the benefits of our sales initiatives.



Table of Contents**Products and Services**

Sales of prescription drugs represented approximately 68.1%, 67.8%, and 67.9% of our total sales in fiscal years 2012, 2011 and 2010, respectively. In fiscal years 2012, 2011 and 2010, prescription drug sales were \$17.7 billion, \$17.0 billion, and \$17.4 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 2012. Our principal classes of products in fiscal 2012 were the following:

<b>Product Class</b>	<b>Percentage of Sales</b>
Prescription drugs	68.1%
Over-the-counter medications and personal care	9.8%
Health and beauty aids	5.2%
General merchandise and other	16.9%

We offer a wide variety of products under our private brands, which contributed approximately 17.0% of our front end sales in the categories where private brand products were offered in fiscal 2012. We intend to increase the number of private brand products during fiscal 2013, many of which will be in our price fighter brand, Simplify. We believe that our customers find these products to be of high quality and provide great value.

We have a strategic alliance with GNC under which we have opened over 2,100 GNC "stores-within-Rite Aid-stores" as of March 3, 2012 and a contractual commitment to open additional stores by December 2014. We incorporate the GNC store-within-Rite Aid-store 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.

**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. This system can be expanded to accommodate new stores. Our customers may also order prescription refills over the Internet through [www.riteaid.com](http://www.riteaid.com), 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. The efficiency of these units allows our pharmacists to spend more time consulting with our customers. 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. We completed the development of our new mobile app, which is now available for download for both the Android and iPhone platforms. This free app allows our customers to use their smartphones to order refills by scanning their prescription bottle, manage their wellness + account, access the weekly circular to view sale items and locate a nearby Rite Aid store using GPS.

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**Suppliers**

During fiscal 2012, we purchased brand pharmaceuticals and some generic pharmaceuticals, which amounted to approximately 90.9% of the dollar volume of our prescription drugs, from a single wholesaler, McKesson Corp ("McKesson"), under a contract which runs through April 1, 2013. Under the contract, with limited exceptions, we are required to purchase all of our branded pharmaceutical products from McKesson. If our relationship with McKesson was disrupted, we could temporarily have difficulty filling prescriptions for brand-named drugs until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes, which could negatively affect our business.

We purchase most of our generic (non-brand name) pharmaceuticals directly from manufacturers which account for approximately 76% of our prescription volume. We believe the loss of any one generic supplier would not disrupt our ability to fill generic (non-brand name) prescriptions but could negatively impact our results.

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 2012, our stores filled approximately 295 million prescriptions and served an average of 2.1 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2012, 96.5% 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 2012, the top five third party payors accounted for approximately 66.4% of our pharmacy sales. The largest third party payor represented 22.9% of our pharmacy sales.

During fiscal 2012, Medicaid and related managed care Medicaid payors sales were approximately 17.7% of our pharmacy sales, of which the largest single Medicaid payor was approximately 2.1% of our pharmacy sales. During fiscal 2012, approximately 28.2% of our pharmacy sales were to customers covered by Medicare Part D.

**Competition**

The retail drugstore industry is highly competitive. We compete with, among others, retail drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, 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, the aggressive discounting of generic drugs by supermarkets and mass merchandisers and the increase of promotional incentives to drive prescription sales will further increase competitive pressures in the industry.

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**Marketing and Advertising**

In fiscal 2012, marketing and advertising expense was approximately \$369.4 million, which was spent primarily on weekly circular advertising. Our marketing and advertising activities centered primarily on the following:

Product price promotions to draw customers to our stores;

Our wellness + loyalty program, which benefits members based on accumulating points for certain front end and prescription purchases, and offers + UP rewards to provide members additional savings;

Our value plus concept pilot stores offer our customers specific shopping experiences and high value products in addition to those found in a traditional drug store;

Emphasis on the value of our private brand products;

Support of specific initiatives and stores, including competitor market intrusion and prescription file buys; and

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" brand positioning, we promote educational programs focusing on specific health conditions and incentives for patients to transfer their prescriptions to Rite Aid. We are also emphasizing our automated courtesy refill service. 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 3, 2012, we had approximately 90,000 associates: 12% were pharmacists, 43% were part-time and 26% were represented by unions. Associate satisfaction is critical to the success of our strategy. We have surveyed our associates to obtain feedback on various employment-related topics, including job satisfaction and their understanding of our core values and mission. We have also instituted an internal group, consisting of managers and staff from all components of our business that is responsible for using feedback from associates throughout the Company to create a better work environment.

The pharmacist shortage has eased significantly. The increase in the number of graduates from U.S. Schools of Pharmacy is starting to meet the 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. Collectively, these licenses are material to our operations.

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**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 government laws, regulations and administrative practices. We must comply with numerous provisions regulating health and safety, equal employment opportunity, minimum wage and licensing for the sale of drugs, alcoholic beverages, tobacco and other products. In addition we must comply with regulations pertaining to product content, labeling, dating and pricing.

Pursuant to the Omnibus Budget Reconciliation Act of 1990 ("OBRA") and comparable state regulations, our pharmacists are required to offer counseling, without additional charge, to our customers about medication, dosage, delivery systems, common side effects and other information deemed significant by the pharmacists and may have a duty to warn customers regarding any potential adverse effects of a prescription drug if the warning could reduce or negate such effect.

The appropriate state boards of pharmacy must license our pharmacies and pharmacists. Our pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration and are subject to Federal Drug Enforcement Agency regulations relative to our pharmacy operations, including regulations governing purchasing, storing and dispensing of controlled substances. Applicable licensing and registration requirements require our compliance with various state statutes, rules and/or regulations. If we were to violate any applicable statute, rule or regulation, our licenses and registrations could be suspended or revoked or we could be subject to fines or penalties. Any such violation could also damage our reputation and brand.

In recent years, an increasing number of legislative proposals have been enacted (including the Patient Protection and Affordable Care Act), introduced or proposed in Congress and in some state legislatures that affect or would affect major changes in the healthcare system, either nationally or at the state level. The legislative initiatives include changes in reimbursement levels, changes in qualified participants, changes in drug safety regulations and e-prescribing. We cannot predict the timing of enactment of any such proposals to the extent not yet approved or the long-term outcome or effect of legislation from these efforts on our business.

Our pharmacy business is 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. Failure to properly adhere to these requirements could result in the imposition of civil as well as criminal penalties.

We are also subject to laws governing our relationship with our associates, including minimum wage requirements, overtime, working conditions and unionizing efforts. Increases in the federal minimum wage rate, associate benefit costs or other costs related to associates could adversely affect our results of operations.

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

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health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites. Violations or liabilities under these laws and regulations as a result of our current or former operations or historical activities at our sites, such as gasoline service stations and dry cleaners, could result in significant costs.

### **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](http://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 2011 second 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**

#### ***Current economic conditions may adversely affect our industry, business and results of operations.***

The United States economy is continuing to feel the impact of the economic downturn that began in late 2007, and the future economic environment may not fully recover to levels prior to the downturn. This economic uncertainty has and could further lead to reduced consumer spending for the foreseeable future. If consumer spending continues to decrease or does not recover, we may not be able to sustain the improvement 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 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.

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***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 3, 2012, \$6.3 billion of outstanding indebtedness and stockholders' deficit of \$2.6 billion. We also had additional borrowing capacity under our \$1.175 billion senior secured revolving credit facility of approximately \$910.8 million, net of outstanding letters of credit of \$128.2 million. Our earnings were insufficient to cover fixed charges and preferred stock dividends for fiscal 2012, 2011, 2010, 2009 and 2008 by \$412.4 million, \$564.8 million, \$498.4 million, \$2.6 billion and \$340.6 million, respectively.

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;

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 substantially improve 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 any 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 2013 and have no significant maturities prior to June 2014. However, if our operating results, cash flow or capital resources prove inadequate, or if interest rates rise significantly, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt and other obligations or otherwise be required to delay our planned activities. 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 3, 2012, approximately \$1.5 billion of our outstanding indebtedness bore interest at a rate that varies depending upon the London Interbank Offered Rate ("LIBOR"). Borrowings under our Tranche 5 Term Loan due March 2018 are subject to a minimum LIBOR floor of 125 basis points. Our Tranche 2 Term Loan due June 2014 and borrowings under our senior secured revolving credit facility are most sensitive to LIBOR fluctuations because there is no 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.

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***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 senior secured credit facility contains covenants which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. Our credit facility has a financial covenant which requires us to maintain a minimum fixed charge coverage ratio. The covenant requires that, if availability on the revolving credit facility is less than \$150.0 million, we maintain a minimum fixed charge coverage ratio of 1.05 to 1.00. As of March 3, 2012, we had availability under our revolving credit facility of approximately \$910.8 million and were in compliance with the senior secured credit facility's financial covenant.

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

Subject to any required approval under the stockholder agreement (the "Stockholder Agreement") that we entered into at the time of the Brooks Eckerd acquisition, we are generally not restricted from issuing additional shares of our common shares or preferred stock, including, subject to the terms of our outstanding debt instruments, any securities that are convertible into or exchangeable for, or that represent the right to receive, common shares or preferred stock or any substantially similar securities, whether for cash, as part of incentive compensation or in refinancing transactions. 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 or not 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.

***Subject to certain limitations, Jean Coudu Group may sell Rite Aid common stock at any time, which could cause our stock price to decrease.***

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The shares of Rite Aid common stock that the Jean Coutu Group currently holds are generally restricted, but Jean Coutu Group may sell these shares under certain circumstances, including pursuant to a registered underwritten public offering under the Securities Act or in accordance with Rule 144 under the Securities Act. On April 20, 2012, the Jean Coutu Group announced that it had disposed of



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56,000,000 of its 234,401,162 shares of our common stock. We have entered into a registration rights agreement with Jean Coutu Group, which will give Jean Coutu Group the right to require us to register all or a portion of its shares at any time (subject to certain exceptions). The sale of a substantial number of our shares by Jean Coutu Group or our other stockholders within a short period of time could cause our stock price to decrease, make it more difficult for us to raise funds through future offerings of Rite Aid common stock or acquire other businesses using Rite Aid common stock as consideration.

***We are in compliance with all New York Stock Exchange continued listing requirements. However, if we do not continue to maintain compliance with such requirements, our common stock may be delisted.***

On March 1, 2011, we were notified by the NYSE that, as of March 1, 2011, we regained compliance with the NYSE minimum share price listing requirement. We are now in compliance with all NYSE listing rules, have actively been taking steps to maintain our listing and expect our efforts to maintain our NYSE listing will be successful. However, there can be no assurance that we will maintain compliance with the NYSE minimum share price rule or other continued listing requirements. In the event of a delisting, all holders of our \$64.2 million of outstanding 8.5% Convertible Notes due May 2015 ("Convertible Notes") would be entitled to require us to repurchase their Convertible Notes. Our senior secured credit facility permits us to make such a repurchase of the Convertible Notes; provided that, before and after such transaction, no default or event of default shall have occurred and be continuing under the senior secured credit facility and we have more than \$100.0 million of availability under our revolving credit facility. Our ability to pay cash to holders of the Convertible Notes may be limited by our financial resources at the time of such repurchase. We cannot assure you that sufficient financing will be available on terms acceptable to us if necessary to make any required repurchase of the Convertible Notes.

**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 a continued 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.

***For so long as Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) maintain certain levels of Rite Aid stock ownership, Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) could exercise significant influence over us.***

At March 3, 2012, Jean Coutu Group owned approximately 25.2% of the voting power of Rite Aid. Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) generally has the ability to significantly influence the outcome of any matter submitted for the vote of our stockholders. The Stockholder Agreement provides that Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) has the right to designate three of the eleven

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members of our board of directors, subject to adjustment based on its ownership position in us. On April 20, 2012, the Jean Coutu Group announced that it had disposed of 56,000,000 of its 234,401,162 shares of our common stock. As a result of such sale, the Jean Coutu Group was required to cause one of its designees to immediately resign from our board of directors and Andre Belzile resigned from our board of directors effective April 23, 2012. Following Mr. Belzile's resignation and reduction of the size of our board of directors from eleven to ten members, the Jean Coutu Group will continue to have the right to designate two members of our board of directors, subject to adjustment for future reductions in its ownership position in us. Accordingly, Jean Coutu Group generally is, and is expected to continue to be, able to significantly influence the outcome of all matters that come before our board of directors. As a result of its significant interest in us, Jean Coutu Group may have the power, subject to applicable law (including the fiduciary duties of the directors designated by Jean Coutu Group), to significantly influence actions that might be favorable to Jean Coutu Group, but not necessarily favorable to our financial condition and results of operations. In addition, the ownership position and governance rights of Jean Coutu Group could discourage a third party from proposing a change of control or other strategic transaction concerning us.

***Conflicts of interest may arise between us and Jean Coutu Group, which may be resolved in a manner that adversely affects our business, financial condition or results of operations.***

Following the Brooks Eckerd acquisition, Jean Coutu Group has continued its Canadian operations but no longer has any operations in the United States, and we currently have no operations in Canada. Despite the lack of geographic overlap, conflicts of interest may arise between us and Jean Coutu Group in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by Jean Coutu Group of its interests in us and the exercise by Jean Coutu Group of its influence over our management and affairs.

A number of the directors on our board of directors are persons who are also officers or directors of Jean Coutu Group or its subsidiaries. Service as a director or officer of both Rite Aid and Jean Coutu Group or its other subsidiaries could create conflicts of interest if such directors or officers are faced with decisions that could have materially different implications for Rite Aid and for Jean Coutu Group. Apart from the conflicts of interest policy contained in our Code of Ethics and Business Conduct and applicable to our directors, we and Jean Coutu Group have not established any formal procedures for us and Jean Coutu Group to resolve potential or actual conflicts of interest between us. There can be no assurance that any of the foregoing conflicts will be resolved in a manner that does not adversely affect our business, financial condition or results of operations.

***We are dependent on our management team, and the loss of their services could have a material adverse effect on our business and the results of our operations or financial condition.***

The success of our business is materially dependent upon the continued services of our executive management team. The loss of key personnel could have a material adverse effect on the results of our operations, financial condition or cash flows. Additionally, we cannot assure you that we will be able to attract or retain other skilled personnel in the future.

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*We are substantially dependent on a single wholesaler of branded pharmaceutical products to sell products to us on satisfactory terms. A disruption in this relationship may have a negative effect on our results of operations, financial condition and cash flow.*

We purchase all of our brand prescription drugs from a single wholesaler, McKesson, pursuant to a contract that runs through April 1, 2013. Pharmacy sales represented approximately 68.1% of our total sales during fiscal 2012, and, therefore, our relationship with McKesson is important to us. Any significant disruptions in our relationship with McKesson would make it difficult for us to continue to operate our business until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes. There can be no assurance that we would be able to find a replacement wholesaler on a timely basis or that such a wholesaler would be able to fulfill our demands on similar terms, which would have a material adverse effect on our results of operations, financial condition and cash flows. In addition, because McKesson acts as a wholesaler for drugs purchased from ultimate manufacturers worldwide, any disruption in the supply of a given drug could adversely impact McKesson's ability to fulfill our demands, which would have a material adverse effect on our results of operations, financial condition and cash flows.

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

We rely extensively on our computer systems to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber security breaches, vandalism, severe weather conditions, catastrophic events and human error, and our disaster recovery planning cannot account for all eventualities. 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 of our security could also result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, loss or misuse of the information and a loss of confidence in our security measures, which could harm our business.

#### **Risks Related to our Industry**

*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 and mail order has significantly increased during the past few years. Our industry also faces growing competition from companies who import drugs directly from other countries, such as Canada, as well as from large-scale retailers that offer generic drugs at a substantial discount. Some of our competitors have or may merge with or acquire pharmaceutical services companies 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. In addition, 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 believe that the continued consolidation of the drugstore industry will further increase competitive pressures in the industry. 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.

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***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 or are in the process of consolidating, such as the recent merger of Express Scripts and Medco Health Solutions, 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.

***Drug benefit plan sponsors and third party payors could change their plan eligibility criteria and further encourage or require the use of mail-order prescriptions which could decrease our sales and reduce our margins and have a material adverse effect on our business.***

An adverse trend for drugstore retailing has been initiatives to contain rising healthcare costs leading to the rapid growth in mail-order prescription processors. These prescription distribution methods have grown in market share relative to drugstores as a result of the rapid rise in drug costs experienced in recent years and are predicted to continue to rise. Mail-order prescription distribution methods are perceived by employers and insurers as being less costly than traditional distribution methods and are being encouraged, and, in some cases, required, by third party pharmacy benefit managers, employers and unions that administer benefits. As a result, some labor unions and employers are requiring, and others may encourage or require, that their members or employees obtain medications from mail-order pharmacies which offer drug prescriptions at prices lower than we are able to offer.

Another adverse trend for drugstore retailing has been for drug benefit plan sponsors and third party payors to change their plan eligibility requirements resulting in fewer beneficiaries covered and a reduction in the number of prescriptions allowed.

Mail-order prescription distribution and drug benefit plan eligibility changes have negatively affected sales for traditional chain drug retailers, including us, and we expect such negative effect to continue in the future. There can be no assurance that our efforts to offset the effects of mail order and eligibility changes will be successful nor can we predict whether the recently adopted health care reform legislation will exacerbate this risk.

***The availability of pharmacy drugs is subject to governmental regulations.***

The continued conversion of various prescription drugs, including the planned conversion 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.

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***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 96.5% of our business in fiscal 2012.

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.

Certain provisions of the Deficit Reduction Act of 2005 ("DRA") sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs ("AMP"). Although those reductions did not go into effect, the Patient Protection and Affordable Care Act, signed into law on March 23, 2010 (the "Patient Care Act") enacted a modified AMP reimbursement formula for multi-source drugs. The modified formula, when implemented, may reduce Medicaid reimbursements which could affect our revenues and profits. There have also been a number of other recent proposals and enactments by the Federal government and various states to reduce Medicare Part D and Medicaid reimbursement levels in response to budget problems. We expect other similar proposals in the future.

***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 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; applicable Medicare and Medicaid regulations; the Health Insurance Portability and Accountability Act or ("HIPAA"); laws and 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 of 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.

***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

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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 will not be able to compete effectively if we are unable to attract, hire and retain qualified pharmacists.***

Although more licensed pharmacists and new graduates are seeking positions in many markets there is still an unmet demand for pharmacists in limited regions of the country that are challenging to staff. We continue to offer competitive compensation plans to retain and attract current and future pharmacists, work with colleges of pharmacy across the U.S. to recruit both pharmacy interns and pharmacy graduates, but if the shortage recurs in one or more markets, our ability to compete effectively in any market could be adversely impacted.

***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 private brand 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 private brand 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.

***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. Despite instituted safeguards for the protection of such information, security could be compromised and confidential customer or business information misappropriated. 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 tougher 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. For example, in July 2010, settlement orders between us and the Federal Trade Commission and U.S. Department of Health and Human Services, Office for Civil Rights were accepted by the agencies. The agencies' allegations were that we failed to protect patient and associate identifiable information. As a result of these settlement orders, we, without admitting any liability, agreed to pay a \$1.1 million penalty and are required to establish a

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comprehensive information security program, revise HIPAA-related policies and procedures and retain an independent assessor to conduct periodic compliance reviews.

**Item 1B. Unresolved SEC Staff Comments**

None

**Item 2. Properties**

As of March 3, 2012, we operated 4,667 retail drugstores. The overall average selling square feet of each store in our chain is approximately 10,000 square feet. The overall average total square feet of each store in our chain is 12,600. The stores in the eastern part of the U.S. average 8,900 selling square feet per store (11,100 average total square feet per store). The stores in the western part of the U.S. average 15,100 selling square feet per store (19,500 average total square feet per store).

Our Customer World store has an overall average selling square footage of 11,700 and an overall average total square feet of 14,900. The Customer World store in the eastern part of the U.S. averages 11,000 selling square feet (14,000 average total square feet per store). The Customer World store prototype in the western part of the U.S. averages 13,800 selling square feet (17,500 average total square feet per store).

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The table below identifies the number of stores by state as of March 3, 2012:

State	Store Count
Alabama	94
California	588
Colorado	20
Connecticut	77
Delaware	43
District of Columbia	7
Georgia	191
Idaho	13
Indiana	10
Kentucky	116
Louisiana	65
Massachusetts	155
Maine	79
Maryland	144
Michigan	282
Mississippi	27
North Carolina	228
Nevada	1
New Hampshire	68
New Jersey	264
New York	630
Ohio	227
Oregon	71
Pennsylvania	548
Rhode Island	45
South Carolina	96
Tennessee	83
Utah	22
Vermont	38
Virginia	192
Washington	139
West Virginia	104
<b>Total</b>	<b>4,667</b>

Our stores have the following attributes at March 3, 2012:

Attribute	Number	Percentage
Freestanding	2,803	60.1%
Drive through pharmacy	2,400	51.4%
Photo finishing capability	4,651	99.7%
GNC stores-within a Rite Aid-store	2,138	45.8%

We lease 4,408 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 259 drugstore facilities are owned.



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We own our corporate headquarters, which is located in a 205,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease 366,400 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 105,800 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:

Location	Owned or Leased	Approximate Square Footage
Poca, West Virginia	Owned	255,000
Dunbar, West Virginia(1)	Leased	110,000
Perryman, Maryland	Owned	885,000
Perryman, Maryland(1)	Leased	262,000
Tuscaloosa, Alabama	Owned	230,000
Cottondale, Alabama(1)	Leased	224,000
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
Charlotte, North Carolina	Owned	585,500
Charlotte, North Carolina(1)	Leased	291,000
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 22 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.

We also own a 55,800 square foot ice cream manufacturing facility located in El Monte, California.

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 3, 2012, we had 8,633,833 square feet of excess space, 4,907,155 square feet of which was subleased.

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**Item 3. Legal Proceedings**

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

We are currently a defendant in several putative collective or class action lawsuits filed in federal or state courts in several states, including Pennsylvania, New Jersey, New York, Maryland, Massachusetts, Maine, New Hampshire, Washington and Oregon, purportedly on behalf of, in some cases (i) current and former assistant store managers and co-managers or (ii) current and former store managers and assistant store managers, respectively, working in the our stores at various locations. The lawsuits allege violations of the Fair Labor Standards Act and of certain state wage and hour statutes. The lawsuits seek various combinations of unpaid compensation (including overtime compensation), liquidated damages, exemplary damages, pre-and post-judgment interest as well as attorneys' fees and costs. In one of the cases, *Craig et al v. Rite Aid Corporation et al*, pending in the United States District Court for the Middle District of Pennsylvania, brought on behalf of current and former assistant store managers, the Court, on December 9, 2009, conditionally certified a nationwide collective group of individuals who worked for us as assistant store managers since December 9, 2006. Notice of the *Craig* action was sent to the purported members of the collective group (approximately 6,700 current and former assistant store managers) and approximately 1,100 joined the *Craig* action. We have filed a motion to decertify the class which is presently pending. In another of the cases, *Indergit v. Rite Aid Corporation et al*, pending in the United States District Court for the Southern District of New York, brought on behalf of current and former store managers, the Court, on April 2, 2010, conditionally certified a nationwide collective group of individuals who worked for the Company as store managers since March 31, 2007. The Court ordered that Notice of the *Indergit* action be sent to the purported members of the collective group (approximately 7,000 current and former store managers) and approximately 1,550 joined the *Indergit* action. In another of the cases, *Ibea v. Rite Aid Corporation et al*, pending in the United States District Court for the Southern District of New York, brought on behalf of former salaried co-managers, the Court, on January 9, 2012, conditionally certified a collective group of individuals who worked for us as salaried co-managers. The Court ordered that Notice of the *Ibea* action be sent to the purported members of the collective group (approximately 650 former salaried co-managers) and approximately 140 joined the *Ibea* action. At this time, we are not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. Our management believes, however, that the lawsuits are without merit and not appropriate for collective or class action treatment. We are vigorously defending all of these claims.

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

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

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of completing our production of records in response to the subpoena and are unable to predict with certainty the timing or outcome of any review by the government of such information.

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

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

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

**Item 4. Mine Safety Disclosures**

Not applicable

**PART II**

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

Our common stock is listed on the NYSE under the symbol "RAD." On April 10, 2012, we had approximately 24,997 stockholders of record. Quarterly high and low closing stock prices, based on the composite transactions, are shown below.

Fiscal Year	Quarter	High	Low
2013 (through April 10, 2012)	First	\$ 2.05	\$ 1.65
2012	First	1.31	0.98
	Second	1.35	0.97
	Third	1.33	0.91
	Fourth	1.67	1.14
2011	First	1.74	1.08
	Second	1.18	0.88
	Third	1.10	0.87
	Fourth	1.41	0.88

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 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 equity securities, during the period covered by this report.

Our Chief Executive Officer certified to the NYSE on July 13, 2011 that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

Table of Contents**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, 2007 and reinvestment of dividends).

For comparison of cumulative total return, we have elected to use the Russell 1000 Consumer Staples Index, consisting of 49 companies, including two of our largest competitors, and the Russell 1000 Index. This allows comparison of the company to a peer group of similar sized companies. 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**  
**March 2012**

	2008	2009	2010	2011	2012
RITE AID CORP	45.96	4.82	26.16	22.03	28.78
Russell 1000 Index	97.64	55.05	85.51	105.12	111.16
Russell 1000 Consumer Staples Index	109.22	79.54	110.70	126.79	147.53

**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.

Selected financial data for the fiscal years 2009 and 2008 have been adjusted to reflect the operations of our 28 stores in the Las Vegas market area as a discontinued operations as we entered into an agreement to sell the prescription files and terminate the operations of these stores during the fourth quarter of fiscal 2008.

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Selected financial data for March 1, 2008 includes Brooks Eckerd results of operations for the thirty-nine week period ended March 1, 2008.

	Fiscal Year Ended				
	March 3, 2012 (53 weeks)	February 26, 2011 (52 weeks)	February 27, 2010 (52 weeks)	February 28, 2009 (52 weeks)	March 1, 2008 (52 weeks)
(Dollars in thousands, except per share amounts)					
<b>Summary of Operations:</b>					
Revenues	\$ 26,121,222	\$ 25,214,907	\$ 25,669,117	\$ 26,289,268	\$ 24,326,846
Costs and expense:					
Cost of goods sold	19,327,887	18,522,403	18,845,027	19,253,616	17,689,272
Selling, general and administrative expenses(1)	6,531,411	6,457,833	6,603,372	6,985,367	6,366,137
Goodwill impairment charge				1,810,223	
Lease termination and impairment charges	100,053	210,893	208,017	293,743	86,166
Interest expense	529,255	547,581	515,763	477,627	449,596
Loss on debt modifications and retirements, net	33,576	44,003	993	39,905	12,900
(Gain) loss on sale of assets and investments, net	(8,703)	(22,224)	(24,137)	11,581	(3,726)
<b>Total costs and expenses</b>	<b>26,513,479</b>	<b>25,760,489</b>	<b>26,149,035</b>	<b>28,872,062</b>	<b>24,600,345</b>
Loss before income taxes	(392,257)	(545,582)	(479,918)	(2,582,794)	(273,499)
Income tax (benefit) expense	(23,686)	9,842	26,758	329,257	802,701
Net loss from continuing operations	(368,571)	(555,424)	(506,676)	(2,912,051)	(1,076,200)
Loss from discontinued operations, net of gain on disposal and income tax benefit				(3,369)	(2,790)
<b>Net loss</b>	<b>\$ (368,571)</b>	<b>\$ (555,424)</b>	<b>\$ (506,676)</b>	<b>\$ (2,915,420)</b>	<b>\$ (1,078,990)</b>
<b>Basic and diluted loss per share:</b>					
Basic loss per share	\$ (0.43)	\$ (0.64)	\$ (0.59)	\$ (3.49)	\$ (1.54)
Diluted loss per share	\$ (0.43)	\$ (0.64)	\$ (0.59)	\$ (3.49)	\$ (1.54)
<b>Year-End Financial Position:</b>					
Working capital	\$ 1,934,267	\$ 1,991,042	\$ 2,332,976	\$ 2,062,505	\$ 2,123,855
Property, plant and equipment, net	1,902,021	2,039,383	2,293,153	2,587,356	2,873,009
Total assets	7,364,291	7,555,850	8,049,911	8,326,540	11,488,023
Total debt(2)	6,328,201	6,219,865	6,370,899	6,011,709	5,985,524
Stockholders' (deficit) equity	(2,586,756)	(2,211,367)	(1,673,551)	(1,199,652)	1,711,185
<b>Other Data:</b>					
Cash flows (used in) provided by:					
Operating activities	266,537	395,849	(325,063)	359,910	79,368
Investing activities	(221,169)	(156,677)	(120,486)	(346,358)	(2,933,744)
Financing activities	25,801	(251,650)	397,108	(17,279)	2,903,990
Capital expenditures	250,137	186,520	193,630	541,346	740,375
Basic weighted average shares	885,819,000	882,947,000	880,843,000	840,812,000	723,923,000
Diluted weighted average shares	885,819,000	882,947,000	880,843,000	840,812,000	723,923,000
Number of retail drugstores	4,667	4,714	4,780	4,901	5,059
Number of associates	90,000	91,800	97,500	103,000	112,800

(1) Includes stock-based compensation expense. Stock based compensation expense for all fiscal years presented was determined using the fair value method set forth in ASC 718, "Compensation Stock Compensation."

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(2)

Total debt included capital lease obligations of \$127.0 million, \$140.3 million, \$152.7 million, \$193.8 million, and \$216.3 million, as of March 3, 2012, February 26, 2011, February 27, 2010, February 28, 2009, and March 1, 2008, respectively.

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

**Overview**

Net loss for fiscal 2012 was \$368.6 million or \$0.43 per basic and diluted share, compared to net loss for fiscal 2011 of \$555.4 million or \$0.64 per basic and diluted share and a net loss for fiscal 2010 of \$506.7 million or \$0.59 per basic and diluted share. Our operating results are described in detail in the Results of Operations section of this Item 7. Some of the key factors that impacted our results in fiscal 2012, 2011 and 2010 are summarized as follows:

*Sales Trends:* Our revenue growth for fiscal 2012 was 3.6% compared to revenue declines of 1.8% and 2.4% for fiscal 2011 and 2010, respectively.

*Lease termination and impairment charges:* We recorded lease terminations and impairment charges of \$100.1 million in fiscal 2012 compared to \$210.9 million and \$208.0 million in fiscal 2011 and 2010, respectively.

*LIFO Charges:* We record the value of our inventory on the Last-In, First-Out (LIFO) method. We recorded non-cash LIFO charges of \$188.7 million, \$44.9 million and \$88.5 million in fiscal 2012, 2011 and 2010, respectively. The higher LIFO charge this year is due to higher inflation on both pharmacy and front end products.

*Debt Refinancing:* In fiscal 2012, we continued to take steps to extend the terms of our debt and obtain more flexibility. In March 2011, we entered into a new \$343.0 million Tranche 5 Term Loan under our senior secured credit facility, the proceeds of which were used to repay and retire all borrowings under our Tranche 3 Term Loans. In connection with the Tranche 3 Term Loan repayment and retirement we recorded a loss on debt modification of \$22.4 million during the first quarter of fiscal 2012 due to the write off of debt issue costs of \$2.7 million and unamortized original issuance discount of \$19.7 million.

In August 2011, we repurchased \$41.0 million of our 8.625% senior notes due March 2015, \$5.0 million of our 9.375% senior notes due December 2015 and \$4.5 million of our 6.875% senior debentures due August 2013. These repurchases resulted in a gain in the second quarter of fiscal 2012 of \$5.0 million.

In February 2012, we issued \$481.0 million of our 9.25% senior notes due March 2020. These notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. Our obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured unsubordinated basis, by all of our subsidiaries that guarantee our obligations under our senior secured credit facility and our outstanding 8.00% senior secured notes due 2020, 9.75% senior secured notes due 2016, 10.375% senior secured notes due 2016, 7.5% senior secured notes due 2017, 10.25% senior secured notes due 2019, 9.375% senior notes due 2015 and 9.5% senior notes due 2017. The proceeds of the notes, together with available cash, were used to repurchase and repay all of the outstanding 8.625% senior notes due March 2015. In February 2012, we completed a tender offer for the 8.625% notes in which \$404.8 million aggregate principal amount of the outstanding 8.625% notes were tendered and repurchased by us. In February 2012, we called for the redemption of the remaining 8.625% notes. We redeemed the remaining 8.625% notes in March 2012 for \$55.7 million which included the call premium and interest through the call date. The refinancing resulted in a loss in the fourth quarter of fiscal 2012 of \$16.1 million.

These transactions are described in more detail in the "*Liquidity and Capital Resources*" section below.

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*Income Tax:* Net loss for fiscal 2012 included income tax benefit of \$23.7 million, compared to income tax expense of \$9.8 million for fiscal 2011 and income tax expense of \$26.8 million for fiscal 2010. The benefit recognized in fiscal 2012 was primarily comprised of adjustments to unrecognized tax benefits due to the lapse of statute of limitations compared to income tax expense for fiscal 2011 and 2010 primarily for the accrual of state and local taxes and adjustments to unrecognized tax benefits. We maintain a full valuation allowance against the net deferred tax assets. 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. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable. Based on the negative evidence, ASC 740 precludes relying on projections of future taxable income to support the recognition of deferred tax assets.

*Dilutive Equity Issuances:* On March 3, 2012, 898.7 million shares of common stock were outstanding and an additional 129.8 million shares of common stock were issuable related to outstanding stock options, convertible preferred stock and convertible notes.

On March 3, 2012, our 129.8 million shares of potentially issuable common stock consisted of the following (shares in thousands):

Strike price	Outstanding Stock Options(a)(b)	Preferred Stock	Convertible Notes	Total
\$0.99 and under	12,684			12,684
\$1.00 to \$1.99	52,227			52,227
\$2.00 to \$2.99	1,789		24,800	26,589
\$3.00 to \$3.99	740			740
\$4.00 to \$4.99	3,044			3,044
\$5.00 to \$5.99	1,062	31,195		32,257
\$6.00 and over	2,252			2,252
Total issuable shares	73,798	31,195	24,800	129,793

(a) The exercise of these options would provide cash of \$112.4 million.

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



Table of Contents**Results of Operations***Revenue and Other Operating Data*

	<b>March 3, 2012 (53 Weeks)</b>	<b>Year Ended February 26, 2011 (52 Weeks)</b>	<b>February 27, 2010 (52 Weeks)</b>
<b>(Dollars in thousands)</b>			
Revenues	\$ 26,121,222	\$ 25,214,907	\$ 25,669,117
Revenue growth (decline)	3.6%	(1.8)%	(2.4)%
Same store sales growth (decline)	2.0%	(0.7)%	(0.9)%
Pharmacy sales growth (decline)	1.9%	(1.8)%	(1.4)%
Same store pharmacy sales growth (decline)	2.4%	(0.9)%	0.1%
Pharmacy sales as a % of total sales	68.1%	67.8%	67.9%
Third party sales as a % of total pharmacy sales	96.5%	96.2%	96.2%
Front end sales growth (decline)	0.7%	(1.6)%	(4.3)%
Same store front end sales growth (decline)	1.1%	(0.3)%	(2.9)%
Front end sales as a % of total sales	31.9%	32.2%	32.1%
<b>Store data:</b>			
Total stores (beginning of period)	4,714	4,780	4,901
New stores		3	17
Closed stores	(47)	(69)	(138)
<b>Store acquisitions, net</b>			
Total stores (end of period)	4,667	4,714	4,780
Remodeled stores	279	19	8
Relocated stores	15	28	41

**Revenues**

*Fiscal 2012 compared to Fiscal 2011:* The 3.6% increase in revenue was primarily driven by an increase in same store sales and an additional week in fiscal 2012. The increase in same store sales was driven by the positive impact of our wellness + loyalty program, our flu immunization program and other management initiatives to increase sales and prescriptions. These increases were partially offset due to lower pharmacy reimbursement rates and by operating fewer stores than last year. Same store sales trends for fiscal 2012 and fiscal 2011 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 increased 2.4%. Pharmacy same store sales were positively impacted by an increase of 0.9% in same store prescriptions driven in part by our immunization program, our wellness + loyalty program and inflation on brand drugs. Same store sales were also positively impacted by new customers resulting from the decrease in the number of pharmacies in the Express Scripts pharmacy benefit management network, partially offset by an approximate 1.7% negative impact from new generic introductions and lower reimbursement rates from pharmacy benefit managers and government payors.

Front end same store sales increased 1.1% from the prior year reflecting the positive impact of our wellness + program and other management initiatives to increase sales in the front end. The trend improved during our fourth quarter to a same store sales increase of 1.6% due to continued growth in our wellness + program and strong seasonal sales.

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*Fiscal 2011 compared to Fiscal 2010:* The 1.8% decline in revenue was primarily driven by a reduction in our store base and a decline in same store sales, which decreased 0.7% compared to prior year. This decline consisted of 0.9% pharmacy same store sales decrease and a 0.3% decrease in front end same store sales. Additionally, revenues decreased 0.2% compared to the prior year due to revenue deferrals related to our wellness + loyalty program.

Pharmacy same store sales decreased 0.9%. Same store prescriptions decreased 1.2%. The decline in same store prescriptions was impacted by a slower start and overall softer cough, cold and flu season, coupled with an increase in 90-day prescriptions compared to last year. Same store sales were negatively impacted by lower reimbursement rates, increased generic penetration and the prescription decline. These trends improved during our fourth quarter as the cough, cold and flu season intensified contributing to same store pharmacy sales increased 0.8%.

Front end same store sales decreased 0.3% from the prior year due to weakness in the overall economic environment and its impact on consumer spending behavior, partially offset by various management initiatives, such as our wellness + loyalty card program. The trend improved during our fourth quarter due largely to the later cough, cold and flu season and our wellness + loyalty card program, which resulted in a front-end same store sales increase of 1.0% compared to the fourth quarter last year.

### *Costs and Expenses*

	<b>March 3, 2012</b>	<b>Year Ended</b>	
	<b>(53 Weeks)</b>	<b>February 26, 2011</b>	<b>February 27, 2010</b>
		<b>(52 Weeks)</b>	<b>(52 Weeks)</b>
	<b>(Dollars in thousands)</b>		
Costs of goods sold	\$ 19,327,887	\$ 18,522,403	\$ 18,845,027
Gross profit	6,793,335	6,692,504	6,824,090
Gross margin	26.0%	26.5%	26.6%
Selling, general and administrative expenses	\$ 6,531,411	\$ 6,457,833	\$ 6,603,372
Selling, general and administrative expenses as a percentage of revenues	25.0%	25.6%	25.7%
Lease termination and impairment charges	100,053	210,893	208,017
Interest expense	529,255	547,581	515,763
Loss on debt modifications and retirements, net	33,576	44,003	993
Gain on sale of assets, net	(8,703)	(22,224)	(24,137)

### *Cost of Goods Sold*

Gross profit increased by \$100.8 million in fiscal 2012 compared to fiscal 2011 due to overall revenue growth. Pharmacy gross profit was higher due to increased prescription volume and the introduction of new generics including generic Lipitor, partially offset by continued pressure on pharmacy benefit manager and governmental reimbursement rates. Front-end gross profit was driven by higher sales reflecting the positive impact of our wellness + loyalty program and continued strong Rite Aid Brand private label penetration.

Overall gross margin was 26.0% for fiscal 2012 compared to 26.5% in fiscal 2011. Front end gross margin was lower due to a higher LIFO charge partially offset by increased private label penetration.

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Pharmacy gross margin was lower due to a higher LIFO charge and continued reimburse rate pressure partially offset by new generic introductions.

Gross profit decreased for fiscal 2011 compared to fiscal 2010 due to lower same store sales and higher wellness + loyalty program revenue deferrals. Gross margin was 26.5% for fiscal 2011 compared to 26.6% in fiscal 2010. The decline in gross margin was due primarily to deferred revenue related to our wellness + customer loyalty program and a slight reduction in pharmacy gross margin, partially offset by lower product costs and new generic introductions. There was a negative impact from the reductions in Medicare reimbursements resulting from the AWP rollback which was fully cycled in September 2010. The pharmacy margin pressure slowed as we continued to cycle the more significant maximum allowable costs ("MAC") of new generics which occurred last year. Front-end gross margin was lower due primarily to an increase in deferred revenue related to our wellness + customer loyalty program and related discounts. Partially offsetting the lower gross margin discussed above was a reduction in LIFO and inventory cost capitalization charges.

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 charge was \$188.7 million in fiscal 2012, \$44.9 million in fiscal 2011, and \$88.5 million in fiscal 2010. The increase in the LIFO charge in fiscal 2012 is due to higher inflation on both pharmacy and front end products. The pharmacy inflation rate in fiscal 2012 was 6.6% higher than the prior year and front-end inflation was over 1.7% higher than the prior year.

***Selling, General and Administrative Expenses***

SG&A expenses increased by \$73.6 million in fiscal 2012 compared to fiscal 2011 due mostly to expenses associated with the fifty-third week in fiscal 2012. SG&A as a percentage of revenue improved over fiscal 2011 due to leveraging our fixed costs relative to revenue growth. SG&A for fiscal 2012 was 25.0% as a percentage of revenue, compared to 25.6% in fiscal 2011. The decrease in SG&A as a percentage of revenues is mostly due to a decrease in salaries and benefits resulting from continued labor control initiatives, lower occupancy and lower depreciation and amortization, and other cost containment initiatives. These favorable variances were partially offset by an increase in bonus expense relating to improved results and higher workers' compensation costs associated with unfavorable discount rate changes.

SG&A for fiscal 2011 was 25.6% as a percentage of revenue, compared to 25.7% in fiscal 2010. The decrease in SG&A as a percentage of revenues is mostly due to a decrease in salaries and benefit costs due to better labor control and reductions in store operating expenses and corporate administrative expenses resulting from our various cost reduction initiatives. Additionally, we incurred no securitization fees due to our elimination of the receivables securitization facilities on October 26, 2009. These cost reductions were partially offset by an increase in debit and credit card fees, and higher workers' compensation and general liability costs due to a reserve reduction caused by favorable claims experience recorded in the prior year.

***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. 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

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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. Many long-term macro-economic and industry factors are considered, both quantitatively and qualitatively, in our future cash flow assumptions. In addition to current and expected economic conditions such as inflation, interest and unemployment rates that affect customer shopping patterns, we consider that we operate 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. Many of our competitors are spending significant capital and promotional dollars in certain geographies to gain market share. We have assumed certain sales growth from a new loyalty program, which although it's in its early marketing stages, is expected to not only retain but gain loyal customers. Recent and proposed Pharmacy Benefit Management consolidation and efforts of third party public and private payers have reduced pharmacy reimbursement rates in recent years. We expect this rate compression, which currently affects over 96% of our pharmacy business, to continue to affect us in the foreseeable future. We operate in a highly regulated industry and must make assumptions related to Federal and State efforts and proposals to affect the pricing and regulations related to prescription drugs, as well as, expected revenues and costs related to the new Patient Protection and Affordable Care Act (health care reform).

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 \$52.0 million in fiscal 2012, \$115.1 million in fiscal 2011 and \$75.5 million in fiscal 2010. Our methodology for recording impairment charges has not changed materially, and has been consistently applied in the periods presented.

At March 3, 2012, approximately \$2.0 billion of our long-lived assets, including intangible assets, were associated with 4,667 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 carrying cost. The amount of the impairment charge is the entire difference between the current 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.

We recorded impairment charges for active stores of \$43.4 million in fiscal 2012, \$109.0 million in fiscal 2011 and \$48.9 million in fiscal 2010.

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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 made and approved. Most stores are physically closed within a quarter of the closure decision. Closure decisions are made on an individual store or regional basis considering all of the macro-economic, industry and other factors discussed above, 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. In the next fiscal year, we currently expect to close 50 stores, primarily as a result of lease expirations. We recorded impairment charges for closed facilities of \$8.6 million in fiscal 2012, \$6.1 million in fiscal 2011 and \$26.6 million in fiscal 2010.

Included in the impairment charges noted above were charges of \$5.9 million in fiscal 2012, \$2.4 million in fiscal 2011 and \$12.3 million in fiscal 2010 for existing owned surplus property. Assets to be disposed of are evaluated quarterly 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.

The following table summarizes the impairment charges and number of locations, segregated by closed facilities and active stores that have been recorded in fiscal 2012, 2011 and 2010:

	Year Ended					
	March 3, 2012		February 26, 2011		February 27, 2010	
	Number	Charge	Number	Charge	Number	Charge
<b>Closed facilities:</b>						
Actual and approved store closings	55	\$ 2,283	51	\$ 3,278	67	\$ 5,479
Actual and approved relocations	2	499	1	317	7	3,108
Distribution center closings			1	94	1	5,689
Existing surplus properties	12	5,863	17	2,433	23	12,315
<b>Total impairment charges-closed facilities</b>	<b>69</b>	<b>8,645</b>	<b>70</b>	<b>6,122</b>	<b>98</b>	<b>26,591</b>
<b>Active stores:</b>						
Additional current period charges for stores previously impaired in prior periods(1)	591	9,822	584	17,825	437	7,710
Charges for new and relocated stores that did not meet their asset recoverability test in the current period(2)	19	18,926	44	36,015	32	17,260
Charges for the remaining stores that did not meet their asset recoverability test in the current period(3)	53	14,605	167	55,159	104	23,914
<b>Total impairment charges-active stores</b>	<b>663</b>	<b>43,353</b>	<b>795</b>	<b>108,999</b>	<b>573</b>	<b>48,884</b>
<b>Total impairment charges-all locations</b>	<b>732</b>	<b>\$ 51,998</b>	<b>865</b>	<b>\$ 115,121</b>	<b>671</b>	<b>\$ 75,475</b>
<b>Total number of active stores</b>	<b>4,667</b>		<b>4,714</b>		<b>4,780</b>	
Stores impaired in prior periods with no current charge	428		263		321	
Stores with a current period charge	663		795		573	
<b>Total cumulative active stores with impairment charges</b>	<b>1,091</b>		<b>1,058</b>		<b>894</b>	

(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, in each prior period presented, a minority of

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stores were partially impaired since their fair value supported a reduced net book value. Accordingly, these stores may be further impaired in the current and future periods as a result of changes in their actual or projected cash flows, or changes to their fair value estimates. Also, we 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, 583, 577 and 431 stores for fiscal years 2012, 2011 and 2010 respectively have been fully impaired.

- (2) These charges are related to new stores (open at least 3 years) and relocated stores (relocated in the last 2 years) 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, 19, 43 and 30 stores for fiscal years 2012, 2011 and 2010 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, 43, 141 and 92 stores for fiscal years 2012, 2011 and 2010 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 differ from our projections materially, because of the reasons discussed above, certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods. A 100 basis point decrease in our future sales assumptions as of March 3, 2012 would have resulted in an additional fiscal 2012 impairment charge of \$11.0 million. A 100 basis point increase in our future sales assumptions as of March 3, 2012 would have reduced the fiscal 2012 impairment charge by \$7.0 million. Changes in our discount rate of 50 basis points would not have a material impact on the total impairment recorded in fiscal 2012.

*Facility and Equipment Lease Exit 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. Decisions to close stores or distribution centers in future periods would result in charges for lease exit costs and liquidation of inventory, as well as impairment of assets at these locations.

In fiscal 2012, 2011 and 2010, we recorded facility and equipment lease exit charges of \$48.1 million, \$95.8 million and \$132.5 million. These charges related to changes in future assumptions, interest accretion and provisions for 23 stores in fiscal 2012, 52 stores and one distribution center in fiscal 2011, and 108 stores and one distribution center in fiscal 2010.

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***Interest Expense***

In fiscal 2012, 2011, and 2010, interest expense was \$529.3 million, \$547.6 million and \$515.8 million, respectively. The reduction in interest expense in fiscal 2012 compared to fiscal 2011 is primarily due to favorable interest rates resulting from our March 2011 Tranche 3 Term Loan refinancing and the August 2010 refinancing of our Tranche 4 Term Loan partially offset by the impact of the fifty-third week. The increase in interest expense in fiscal 2011 compared to fiscal 2010 is primarily due to the prior year refinancing of our senior secured credit facility and the elimination of our securitization program which was previously recorded in SG&A, partially offset by savings from our current year refinancing of our \$650.0 million senior secured credit facility term loan.

The annual weighted average interest rates on our indebtedness in fiscal 2012, 2011 and 2010 were 7.4%, 7.5% and 6.8%, respectively.

***Income Taxes***

Income tax benefit of \$23.7 million, income tax expense of \$9.8 million and income tax expense of \$26.8 million, has been recorded for fiscal 2012, 2011 and 2010, respectively. Net loss for fiscal 2012 included income tax benefit of \$23.7 million and was primarily comprised of adjustments to unrecognized tax benefits due to the lapse of statute of limitations. We maintain a full valuation allowance against our net deferred tax assets. 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. In determining whether a valuation allowance 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. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable. Based on the negative evidence, ASC 740 precludes relying on projections of future taxable income to support the recognition of deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income generated in the carryforward periods.

The fiscal 2011 income tax expense of \$9.8 million was primarily comprised of an accrual for state and local taxes, adjustments to unrecognized tax benefits and the need for an accrual of additional state taxes resulting from the receipt of a final audit determination. The fiscal 2010 income tax expense of \$26.8 million was primarily comprised of an accrual for state and local taxes net of federal tax recoveries and adjustments to unrecognized tax benefits. We monitor all available evidence related to our ability to utilize our remaining net deferred tax assets. We maintained a full valuation allowance of \$2,317.4 million and \$2,199.3 million against remaining net deferred tax assets at fiscal year end 2012 and 2011, respectively.

**Liquidity and Capital Resources**

***General***

We have three primary sources of liquidity: (i) cash and cash equivalents, (ii) cash provided by operating activities and (iii) borrowings under the revolving credit facility of our senior secured credit facility. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt and to fund capital expenditures. Total liquidity as of March 3, 2012 was \$913.7 million, which consisted of revolver borrowing capacity of \$910.8 million and invested cash of \$2.9 million. We also had cash of \$55.7 million at year end that we had set aside to finalize the call of our remaining 8.625% guaranteed unsecured notes due 2015. These notes were satisfied and discharged on March 14, 2012.

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***Credit Facility***

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

Our ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At March 3, 2012, we had \$136.0 million borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of \$128.2 million, which resulted in additional borrowing capacity of \$910.8 million.

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

On March 3, 2011, we refinanced the Tranche 3 Term Loan with a \$331.8 million senior secured term loan (the "Tranche 5 Term Loan"). The Tranche 5 Term Loan matures on March 3, 2018, although the maturity will instead be September 16, 2015, in the event that we do not repay or refinance our outstanding 9.375% senior notes due 2015 prior to that time. The Tranche 5 Term Loan bears interest at a rate per annum equal to LIBOR plus 3.25% with a 1.25% LIBOR floor. We must make mandatory prepayments of the Tranche 5 Term Loan with the proceeds of asset dispositions and casualty events (subject to certain limitations), with a portion of any excess cash flow generated by us (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time there is a shortfall in our borrowing base under our senior secured credit facility, prepayment of the Tranche 5 Term Loan may also be required.

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



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and then held as Collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of our senior secured credit facility.

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

Our senior secured credit facility contains covenants which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. Our credit facility has a financial covenant, which is the maintenance of a fixed charge coverage ratio. The covenant requires that, if availability on the revolving credit facility is less than \$150.0 million, we maintain a minimum fixed charge coverage ratio of 1.05 to 1.00. As of March 3, 2012, we were in compliance with this financial covenant.

The senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having a principal amount in excess of \$50.0 million or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repurchase of such debt. The August 2010 amendments to the senior secured credit facility exclude the mandatory repurchase of the 8.5% convertible notes due 2015 from this event of default.

The indentures that govern our secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by us. As of March 3, 2012, the amount of additional secured debt that could be incurred under these indentures was approximately \$1.0 billion (which amount does not include the ability to enter into certain sale and leaseback transactions). However, we could not incur any additional secured debt as of February 27, 2010 assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is governed by an interest coverage ratio test.

***Other 2012 Transactions***

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

In February 2012, we issued \$481.0 million of our 9.25% senior notes due March 2020. These notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. Our obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured unsubordinated basis, by all of our subsidiaries that guarantee our obligations under our senior secured credit facility and our outstanding 8.00% senior secured notes due 2020, 9.75% senior secured notes due 2016, 10.375% senior secured notes due 2016, 7.5% senior secured notes due 2017, 10.25% senior secured notes due 2019, 9.375% senior notes due 2015 and 9.5% senior notes due 2017. The proceeds of the notes, together with available cash, will be used to repurchase and repay all the outstanding 8.625% senior notes due

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March 1, 2015. In February 2012, \$404.8 million aggregate principal amount of the outstanding 8.625% notes were tendered and repurchased by us. In February 2012, we called for the redemption of the remaining 8.625% notes. We redeemed the remaining 8.625% notes in March 2012 for \$55.7 million which included the call premium and interest through the call date. The refinancing resulted in a loss for the period of \$16.1 million.

**2011 Transactions**

In August 2010, we issued \$650.0 million of our 8.00% senior secured notes due August 15, 2020. These notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. Our obligations under these notes are guaranteed, subject to certain limitations, by the same subsidiaries that guarantee the obligations under the senior secured credit facility and our 9.75% senior secured notes due 2016. These guarantees are shared, on a senior basis, with debt outstanding under the senior secured credit facility and our 9.75% senior secured notes due 2016. The indenture that governs the 8.00% notes contains covenant provisions that, among other things, allow the holders of the notes to participate along with the term loan holders and holders of our 9.75% senior secured notes due 2016 in the mandatory prepayments resulting from the proceeds of certain asset dispositions (at the option of the noteholder) and include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

In July 2010, we repurchased \$93.8 million of our \$158.0 million outstanding 8.5% convertible notes. The remaining 8.5% convertible notes require us to maintain a listing on the NYSE or certain other exchanges. In the event of a NYSE delisting, holders of these notes could require us to repurchase them, which we have the ability to do under the terms of our senior secured credit facility. On July 30, 2010, we received a notice of non-compliance from the NYSE because the price of our common stock has fallen below the NYSE's minimum share price rule. Our common stock continued to trade as usual on the NYSE and on March 1, 2011, we received notice that we have regained compliance with the NYSE's minimum share price listing requirement. We are currently in compliance with all NYSE listing rules.

**2010 Transactions**

In October 2009, we issued \$270.0 million of our 10.25% senior secured notes due October 15, 2019. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. Our obligations under these notes are guaranteed, subject to certain limitations, by the same subsidiaries that guarantee the obligations under the senior secured credit facility. The guarantees are secured by shared second priority liens with holders of the 10.375% senior secured notes due 2016 and 7.5% senior secured notes due 2017. The indenture that governs the 10.25% notes contains covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions. The 10.25% senior secured notes due October 2019 were issued at 99.2% of par.

In June 2009, we issued \$410.0 million of 9.75% senior secured notes due June 12, 2016. These notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. Our obligations under these notes are guaranteed, subject to certain limitations, by the same subsidiaries that guarantee the obligations under the senior secured credit facility and our 8.00% senior secured notes due 2020. These guarantees are shared, on a senior basis, with debt outstanding under the senior secured credit facility and our 8.00% senior secured notes due 2020. The indenture that governs the 9.75% notes contains covenant provisions that, among other things, allow the holders of the notes to participate along with the term loan holders and holders of our 8.00% senior secured notes due 2020 in mandatory prepayments resulting from the

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proceeds of certain asset dispositions (at the option of the noteholder) and include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions. The 9.75% senior secured notes due June 2016 were issued at 98.2% of par.

### **Off Balance Sheet Obligations**

Until October 26, 2009, we maintained securitization agreements (the "First Lien Facility") with several multi-seller asset-backed commercial paper vehicles ("CPVs"). Under the terms of the First Lien Facility, we sold substantially all of our eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity ("SPE") and retained servicing responsibility. The SPE then transferred an interest in these receivables to various CPVs. We also maintained a \$225.0 million second priority accounts receivable securitization term loan ("Second Lien Facility").

On October 26, 2009, we terminated both accounts receivable securitization facilities and replaced them with senior secured notes, increased borrowing capacity under our existing senior secured revolving credit facility and an increase in borrowings under our Tranche 4 Term Loan. As part of this refinancing, we incurred a prepayment penalty of \$2.3 million in relation to the Second Lien Facility and recognized \$3.8 million of unamortized discount related to the Second Lien Facility. These charges were recorded as a component of selling, general, and administrative expenses.

As of March 3, 2012, we had no material off balance sheet arrangements, other than operating leases 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 3, 2012, as well as other contractual cash obligations and commitments.

	Payment due by period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	
(Dollars in thousands)					
<b>Contractual Cash Obligations</b>					
Long term debt(1)	\$ 522,824	\$ 2,125,045	\$ 2,237,702	\$ 4,285,670	\$ 9,171,241
Capital lease obligations(2)	30,716	43,560	40,897	59,908	175,081
Operating leases(3)	1,002,062	1,880,275	1,639,047	4,304,798	8,826,182
Open purchase orders	432,340				432,340
Redeemable preferred stock(4)				21,300	21,300
Other, primarily self insurance and retirement plan obligations(5)	117,450	154,190	49,520	116,233	437,393
Minimum purchase commitments(6)	153,894	318,455	248,072	413,765	1,134,186
<b>Total contractual cash obligations</b>	<b>\$ 2,259,286</b>	<b>\$ 4,521,525</b>	<b>\$ 4,215,238</b>	<b>\$ 9,201,674</b>	<b>\$ 20,197,723</b>
<b>Commitments</b>					
Lease guarantees(7)	\$ 26,832	\$ 52,680	\$ 48,610	\$ 53,041	\$ 181,163
Outstanding letters of credit	128,190				128,190
<b>Total commitments</b>	<b>\$ 2,414,308</b>	<b>\$ 4,574,205</b>	<b>\$ 4,263,848</b>	<b>\$ 9,254,715</b>	<b>\$ 20,507,076</b>

(1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of March 3, 2012.

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- (2) Represents the minimum lease payments on non-cancelable leases, including interest, but net of sublease income.
- (3) Represents the minimum lease payments on non-cancelable leases, including interest, but net of sublease income.
- (4) Represents value of redeemable preferred stock at its redemption date.
- (5) 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.
- (6) Represents commitments to purchase products and licensing fees from certain vendors.
- (7) Represents lease guarantee obligations for 123 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 \$83.8 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 \$266.5 million in fiscal 2012. Cash flow was positively impacted by the reduction in net loss, an increase in accounts payable due to the timing of purchases partially offset by an increase in inventory resulting primarily from price inflation and increased store inventory to support sales growth.

Cash flow provided by operating activities was \$395.8 million in fiscal 2011. Cash flow was positively impacted by a reduction in inventory and an increase in accounts payable due to the timing of purchases. Additionally, the reductions in accounts receivable were no longer offset by repayments to the receivables securitization facility which was eliminated in the third quarter of fiscal 2010.

Cash flow used in operating activities was \$325.1 million in fiscal 2010. Cash flow was negatively impacted by the repayments of the accounts receivable securitization facilities totaling \$555.0 million and a decrease in accounts payable offset by a reduction in inventory and accounts receivable. The decreases in accounts receivables, inventory and accounts payable were due to operating fewer stores and various working capital initiatives.

Cash used in investing activities was \$221.2 million in fiscal 2012. Cash was used for the purchase of property, plant and equipment and prescription files which was partially offset by proceeds from asset dispositions and sale-leaseback transactions.

Cash used in investing activities was \$156.7 million in fiscal 2011. Cash was used for the purchase of property, plant and equipment and prescription files which was partially offset by proceeds from asset dispositions.

Cash used in investing activities was \$120.5 million in fiscal 2010. Cash was used for the purchase of property, plant and equipment and prescription files which was offset in part by proceeds from asset dispositions.

Cash provided by financing activities was \$25.8 million in fiscal 2012 and was primarily due to increased revolver borrowings coupled with the February 2012 issuance of \$481.0 million of our 9.25% senior notes due March 15, 2020 and concurrent repurchase of \$404.8 million of our 8.625% senior notes due March 2015. The remaining \$54.2 million of the 8.625% senior notes due March 2015 were repurchased in March 2012.

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Cash used in financing activities was \$251.7 million in fiscal 2011 and was primarily due to the refinancing activity that occurred during the second quarter of fiscal 2011, the repurchase of \$93.8 million of the Convertible Notes, other scheduled debt repayments and a small decrease in our zero balance cash accounts.

Cash provided by financing activities was \$397.1 million in fiscal 2010 due to proceeds from refinancings offset by a reduction in borrowings on our revolving credit facility and the payment of financing fees related to the refinancings.

***Capital Expenditures***

During the fifty-three week period ended March 3, 2012, we spent \$250.1 million on capital expenditures, consisting of \$94.0 million related to new store construction, store relocation and store remodel projects, \$121.0 million related to technology enhancements, improvements to distribution centers and other corporate requirements, and \$35.1 million related to the purchase of prescription files from independent pharmacists. We plan on making total capital expenditures of approximately \$300.0 million during fiscal 2013, consisting of approximately 58.3% related to store relocations and remodels and new store construction, 25.0% related to infrastructure and maintenance requirements and 16.7% related to prescription file purchases. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities.

***Future Liquidity***

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

**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, impairment of long-lived assets, revenue recognition, self insurance liabilities, lease exit liabilities, income taxes and litigation. We base

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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 (including stores and distribution centers), 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 3, 2012, would have affected pre-tax income by approximately \$9.7 million.

*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; expected costs such as payroll, occupancy costs and advertising expenses; 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 100 basis point decrease in our future sales assumptions as of March 3, 2012 would have resulted in an additional fiscal 2012 impairment charge of \$11.0 million. A 100 basis point increase in our future sales

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assumptions as of March 3, 2012 would have reduced the fiscal 2012 impairment charge by \$7.0 million. Changes in our discount rate of 50 basis points would not have a material impact on the total impairment recorded in fiscal 2012.

*Revenue recognition:* For all sales other than third party pharmacy sales, we recognize revenue from the sale of merchandise at the time the merchandise is sold. For third party pharmacy sales, revenue is recognized at the time the prescription is filled, which is or approximates when the customer picks up the prescription. We record revenue net of an allowance for estimated future returns. Return activity is immaterial to revenues and results of operations in all periods presented.

On April 18, 2010, we launched our wellness+ loyalty card program chain wide. 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 are also similar "Silver" and "Bronze" levels with lower thresholds and benefit levels.

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, Silver, and Bronze levels differ from the assumptions by 5.0% then the revenue deferral changes by \$1.1 million. If the assumed spending levels, which are the drivers of future discounts, differ by 5.0% then the revenue deferral changes by \$1.1 million.

*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 25 basis point difference in the discount rate for the year ended March 3, 2012, would have affected pretax income by approximately \$1.8 million.

*Lease exit liabilities:* 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.

A substantial amount 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. In addition, changes in the real estate leasing markets can have an impact on the reserve. As of March 3, 2012, a 50 basis point variance in the credit adjusted risk free interest rate would have affected pretax income by approximately \$2.2 million for fiscal 2012.

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*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 which are currently offset by a valuation allowance. 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. 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. However, changes in market conditions and the impact of the acquisition of Brooks Eckerd on operations have caused changes in the valuation allowance from period to period which were included in the tax provision in the period of change.

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.

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



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The following is a reconciliation of Adjusted EBITDA to our net loss for fiscal 2012, 2011 and 2010:

	March 3, 2012 (53 weeks)	February 26, 2011 (52 weeks)	February 27, 2010 (52 weeks)
Net loss	\$ (368,571)	\$ (555,424)	\$ (506,676)
Interest expense and securitization costs	529,255	547,581	552,625
Income tax (benefit) expense	(23,686)	9,842	26,758
Depreciation and amortization expense	440,582	505,546	534,238
LIFO charges	188,722	44,905	88,450
Lease termination and impairment charges	100,053	210,893	208,017
Stock-based compensation expense	15,861	17,336	23,794
Gain on sale of assets, net	(8,703)	(22,224)	(24,137)
Loss on debt modifications and retirements, net	33,576	44,003	993
Closed facility liquidation expense	6,505	9,881	14,801
Severance costs	256	4,883	6,184
Customer loyalty card programs revenue deferral	30,856	41,669	
Other	(1,804)	71	(73)
<b>Adjusted EBITDA</b>	<b>\$ 942,902</b>	<b>\$ 858,962</b>	<b>\$ 924,974</b>

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

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

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The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates for each fiscal year as of March 3, 2012.

	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value at March 3, 2012
(Dollars in thousands)								
<b>Long-term debt, including current portion, excluding capital lease obligations</b>								
Fixed Rate	\$ 59,445	\$ 186,345	\$	\$ 469,187	\$ 880,000	\$ 3,134,000	\$ 4,728,977	\$ 4,934,587
Average Interest Rate	8.00%	6.95%	0.00%	9.26%	10.08%	8.62%	8.88%	
Variable Rate	\$	\$ 2,971	\$ 1,044,692	\$ 139,430	\$	\$ 326,708	\$ 1,513,801	\$ 1,469,813
Average Interest Rate	0.00%	2.01%	2.01%	5.48%	0.00%	4.50%	2.87%	

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 and our Tranche 2 Term loans and Tranche 5 Term loans, are all based on LIBOR. However, the interest rate on our Tranche 5 Term loans has a LIBOR floor of 125 basis points. If the market rates of interest for LIBOR changed by 100 basis points as of March 3, 2012, our annual interest expense would change by approximately \$10.4 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.

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(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" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that, as of March 3, 2012, 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 has not been any change 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 3, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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 3, 2012, based on criteria established in *Internal Control Integrated Framework* 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 3, 2012, based on the criteria established in *Internal Control Integrated Framework* 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 3, 2012 of the Company and our report dated April 24, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP  
Philadelphia, Pennsylvania  
April 24, 2012

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**Item 9B. Other Information**

On April 20, 2012, the Jean Coutu Group announced that it has disposed of 56,000,000 of its 234,401,162 shares of our common stock. On April 23, 2012, Andre Belzile notified our board of directors of his resignation as required pursuant to the Stockholder Agreement effective April 23, 2012. In connection with Mr. Belzile's resignation, our board of directors has determined to reduce the size of the board from eleven to ten members. The board has also appointed François Coutu to replace Mr. Belzile on our audit committee effective immediately.

**PART III**

We intend to file with the SEC a definitive proxy statement for our 2012 Annual Meeting of Stockholders, to be held on June 21, 2012, pursuant to Regulation 14A not later than 120 days after March 3, 2012. 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:

<u>Report of Independent Registered Public Accounting Firm</u>	<u>63</u>
<u>Consolidated Balance Sheets as of March 3, 2012 and February 26, 2011</u>	<u>64</u>
<u>Consolidated Statements of Operations for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010</u>	<u>65</u>
<u>Consolidated Statements of Stockholders' Deficit for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010</u>	<u>66</u>
<u>Consolidated Statements of Cash Flows for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010</u>	<u>67</u>
<u>Notes to Consolidated Financial Statements</u>	<u>68</u>

**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.

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### 3. Exhibits

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Amended and Restated Stockholder Agreement, dated August 23, 2006, amended and restated as of June 4, 2007, by and between Rite Aid Corporation, The Jean Coutu Group (PJC) Inc., Jean Coutu, Marcelle Coutu, Francois J. Coutu, Michel Coutu, Louis Coutu, Sylvie Coutu and Marie-Josée Coutu	Exhibit 2.2 to Form 10-Q, filed on July 12, 2007
2.2	Letter Agreement to the Amended and Restated Stockholder Agreement, dated April 20, 2010, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 2.2 to Form 10-Q, filed on July 6, 2010
2.3	Registration Rights Agreement, dated August 23, 2006, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 10.2 to Form 8-K, filed on August 24, 2006
3.1	Restated Certificate of Incorporation, dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation, dated February 22, 1999	Exhibit 3(ii) to Form 8-K, filed on November 2, 1999
3.3	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 27, 2001	Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
3.4	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 4, 2007	Exhibit 4.4 to Registration Statement on Form S-8, File No. 333-146531, filed on October 5, 2007
3.5	Certificate of Amendment to the Restated Certificate of Incorporation, dated June 25, 2009	Exhibit 3.5 to Form 10-Q, filed on July 8, 2009
3.6	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.7	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.8	Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K, filed on January 27, 2010

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
4.1	Indenture, dated as of August 1, 1993, by and between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4A to Registration Statement on Form S-3, File No. 033-63794, filed on June 3, 1993
4.2	Supplemental Indenture dated as of February 3, 2000, between Rite Aid Corporation, as issuer, and U.S. Bank Trust National Association as successor to Morgan Guaranty Trust Company of New York, to the Indenture dated as of August 1, 1993, relating to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4.1 to Form 8-K filed on February 7, 2000
4.3	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K filed on February 7, 2000
4.5	Indenture, dated as of May 20, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 9.25% Senior Notes due 2013	Exhibit 4.12 to Form 10-Q, filed on July 3, 2003
4.6	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture, dated as of May 20, 2003, between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 9.25% Senior Notes due 2013	Exhibit 4.8 to Form 10-Q, filed on January 9, 2008

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
4.7	Second Supplemental Indenture, dated as of June 17, 2008, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A., as successor trustee, to the Indenture dated as of May 20, 2003, between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 9.25% Senior Notes due 2013	Exhibit 4.10 to Form 10-Q, filed on July 10, 2008
4.8	Indenture, dated as of February 21, 2007, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 99.1 to Form 8-K, filed on February 26, 2007
4.9	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of February 21, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 4.12 to Form 10-Q, filed on January 9, 2008
4.10	Second Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Indenture, dated as of February 15, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 4.13 to Form 10-Q, filed on July 10, 2008
4.11	Indenture, dated as of February 21, 2007, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 8.625% Senior Notes due 2015	Exhibit 99.2 to Form 8-K, filed on February 26, 2007



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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
4.12	Supplemental Indenture, dated as of June 4, 2007, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture, dated as of February 21, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Notes due 2015	Exhibit 4.14 to Form 10-Q, filed on January 9, 2008
4.13	Second Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Indenture, dated as of February 15, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Notes due 2015	Exhibit 4.16 to Form 10-Q, filed on July 10, 2008
4.14	Fifth Supplemental Indenture, dated as of February 27, 2012, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Indenture, dated as of February 15, 2007, between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Notes due 2015	Exhibit 4.3 to Form 8-K, filed on February 27, 2012
4.15	Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.375% Senior Notes due 2015	Exhibit 4.1 to Form 8-K, filed on June 7, 2007
4.16	First Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A. to the Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.375% Senior Notes due 2015	Exhibit 4.18 to Form 10-Q, filed on July 10, 2008

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
4.17	Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.5% Senior Notes due 2017	Exhibit 4.2 to Form 8-K, filed on June 7, 2007
4.18	First Supplemental Indenture, dated as of July 9, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Mellon Trust Company, N.A., as successor trustee, to the Amended and Restated Indenture, dated as of June 4, 2007, among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., related to the Company's 9.5% Senior Notes due 2017	Exhibit 4.20 to Form 10-Q, filed on July 10, 2008
4.19	Indenture, dated as of May 29, 2008, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's Senior Debt Securities	Exhibit 4.1 to Form 8-K, filed on June 2, 2008
4.20	First Supplemental Indenture, dated as of May 29, 2008, among Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of May 29, 2008 between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.5% Convertible Notes due 2015	Exhibit 4.2 to Form 8-K, filed on June 2, 2008
4.21	Indenture, dated as of July 9, 2008, between Rite Aid Corporation, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 10.375% Senior Secured Notes due 2016	Exhibit 4.23 to Form 10-Q, filed on July 10, 2008
4.22	Indenture, dated as of June 12, 2009, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 9.750% Senior Secured Notes due 2016	Exhibit 4.1 to Form 8-K, filed on June 16, 2009

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Exhibit Numbers	Description	Incorporation By Reference To
4.23	Indenture, dated as of October 26, 2009, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 10.25% Senior Secured Notes due 2019	Exhibit 4.1 to Form 8-K, filed on October 29, 2009
4.24	Indenture, dated as of August 16, 2010, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee, related to the Company's 8.00% Senior Secured Notes due 2020	Exhibit 4.1 to Form 8-K, filed on August 19, 2010
4.25	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
10.1	1999 Stock Option Plan*	Exhibit 10.1 to Form 10-K, filed on May 21, 2001
10.2	2000 Omnibus Equity Plan*	Included in Proxy Statement dated October 24, 2000
10.3	2001 Stock Option Plan*	Exhibit 10.3 to Form 10-K, filed on May 21, 2001
10.4	2004 Omnibus Equity Plan*	Exhibit 10.4 to Form 10-K, filed on April 28, 2005
10.5	2006 Omnibus Equity Plan*	Exhibit 10 to Form 8-K, filed on January 22, 2007
10.6	2010 Omnibus Equity Plan*	Exhibit 10.1 to Form 8-K, filed on June 25, 2010
10.7	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
10.8	Supplemental Executive Retirement Plan*	Exhibit 10.6 to Form 10-K, filed on April 28, 2010
10.9	Executive Incentive Plan for Officers of Rite Aid Corporation*	Exhibit 10.1 to Form 8-K, filed on February 24, 2012
10.10	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
10.11	Employment Agreement by and between Rite Aid Corporation and Frank G. Vitrano, dated as of September 24, 2008*	Exhibit 10.3 to Form 10-Q, filed on October 8, 2008

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Exhibit Numbers	Description	Incorporation By Reference To
10.12	Letter Agreement, dated July 27, 2010, to the Employment Agreement by and between Rite Aid Corporation and Frank G. Vitrano, dated as of September 24, 2008*	Exhibit 10.2 to Form 10-Q, filed on October 7, 2010
10.13	Employment Agreement by and between Rite Aid Corporation and Marc A. Strassler, dated as of March 9, 2009*	Exhibit 10.8 to Form 10-K, filed on April 17, 2009
10.14	Letter Agreement, dated July 27, 2010, to the Employment Agreement by and between Rite Aid Corporation and Marc A. Strassler, dated as of March 9, 2009*	Exhibit 10.4 to Form 10-Q, filed on October 7, 2010
10.15	Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of December 5, 1999*	Exhibit 10.2 to Form 8-K, filed on January 18, 2000
10.16	Amendment No. 4 to Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of January 21, 2010*	Exhibit 10.15 to Form 10-K, filed on April 28, 2010
10.17	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
10.18	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
10.19	Rite Aid Corporation Special Executive Retirement Plan*	Exhibit 10.15 to Form 10-K, filed on April 26, 2004
10.20	Employment Agreement by and between Rite Aid Corporation and Brian Fiala, dated as of June 26, 2007*	Exhibit 10.1 to Form 10-Q, filed on July 12, 2007
10.21	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Brian Fiala, dated as of December 18, 2008*	Exhibit 10.3 to Form 10-Q, filed on January 7, 2009
10.22	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
10.23	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

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
10.24	Employment Agreement by and between Rite Aid Corporation and Robert I. Thompson, dated as of February 3, 2008*	Exhibit 10.5 to Form 10-Q, filed on January 6, 2010
10.25	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert I. Thompson, dated as of September 23, 2009*	Exhibit 10.6 to Form 10-Q, filed on January 6, 2010
10.26	Amended and Restated Employment Agreement, dated as of July 11, 2011, between Rite Aid Corporation and Robert K. Thompson*	Exhibit 10.2 to Form 10-Q, filed on October 5, 2011
10.27	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
10.28	Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of December 22, 2003**	Exhibit 10.25 to Form 10-K, filed on April 29, 2008
10.29	First Amendment to Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of December 8, 2007**	Exhibit 10.26 to Form 10-K, filed on April 29, 2008
10.30	Second Amendment to Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of November 7, 2008**	Exhibit 10.1 to Form 10-Q, filed on January 7, 2009
10.31	Third Amendment to Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of February 1, 2009**	Exhibit 10.30 to Form 10-K, filed on April 17, 2009
10.32	Fourth Amendment to Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of December 10, 2009**	Exhibit 10.4 to Form 10-Q, filed on January 6, 2010
10.33	Management Services Agreement by and between Rite Aid Corporation and Leonard Green & Partners, L.P., dated as of January 1, 2003	Exhibit 10.27 to Form 10-K, filed on April 29, 2008
10.34	Fourth Amendment to Management Services Agreement by and between Rite Aid Corporation and Leonard Green & Partners, L.P., dated as of February 12, 2007	Exhibit 10.28 to Form 10-K, filed on April 29, 2008

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
10.35	Amended and Restated Credit Agreement, dated as of June 5, 2009, 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 11, 2009
10.36	Amendment No. 1, dated as of August 19, 2010, relating to the Amended and Restated Credit Agreement, dated as of June 5, 2009, among Rite Aid Corporation, the lenders party thereto and Citicorp North America, Inc., as administrative agent	Exhibit 10.2 to Form 8-K, filed on August 19, 2010
10.37	Refinancing Amendment No. 1, dated as of June 10, 2009, relating to the Credit Agreement, dated as of June 5, 2009, among Rite Aid Corporation, the subsidiary guarantors party thereto, the lender party thereto and Citicorp North America, Inc., as Administrative Agent	Exhibit 10.2 to Form 8-K, filed on June 11, 2009
10.38	Refinancing Amendment No. 2, dated as of June 26, 2009, relating to the Amended and Restated Credit Agreement, dated as of June 5, 2009, among Rite Aid Corporation, the subsidiary guarantors party thereto, the lenders party thereto and Citicorp North America, Inc., as Administrative Agent and Collateral Processing Agent	Exhibit 10.1 to Form 8-K, filed on July 1, 2009
10.39	Refinancing Amendment No. 3, dated as of August 19, 2010, relating to the Amended and Restated Credit Agreement, dated as of June 5, 2009, among Rite Aid Corporation, the lenders party thereto and Citicorp North America, Inc., as administrative agent and collateral agent	Exhibit 10.1 to Form 8-K, filed on August 19, 2010
10.40	Refinancing Amendment No. 4, dated as of March 3, 2011, relating to the Amended and Restated Credit Agreement, dated as of June 5, 2009 (as amended, supplemented or otherwise modified from time to time), among Rite Aid Corporation, the lenders party thereto and Citicorp North America, Inc., as administrative agent and collateral agent	Exhibit 10.1 to Form 8-K, filed on March 3, 2011

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
10.41	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
10.42	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
10.43	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
10.44	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
10.45	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

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
10.46	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
10.47	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
10.48	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
10.49	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
10.50	Incremental Facility Amendment No. 1, dated as of October 26, 2009, among Rite Aid Corporation, the lenders party thereto, Citicorp North America, Inc., as administrative agent and collateral agent and the other agents party thereto.	Exhibit 10.1 to Form 8-K, filed on October 29, 2009



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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
10.51	Incremental Facility Amendment No. 2, dated as of October 19, 2009 and effective as of October 26, 2009, among Rite Aid Corporation, the lenders party thereto, Citicorp North America, Inc., as administrative agent and collateral agent and the other agents party thereto	Exhibit 10.2 to Form 8-K, filed on October 29, 2009
10.52	Exchange and Registration Rights Agreement relating to the 9.25% Senior Notes due 2020, dated February 27, 2012, among Rite Aid Corporation, the Subsidiary Guarantors and Citigroup Global Markets Inc., Merrill, Lynch, Pierce, Fenner and Smith Incorporated, Wells Fargo Securities, LLC and Credit Suisse Securities (USA) LLC, as the Initial Purchasers	Exhibit 10.1 to Form 8-K, filed on February 27, 2012
11	Statement regarding computation of earnings per share (See Note 2 to the condensed 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

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<b>Exhibit Numbers</b>	<b>Description</b>	<b>Incorporation By Reference To</b>
101.	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at March 3, 2012 and February 26, 2011, (ii) Condensed Consolidated Statements of Operations for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010, (iii) Condensed Consolidated Statements of Stockholders' Deficit for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010, (iv) Condensed Consolidated Statements of Cash Flow for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010 and (v) Notes to Consolidated Financial Statements, tagged in detail.***	

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\*  
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.

\*\*\*  
Furnished, not filed.

*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>.*

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**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 3, 2012 and February 26, 2011, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended March 3, 2012. 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 3, 2012 and February 26, 2011, and the results of their operations and their cash flows for each of the three years in the period ended March 3, 2012, 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 3, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 24, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP  
Philadelphia, Pennsylvania  
April 24, 2012

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

	March 3, 2012	February 26, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 162,285	\$ 91,116
Accounts receivable, net	1,013,233	966,457
Inventories, net	3,138,455	3,158,145
Prepaid expenses and other current assets	190,613	195,647
<b>Total current assets</b>	<b>4,504,586</b>	<b>4,411,365</b>
Property, plant and equipment, net	1,902,021	2,039,383
Other intangibles, net	528,775	646,177
Other assets	428,909	458,925
<b>Total assets</b>	<b>\$ 7,364,291</b>	<b>\$ 7,555,850</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 79,421	\$ 63,045
Accounts payable	1,426,391	1,307,872
Accrued salaries, wages and other current liabilities	1,064,507	1,049,406
<b>Total current liabilities</b>	<b>2,570,319</b>	<b>2,420,323</b>
Long-term debt, less current maturities	6,141,773	6,034,525
Lease financing obligations, less current maturities	107,007	122,295
Other noncurrent liabilities	1,131,948	1,190,074
<b>Total liabilities</b>	<b>9,951,047</b>	<b>9,767,217</b>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock series G, par value \$1 per share; liquidation value \$100 per share; 2,000 shares authorized; shares issued .006 and .006	1	1
Preferred stock series H, par value \$1 per share; liquidation value \$100 per share; 2,000 shares authorized; shares issued 1,715 and 1,616	171,569	161,650
Common stock, par value \$1 per share; 1,500,000 shares authorized; shares issued and outstanding 898,687 and 890,297	898,687	890,297
Additional paid-in capital	4,278,988	4,281,623
Accumulated deficit	(7,883,367)	(7,514,796)
Accumulated other comprehensive loss	(52,634)	(30,142)
<b>Total stockholders' deficit</b>	<b>(2,586,756)</b>	<b>(2,211,367)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 7,364,291</b>	<b>\$ 7,555,850</b>

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



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**RITE AID CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

	March 3, 2012 (53 Weeks)	Year Ended February 26, 2011 (52 Weeks)	February 27, 2010 (52 Weeks)
Revenues	\$ 26,121,222	\$ 25,214,907	\$ 25,669,117
Costs and expenses:			
Cost of goods sold	19,327,887	18,522,403	18,845,027
Selling, general and administrative expenses	6,531,411	6,457,833	6,603,372
Lease termination and impairment charges	100,053	210,893	208,017
Interest expense	529,255	547,581	515,763
Loss on debt modifications and retirements, net	33,576	44,003	993
Gain on sale of assets, net	(8,703)	(22,224)	(24,137)
	26,513,479	25,760,489	26,149,035
Loss before income taxes	(392,257)	(545,582)	(479,918)
Income tax (benefit) expense	(23,686)	9,842	26,758
Net loss	\$ (368,571)	\$ (555,424)	\$ (506,676)
Computation of loss applicable to common stockholders:			
Net loss	\$ (368,571)	\$ (555,424)	\$ (506,676)
Accretion of redeemable preferred stock	(102)	(102)	(102)
Cumulative preferred stock dividends	(9,919)	(9,346)	(8,807)
Loss applicable to common stockholders	\$ (378,592)	\$ (564,872)	\$ (515,585)
Basic and diluted loss per share:			
Basic loss per share	\$ (0.43)	\$ (0.64)	\$ (0.59)
Diluted loss per share	\$ (0.43)	\$ (0.64)	\$ (0.59)

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

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## RITE AID CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

For the Years Ended March 3, 2012, February 26, 2011 and February 27, 2010

(In thousands)

	Preferred Stock	Series G	Preferred Series H	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	
	Shares	Amount	Shares	Amount	Shares	Amount			
BALANCE FEBRUARY 28, 2009	\$ 1	1,435	\$ 143,498	886,113	\$ 886,113	\$ 4,265,211	\$ (6,452,696)	\$ (41,779)	\$ (1,199,652)
Net loss							(506,676)		(506,676)
Other comprehensive income:									
Changes in Defined Benefit Plans								10,459	10,459
Comprehensive loss									(496,217)
Exchange of restricted shares for taxes				(1,198)	(1,198)	(343)			(1,541)
Issuance of restricted stock				3,289	3,289	(3,289)			
Cancellation of restricted stock				(642)	(642)	642			
Amortization of restricted stock balance						11,772			11,772
Stock-based compensation expense						12,022			12,022
Stock options exercised				74	74	(8)			66
Dividends on preferred stock			88	8,806		(8,807)			(1)
BALANCE FEBRUARY 27, 2010	\$ 1	1,523	\$ 152,304	887,636	\$ 887,636	\$ 4,277,200	\$ (6,959,372)	\$ (31,320)	\$ (1,673,551)
Net loss							(555,424)		(555,424)
Other comprehensive income:									
Changes in Defined Benefit Plans								1,178	1,178
Comprehensive loss									(554,246)
Exchange of restricted shares for taxes				(1,103)	(1,103)	(29)			(1,132)
Issuance of restricted stock				3,905	3,905	(3,905)			
Cancellation of restricted stock				(385)	(385)	385			
Amortization of restricted stock balance						6,053			6,053
Stock-based compensation expense						11,283			11,283
Stock options exercised				244	244	(18)			226
Dividends on preferred stock			93	9,346		(9,346)			
BALANCE FEBRUARY 26, 2011	\$ 1	1,616	\$ 161,650	890,297	\$ 890,297	\$ 4,281,623	\$ (7,514,796)	\$ (30,142)	\$ (2,211,367)

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Net loss			(368,571)	(368,571)
Other comprehensive income:				
Changes in Defined Benefit Plans			(22,492)	(22,492)
Comprehensive loss				(391,063)
Exchange of restricted shares for taxes	(970)	(970)	(132)	(1,102)
Issuance of restricted stock	9,195	9,195	(9,195)	
Cancellation of restricted stock				