RITE AID CORP
Form 10-Q
July 06, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 29, 2010

OR

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

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

RITE AID CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report):
Not Applicable

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

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

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant had 886,819,676 shares of its $1.00 par value common stock outstanding as of June 29, 2010.

RITE AID CORPORATION

TABLE OF CONTENTS

	Cautionary Statement Regarding Forward-Looking Statements	2
PART I		
FINANCIAL INFORMATION		
ITEM 1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets as of May 29, 2010 and February 27, 2010	3
	Condensed Consolidated Statements of Operations for the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009	4
	Condensed Consolidated Statements of Cash Flows for the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009	5
	Notes to Condensed Consolidated Financial Statements	6
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	26
ITEM 4.	Controls and Procedures	27
PART II		
OTHER INFORMATION		
ITEM 1.	Legal Proceedings	28
ITEM 1A.	Risk Factors	28
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
ITEM 3.	Defaults Upon Senior Securities	28
ITEM 4.	[Removed and Reserved]	28
ITEM 5.	Other Information	28
ITEM 6.	Exhibits	28

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility and other debt agreements;
- general economic conditions (including the impact of continued high unemployment and changing consumer shopping behavior), inflation and interest rate movements;
- our ability to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to realize same store sales growth;
- our ability to hire and retain qualified personnel;
- the efforts of private and public third party payors to reduce prescription drug reimbursement and encourage mail order;
- competitive pricing pressures, including aggressive promotional activity from our competitors;
- decisions to close additional stores and distribution centers, which could result in further charges to our operating statement;
- our ability to manage expenses;
- our ability to realize the benefits from actions to further reduce costs and investment in working capital;
- continued consolidation of the drugstore industry;
- changes in state or federal legislation or regulations and the impact of healthcare reform;
- the outcome of lawsuits and governmental investigations;

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

- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission ("the SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein and included in our Annual Report on Form 10-K for the fiscal year ended February 27, 2010 ("the Fiscal 2010 10-K"), which we filed with the SEC on April 28, 2010. This document is available on the SEC's website at *www.sec.gov*.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(unaudited)

	May 29, 2010	February 27, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 327,882	$ 103,594
Accounts receivable, net	1,012,640	955,502
Inventories, net of LIFO reserve of $851,641 and $831,113	3,175,936	3,238,644
Prepaid expenses and other current assets	91,036	210,928
Total current assets	4,607,494	4,508,668
Property, plant and equipment, net	2,235,224	2,293,153
Other intangibles, net	781,338	823,088
Other assets	420,066	425,002
Total assets	$ 8,044,122	$ 8,049,911
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	$ 33,740	$ 51,502
Accounts payable	1,275,907	1,159,069
Accrued salaries, wages and other current liabilities	1,036,033	965,121
Total current liabilities	2,345,680	2,175,692
Long-term debt, less current maturities	6,104,769	6,185,633
Lease financing obligations, less current maturities	130,736	133,764
Other noncurrent liabilities	1,203,903	1,228,373
Total liabilities	9,785,088	9,723,462
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock series G, par value $1 per share, liquidation value	1	1

$100 per share; 2,000 shares authorized; shares issued .006 and ..006		
Preferred stock series H, par value $1 per share, liquidation value $100 per share; 2,000 shares authorized; shares issued 1,546 and 1,523	154,589	152,304
Common stock, par value $1 per share; 1,500,000 authorized; shares issued and outstanding 887,682 and 887,636	887,682	887,636
Additional paid-in capital	4,280,415	4,277,200
Accumulated deficit	(7,033,056)	(6,959,372)
Accumulated other comprehensive loss	(30,597)	(31,320)
Total stockholders' deficit	(1,740,966)	(1,673,551)
Total liabilities and stockholders' deficit	$ 8,044,122	$ 8,049,911

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
Revenues	$ 6,394,336	$ 6,531,178
Costs and expenses:		
Cost of goods sold	4,682,632	4,757,112
Selling, general and administrative expenses	1,622,934	1,710,672
Lease termination and impairment charges	13,457	66,986
Interest expense	141,619	109,478
Loss (gain) on sale of assets, net	237	(19,951)
	6,460,879	6,624,297
Loss before income taxes	(66,543)	(93,119)
Income tax expense	7,141	5,327
Net loss	$ (73,684)	$ (98,446)
Computation of loss attributable to common stockholders:		
Net loss	$ (73,684)	$ (98,446)
Accretion of redeemable preferred stock	(25)	(25)
Cumulative preferred stock dividends	(2,285)	
Loss attributable to common stockholders basic and diluted	$ (75,994)	$ (98,471)
Basic and diluted loss per share	$ (0.09)	$ (0.11)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Thirteen Week Period Ended May 29, 2010	Thirteen Week Period Ended May 30, 2009
Operating activities:		
Net loss	$ (73,684)	$ (98,446)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	127,500	138,238
Lease termination and impairment charges	13,457	66,986
LIFO charges	20,528	14,770
Loss (gain) on sale of assets, net	237	(19,951)
Stock-based compensation expense	5,485	6,417
Proceeds from insured loss		1,317
Changes in operating assets and liabilities:		
Net payments to accounts receivable securitization		(30,000)
Accounts receivable	(57,153)	(54,282)
Inventories	42,119	137,975
Accounts payable	271,173	53,166
Other assets and liabilities, net	169,905	141,408
Net cash provided by operating activities	519,567	357,598
Investing activities:		
Payments for property, plant and equipment	(35,212)	(42,304)
Intangible assets acquired	(5,377)	(1,965)
Proceeds from dispositions of assets and investments	4,030	28,820
Net cash used in investing activities	(36,559)	(15,449)
Financing activities:		
Net payments to revolver	(80,000)	(303,000)
Principal payments on long-term debt	(25,804)	(7,492)
Change in zero balance cash accounts	(153,009)	(47,233)
Net proceeds from issuance of common stock	93	
Net cash used in financing activities	(258,720)	(357,725)
Increase (decrease) in cash and cash equivalents	224,288	(15,576)
Cash and cash equivalents, beginning of period	103,594	152,035
Cash and cash equivalents, end of period	$ 327,882	$ 136,459
Supplementary cash flow data:		
Cash paid for interest (net of capitalized amounts of $173 and $99, respectively)	$ 77,133	$ 73,242

Cash payments of income taxes, net of refunds	$	1,314	$	578
Equipment financed under capital leases	$		$	152
Equipment received for noncash consideration	$	2,028	$	819
Reduction in lease financing obligation	$		$	13,161
Preferred stock dividends paid in additional shares	$	2,285	$	
Gross borrowings from revolver	$	46,000	$	881,000
Gross repayments to revolver	$	126,000	$	1,184,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen week period ended May 29, 2010 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Fiscal 2010 10-K.

2. Loss Per Share

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

	Thirteen Week Period Ended	
	May 29, 2010	**May 30, 2009**
Numerator for loss per share:		
Net loss	$ (73,684)	$ (98,446)
Accretion of redeemable preferred stock	(25)	(25)
Cumulative preferred stock dividends	(2,285)	
Loss attributable to common stockholders, basic and diluted	$ (75,994)	$ (98,471)
Denominator:		
Basic and diluted weighted average shares	881,732	879,633
Basic and diluted loss per share	$ (0.09)	$ (0.11)

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

2. Loss Per Share (Continued)

Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted loss per share as of May 29, 2010 and May 30, 2009:

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
Stock options	75,089	69,686
Convertible preferred stock	28,107	26,091
Convertible debt	61,045	61,045
	164,241	156,822

Also excluded from the computation of diluted loss per share as of May 29, 2010 and May 30, 2009 are restricted shares of 5,886 and 6,090 which are included in shares outstanding.

3. Lease Termination and Impairment Charges

Lease termination and impairment charges consist of:

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
Impairment charges	$ 1,134	$ 3,484
Facility and equipment lease exit charges	12,323	63,502
	$ 13,457	$ 66,986

Impairment Charges

Impairment charges include non-cash charges of $1,134 and $3,484 for the thirteen week periods ended May 29, 2010 and May 30, 2009, for the impairment of long-lived assets at 16 and 23 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable.

Facility and Equipment Lease Exit Charges

During the thirteen week periods ended May 29, 2010 and May 30, 2009, the Company recorded charges for 8 and 64 stores, respectively, closed or relocated under long-term leases. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated. The Company calculates the liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost

7

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

3. Lease Termination and Impairment Charges (Continued)

recoveries that may be achieved through subletting properties or through favorable lease terminations. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

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

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
Balance beginning of period	$ 412,654	$ 381,411
Provision for present value of noncancellable lease payments of closed stores	5,492	53,162
Changes in assumptions about future sublease income, terminations and changes in interest rates	857	9,464
Interest accretion	6,855	5,478
Cash payments, net of sublease income	(27,607)	(23,459)
Balance end of period	$ 398,251	$ 426,056

The Company's revenues and loss before income taxes for the thirteen week periods ended May 29, 2010 and May 30, 2009 include results from stores that have been closed or are planned to be closed as of May 29, 2010. The revenue and operating losses of these stores for the periods are presented as follows:

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
Revenues	$ 27,788	$ 116,603
(Loss) income from operations	(4,016)	2,555
Included in these stores' (loss) income from operations are:		
Depreciation and amortization	346	2,056
Inventory liquidation charges	493	3,207
Gain from sales of assets	(1,052)	(22,664)

The above results are not necessarily indicative of the impact that these closures will have on revenues and operating results of the Company in the future, as the Company often transfers the business of a closed store to another Company store, thereby retaining a portion of these revenues. The income or loss from operations does not include any allocation of corporate level overhead costs.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

3. Lease Termination and Impairment Charges (Continued)

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

Long-lived assets are measured at fair value on a nonrecurring basis for purposes of calculating impairment using Level 3 inputs as defined in the fair value hierarchy. The fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located.

The table below sets forth by level within the fair value hierarchy the long-lived assets as of the impairment measurement date for which an impairment assessment was performed and total losses for the thirteen week periods ended May 29, 2010 and May 30, 2009, respectively.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses Thirteen week period ended May 29, 2010
Long-lived assets held and used	$	$	$ 282	$ 282	$ (1,134)
Long-lived assets held for sale					
Total	$	$	$ 282	$ 282	$ (1,134)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses Thirteen week period ended May 30, 2009
Long-lived assets held and used	$	$ 558	$ 1,063	$ 1,621	$ (179)
Long-lived assets held for sale		6,687		6,687	(3,305)
Total	$	$ 7,245	$ 1,063	$ 8,308	$ (3,484)

4. Income Taxes

The Company recorded an income tax expense from continuing operations of $7,141 and $5,327 for the thirteen week periods ended May 29, 2010 and May 30, 2009, respectively. The income tax expense for the thirteen week period ended May 29, 2010 is primarily due to the need for an accrual of additional state taxes resulting from the receipt of a final audit determination. The income tax expense

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

4. Income Taxes (Continued)

for the thirteen week period ended May 30, 2009 is primarily attributable to the accrual of state and local taxes and adjustments to unrecognized tax benefits.

The Company is indemnified by Jean Coutu Group for certain tax liabilities incurred for all years ended up to and including June 4, 2007. Although the Company is indemnified by Jean Coutu Group, the Company remains the primary obligor to the tax authorities with respect to any tax liability arising for the years prior to the acquisition. Accordingly, as of May 29, 2010 the Company had a corresponding recoverable indemnification asset of $148,266 from Jean Coutu Group, included in the 'Other Assets' line of the Consolidated Balance Sheets, to reflect the indemnification for such liabilities.

The Company files U.S. federal income tax returns as well as income tax returns in those states where it does business. The federal income tax returns are closed to examination by the Internal Revenue Service (IRS) through fiscal 2005. However, any net operating losses that were generated in these prior closed years may be subject to examination by the IRS upon utilization. The IRS is currently examining the consolidated U.S. income tax return for Brooks Eckerd for fiscal years 2006 thru 2007. In fiscal 2010, the IRS completed the examination of the consolidated U.S. income tax return for Rite Aid Corporation and subsidiaries for fiscal year 2008 and issued a no change report. Additionally the IRS completed the examination of the consolidated U.S. income tax returns for Brooks Eckerd for the fiscal years 2004 and 2005. A revenue agent report (RAR) was received in the fourth quarter of fiscal 2010. The company is appealing these audit results. Management believes that the Company has adequately provided for any potential adverse results. Furthermore, the tax indemnification referenced above would reimburse the company for any assessment that may arise. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. However, as a result of reporting IRS audit adjustments, the Company has statutes open in some states from fiscal 2003.

The valuation allowances as of May 29, 2010 and February 27, 2010 apply to the net deferred tax assets of the Company. The Company continues to maintain a full valuation allowance of $2,004,056 and $1,984,468 against net deferred tax assets at May 29, 2010 and February 27, 2010, respectively.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

5. Intangible Assets

The Company's intangible assets are finite-lived and amortized over their useful lives. Following is a summary of the Company's amortizable intangible assets as of May 29, 2010 and February 27, 2010.

	May 29, 2010			February 27, 2010		
	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period
Favorable leases and other	$ 656,649	$ (317,128)	11 years	$ 658,590	$ (305,791)	11 years
Prescription files	1,207,929	(766,112)	6 years	1,204,348	(734,059)	6 years
Total	$ 1,864,578	$ (1,083,240)		$ 1,862,938	$ (1,039,850)	

Also included in other non-current liabilities as of May 29, 2010 and February 27, 2010 are unfavorable lease intangibles with a net carrying amount of $104,202 and $106,910 respectively. These intangible liabilities are amortized over their remaining lease terms.

Amortization expense for these intangible assets and liabilities was $44,440 and $48,928 for the thirteen week periods ended May 29, 2010 and May 30, 2009, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2011 $166,887; 2012 $133,519; 2013 $108,339; 2014 $82,707 and 2015 $65,314.

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

6. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at May 29, 2010 and February 27, 2010:

	May 29, 2010	February 27, 2010
Secured Debt:		
Senior secured revolving credit facility due September 2012		$ 80,000
Senior secured credit facility term loan due June 2014	1,079,102	1,085,663
Senior secured credit facility term loan due June 2014 ($343,537 and $345,625 face value less unamortized discount of $24,155 and $25,634)	319,382	319,991
Senior secured credit facility term loan due June 2015 ($647,726 and $650,000 face value less unamortized discount of $14,288 and $15,036)	633,438	634,964
9.75% senior secured notes (first lien) due June 2016 ($410,000 face value less unamortized discount of $6,428 and $6,692)	403,572	403,308
10.375% senior secured notes (second lien) due July 2016 ($470,000 face value less unamortized discount of $34,099 and $35,481)	435,901	434,519
7.5% senior secured notes (second lien) due March 2017	500,000	500,000
10.25% senior secured notes (second lien) due October 2019 ($270,000 face value less unamortized discount of $1,927 and $1,978)	268,073	268,022
Other secured	2,391	2,316
	3,641,859	3,728,783
Guaranteed Unsecured Debt:		
8.625% senior notes due March 2015	500,000	500,000
9.375% senior notes due December 2015 ($410,000 face value less unamortized discount of $3,873 and $4,049)	406,127	405,951
9.5% senior notes due June 2017 ($810,000 face value less unamortized discount of $9,106 and $9,431)	800,894	800,569
	1,707,021	1,706,520
Unsecured Unguaranteed Debt:		
8.125% notes due May 2010		11,117
9.25% senior notes due June 2013	6,015	6,015
6.875% senior debentures due August 2013	184,773	184,773
8.5% convertible notes due May 2015	158,000	158,000
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	771,788	782,905
Lease financing obligations	148,577	152,691
Total debt	6,269,245	6,370,899
Current maturities of long-term debt and lease financing obligations	(33,740)	(51,502)
Long-term debt and lease financing obligations, less current maturities	$ 6,235,505	$ 6,319,397

12

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

6. Indebtedness and Credit Agreements (Continued)

Credit Facility

The Company has a senior secured credit facility that includes a $1,175,000 revolving credit facility. Borrowings under the revolving credit facility bear interest at LIBOR plus 4.25% (with a minimum LIBOR of 3.00%), if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 3.25% (with a minimum base rate of 4.00%). The interest rate can fluctuate between LIBOR plus 4.25% and LIBOR plus 4.75%, based upon the amount of revolver availability, as defined in the senior secured credit facility. The Company is required to pay fees between 0.75% and 1.00% per annum on the daily unused amount of the revolving credit facility, depending on the amount of revolver availability. Amounts drawn under the revolving credit facility become due and payable in September 2012.

The Company's ability to borrow under the revolving credit facility is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At May 29, 2010, the Company had no borrowings outstanding under the revolving credit facility. At May 29, 2010, the Company had letters of credit outstanding against the revolving credit facility of $143,014, which gave the Company additional borrowing capacity of $1,031,986.

On June 4, 2007, the Company amended its senior secured credit facility to establish a new senior secured term loan in the aggregate principal amount of $1,105,000 and borrowed the full amount thereunder. A portion of the proceeds from the borrowings under this senior secured term loan (the "Tranche 2 Term Loan") were used to fund the acquisition of Brooks Eckerd. The Tranche 2 Term Loan will mature on June 4, 2014 and currently bears interest at LIBOR plus 1.75%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 0.75%. The Company must make mandatory prepayments of the Tranche 2 Term Loan with the proceeds of asset dispositions (subject to certain limitations), with a portion of any excess cash flow generated by the Company (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 2 Term Loan may also be required.

In July 2008, the Company issued a new senior secured term loan (the "Tranche 3 Term Loan") of $350,000 under the Company's existing senior secured credit facility. The Tranche 3 Term Loan was issued at a discount of 90% of par. The Tranche 3 Term Loan matures on June 4, 2014 and bears interest at LIBOR (with a minimum LIBOR rate of 3.00%) plus 3.00%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate (with a minimum base rate of 4.00%) plus 2.00%. The Company must make mandatory prepayments of the Tranche 3 Term Loan with the proceeds of asset dispositions (subject to certain limitations), with a portion of any excess cash flow generated by the Company (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 3 Term Loan may also be required.

In June 2009, the Company issued a new senior secured term loan (the "Tranche 4 Term Loan") of $525,000 under the Company's existing secured credit facility. In October 2009, the Company issued

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

6. Indebtedness and Credit Agreements (Continued)

an additional $125,000 under the Tranche 4 Term Loan. The Tranche 4 Term Loan matures on June 10, 2015 and bears interest at a rate per annum equal to, at the Company's option, either (a) an adjusted LIBOR rate (with a LIBOR floor of 3.00% per annum) plus 6.50% or (b) Citibank's base rate (with a floor of 4.00% per annum) plus 5.50%. The Company must make mandatory prepayments of the Tranche 4 Term Loan with the proceeds of certain asset dispositions (subject to certain limitations), with a portion of any excess cash flow generated by the Company (as defined in the senior secured credit facility) and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 4 Term Loan may also be required. All prepayments of the Tranche 4 Term Loan occurring on or prior to the third anniversary of the initial borrowing of the Tranche 4 Term Loan are subject to a prepayment premium in an amount equal to (i) 5.0% of the principal amount prepaid if such prepayment occurs on or prior to the first anniversary of such borrowing, (ii) 3.0% of the principal amount prepaid if such prepayment occurs on or prior to the second anniversary of such borrowing and (iii) 1.0% of the principal amount prepaid if such prepayment occurs on or prior to the third anniversary of such borrowing.

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

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

6. Indebtedness and Credit Agreements (Continued)

debt with a maturity after June 4, 2014, if the Company maintains availability on the revolving credit facility of at least $100,000.

The senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. The Company's credit facility has a financial covenant which is the maintenance of a fixed charge coverage ratio. The covenant requires that the Company maintain a minimum fixed charge coverage ratio of 1.10 if availability on the revolving credit facility is less than $150,000. As of May 29, 2010, the Company had availability under its revolving credit facility of $1,031,986 and was in compliance with the senior secured credit facility's 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 the Company fails to make any required payment on debt having a principal amount in excess of $50,000 or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repurchase of such debt.

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

The subsidiary guarantees related to the Company's senior secured credit facility and secured notes and on an unsecured basis the guaranteed indentures are full and unconditional and joint and several, and there are no restrictions on the ability of the parent to obtain funds from its subsidiaries. Also, the parent company has no independent assets or operations, and subsidiaries not guaranteeing the credit facility and applicable indentures are minor. Accordingly, condensed consolidating financial information for the parent and subsidiaries is not presented.

The indentures that govern the Company's secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by the Company. As of May 29, 2010, the amount of additional secured and unsecured debt that could be incurred under these indentures was $1,099,635 (which does not include the ability to enter into certain sale and leaseback transactions.) However, the Company could not incur any additional secured debt

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

(unaudited)

6. Indebtedness and Credit Agreements (Continued)

assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is subject to an interest coverage ratio test.

The Company's $158,000 8.5% convertible notes require that the Company maintains compliance with all NYSE listing rules. In the event of a NYSE delisting, holders of these notes could require the Company to repurchase them, which would result in a default under the senior secured credit facility. Although there is no assurance the Company would be able to do so, the Company could seek to refinance or otherwise acquire these notes to avoid such a scenario, as the senior secured credit facility permits in certain circumstances. Currently, the Company is in compliance with all NYSE listing rules.

Maturities

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2011 and thereafter are as follows: 2011 $14,248; 2012 $21,155; 2013 $21,164; 2014 $211,902; 2015 $1,375,950 and $4,570,125 in 2016 and thereafter.

7. Financial Instruments

The carrying amounts and fair values of financial instruments at May 29, 2010 and February 27, 2010 are listed as follows:

	May 29, 2010		February 27, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	$ 2,070,365	$ 1,927,279	$ 2,120,618	$ 1,990,963
Fixed rate indebtedness	$ 4,144,179	$ 3,583,868	$ 4,097,590	$ 3,632,738

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

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

LIBOR-based borrowings under credit facilities:

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

Long-term indebtedness:

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

Table of Contents

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen Week Periods Ended May 29, 2010 and May 30, 2009

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

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8. Retirement Plans

Net periodic pension expense recorded in the thirteen week periods ended May 29, 2010 and May 30, 2009, for the Company's defined benefit plans includes the following components:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plans	
	Thirteen Week Period Ended			
	May 29, 2010	May 30, 2009	May 29, 2010	May 30, 2009
Service cost	$ 809	$ 697	$ 18	$ 14
Interest cost	1,516	1,500	211	282
Expected return on plan assets	(1,248)	(750)		
Amortization of unrecognized prior service cost	215	215		
Amortization of unrecognized net loss	507	839	(332)	
Net pension expense	$ 1,799	$ 2,501	$ (103)	$ 296

During the thirteen week period ended May 29, 2010 the Company contributed $406 to the Nonqualified Executive Retirement Plans and $0 to the Defined Benefit Pension Plan. During the remainder of fiscal 2011, the Company expects to contribute $1,217 to the Nonqualified Executive Retirement Plans and $0 to the Defined Benefit Pension Plan.

9. Commitments and Contingencies

The Company is currently a defendant in several putative collective or class action lawsuits filed in federal or state courts in Pennsylvania, New Jersey, New York, Maryland, Ohio and Oregon, purportedly on behalf of, in some cases (i) current and former assistant store managers, or (ii) current and former store managers and assistant store managers, respectively, working in the Company's stores at various locations. The lawsuits allege violations of the Fair Labor Standards Act and of certain state wage and hour statutes. The lawsuits seek various combinations of unpaid compensation (including overtime compensation), liquidated damages, exemplary damages, pre- and post-judgment interest as well as attorneys' fees and costs. In one of the cases, *Craig et al v. Rite Aid Corporation et al*, pending in the United States District Court for the Middle District of Pennsylvania, brought on behalf of current and former assistant store managers, the Court, on December 9, 2009, conditionally certified a nationwide collective group of individuals who worked for the Company as assistant store managers since December 9, 2006. Notice of the *Craig* action has been sent to the purported members of the collective group. The number of persons who will opt into the Craig action has not been determined. 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 and assistant 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. Neither the actual date on which the Notice will be sent nor the number of persons who will opt into

Table of Contents

9. Commitments and Contingencies (Continued)

the *Indergit* action has been determined. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company's management believes, however, that the lawsuits are without merit and not appropriate for collective or class action treatment. The Company is vigorously defending all of these claims.

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

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

Table of Contents

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

Overview

Net loss for the thirteen week period ended May 29, 2010 was $73.7 million compared to net loss of $98.4 million for the thirteen week period ended May 30, 2009. The decrease in net loss was primarily driven by lower selling, general and administrative expenses ("SG&A") and lower lease termination and impairment costs, which were partially offset by higher interest expense. Revenues decreased in the current quarter due to store closures and declines in both front end and pharmacy same store sales. There was also a decrease in gross margin rate, due to reimbursement rate pressures and lower generic cost reductions. These items are described in detail in the following sections.

Results of Operations

Revenues and Other Operating Data

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
	(dollars in thousands)	
Revenues	$ 6,394,336	$ 6,531,178
Revenue decline	(2.1)%	(1.2)%
Same store sales (decline) growth	(1.0)%	0.6%
Pharmacy sales decline	(2.0)%	(0.3)%
Same store pharmacy sales (decline) growth	(0.9)%	1.6%
Pharmacy sales as a % of total sales	68.3%	68.2%
Third party sales as a % of total pharmacy sales	96.3%	96.3%
Front-end sales decline	(2.4)%	(3.2)%
Same store front-end sales decline	(1.3)%	(1.6)%
Front-end sales as a % of total sales	31.7%	31.8%
Store data:		
Total stores beginning of period	4,780	4,901
New stores	2	10
Store acquisitions, net		
Closed stores	(15)	(86)
Total stores end of period	4,767	4,825
Relocated stores	8	17
Remodeled stores	1	3

Revenues

Revenue declined 2.1% for the thirteen week period ended May 29, 2010 compared to the thirteen week period ended May 30, 2009. This revenue decline was driven primarily by a reduction in the store base and a decline in same store sales. We operated 58 fewer stores than in the same period last year. Same store sales trends are described in the following paragraphs.

Pharmacy same store sales decreased by 0.9% in the thirteen week period ended May 29, 2010 compared to the thirteen week period ended May 30, 2009. The decrease was primarily driven by a same store prescription decline of 1.7%, which was impacted by an increase in 90-day prescriptions and continued reimbursement rate pressure, in both government and private third party payor plans, an approximate 1.4% negative impact from new generic introductions and a weaker allergy and flu season in this year's first quarter compared to the comparable period last year which benefitted from an anticipated outbreak of H1N1 influenza.

Table of Contents

Front-end same store sales decreased by 1.3% in the thirteen week period ended May 29, 2010 compared to the thirteen week period ended May 30, 2009. The decrease was due to weakness in the overall economic environment and its impact on consumer shopping behavior and a weak flu and allergy season in the current quarter compared to prior year's quarter that included the abovementioned H1N1 impact.

We include in same store sales all stores that have been open or owned at least one year. Relocated stores are not included in the same store sales for one year. Stores in liquidation are considered closed.

Costs and Expenses

	Thirteen Week Period Ended	
	May 29, 2010	**May 30, 2009**
	(dollars in thousands)	
Cost of goods sold	$ 4,682,632	$ 4,757,112
Gross profit	1,711,704	1,774,066
Gross margin	26.8%	27.2%
Selling, general and administrative expenses	1,622,934	1,710,672
Selling, general and administrative expenses as a percentage of revenues	25.4%	26.2%
Lease termination and impairment charges	13,457	66,986
Interest expense	141,619	109,478

Cost of Goods Sold

Gross margin was 26.8% of sales for the thirteen week period ended May 29, 2010 compared to 27.2% of sales for the thirteen week period ended May 30, 2009 due to lower pharmacy and front-end gross margin. The decrease in gross margin was due primarily to a reduction in reimbursement rates, from both government and private third party payors, fewer new generics and fewer cost reductions on existing generics. The year over year decline in pharmacy margin as a percent of sales was approximately 1.0% better than last quarter. The pharmacy margin pressure slowed as we began to cycle the more significant reductions in maximum allowable costs (MAC) of new generics which occurred last year. Front end gross margin was lower due to decreased sales, but was essentially flat as a percentage of sales.

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. Cost of sales includes LIFO charges of $20.5 million for the thirteen week period ended May 29, 2010 versus LIFO charges of $14.8 million for the thirteen week period ended May 30, 2009.

Selling, General and Administrative Expenses

SG&A as a percentage of revenues was 25.4% in the thirteen week period ended May 29, 2010 compared to 26.2% in the thirteen week period ended May 30, 2009. The decrease in SG&A as a percentage of revenues is due primarily to decreases in salaries and benefit costs due to better labor control, lower depreciation and amortization and the elimination of receivables securitization costs in the current fiscal year. Increased costs related to our customer loyalty card program and pharmacist immunization training were mostly offset by lower holiday pay expenses due to Memorial Day falling in the second quarter of fiscal 2011 versus the first quarter of fiscal 2010.

Table of Contents

Lease termination and Impairment Charges

Lease termination and impairment charges consist of:

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
	(dollars in thousands)	
Impairment charges	$ 1,134	$ 3,484
Facility and equipment lease exit charges	12,323	63,502
	$ 13,457	$ 66,986

Impairment Charges: Impairment charges include non-cash charges of $1.1 million and $3.5 million in the thirteen week periods ended May 29, 2010 and May 30, 2009, respectively, for the impairment of long-lived assets at 16 and 23 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable.

Facility and Equipment Lease Exit Charges: During the thirteen week periods ended May 29, 2010 and May 30, 2009, we recorded charges for 8 and 64 stores, respectively, closed or relocated under long-term leases. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated. 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. The decrease in the facility and equipment lease exit charge for the thirteen week period ended May 29, 2010 is primarily due to a decrease in the number of stores closed during the quarter.

As part of our ongoing business activities, we assess stores for potential closure. Decisions to close stores in future periods would result in charges for store lease exit costs and liquidation of inventory, as well as impairment of assets at these stores.

Interest Expense

Interest expense was $141.6 million for the thirteen week period ended May 29, 2010, compared to $109.5 million for the thirteen week period ended May 30, 2009. The increase in interest expense for the thirteen week period ended May 29, 2010 was primarily due to the refinancing of our senior credit facility and securitization facilities during our last fiscal year. The weighted average interest rates on our indebtedness for the thirteen week periods ended May 29, 2010 and May 30, 2009 were 7.6% and 6.3%, respectively.

Income Taxes

We recorded an income tax expense of $7.1 million and $5.3 million for the thirteen week periods ended May 29, 2010 and May 30, 2009, respectively. The income tax expense for the thirteen week period ended May 29, 2010 is primarily due to the need for an accrual of additional state taxes resulting from the receipt of a final audit determination. The income tax expense for the thirteen week period ended May 30, 2009 is primarily attributable to the accrual of state and local taxes and adjustments to unrecognized tax benefits.

Table of Contents

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

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

Liquidity and Capital Resources

General

We have three primary sources of liquidity: (i) cash and cash equivalents, (ii) cash provided by operating activities, (iii) and borrowings under the revolving credit facility under our senior secured credit facility. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt, to fund capital expenditures and to provide funds for the payment of debt. Total liquidity as of May 29, 2010 was $1.234 billion, which consisted of revolver borrowing capacity of $1.032 billion and invested cash of $202.1 million.

Credit Facility

Our senior secured credit facility includes a $1.175 billion revolving credit facility. Borrowings under this revolving credit facility bear interest at LIBOR plus 4.25% (with a minimum LIBOR of 3.00%), if we choose to make LIBOR borrowings, or at Citibank's base rate plus 3.25% (with a minimum base rate of 4.00%). The interest rate can fluctuate between LIBOR plus 4.25% and LIBOR plus 4.75%, based upon the amount of revolver availability, as defined in the senior credit facility. We are required to pay fees between 0.75% and 1.00% per annum on the daily unused amount of the revolving credit facility, depending on the amount of revolver availability. Amounts drawn under this credit facility become due and payable in September 2012.

Our ability to borrow under the revolving credit facility is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At May 29, 2010, we had no borrowings outstanding under the revolving credit facility. At May 29, 2010, we had letters of credit outstanding against the revolving credit facility of $143.0 million, which resulted in us having additional borrowing capacity of $1.032 billion.

On June 4, 2007, we amended our senior secured credit facility to establish a new senior secured term loan in the aggregate principal amount of $1.105 billion and borrowed the full amount thereunder. A portion of the proceeds from the borrowings under this senior secured term loan (the "Tranche 2 Term Loan") were used to fund the acquisition of Brooks Eckerd. The Tranche 2 Term Loan will mature on June 4, 2014 and currently bears interest at 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 (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 total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 2 Term Loan may also be required.

In July 2008, we issued a senior secured term loan (Tranche 3 Term Loan) of $350.0 million under our existing senior secured credit facility. The Tranche 3 Term Loan was issued at a discount of 90% of par. The Tranche 3 Term Loan matures on June 4, 2014 and bears interest at LIBOR (with a minimum LIBOR rate of 3.00%) plus 3.00%, if we choose to make LIBOR borrowings, or at Citibank's base rate (with a minimum base rate of 4.00%) plus 2.00%. We must make mandatory prepayments of the Tranche 3 Term Loan with the proceeds of asset dispositions (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 total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 3 Term Loan may also be required.

In June 2009, we issued a senior secured term loan (the "Tranche 4 Term Loan") of $525.0 million under our existing secured credit facility. In October 2009, we issued an additional $125.0 million under the Tranche 4 Term Loan. The Tranche 4 Term Loan matures on June 10, 2015 and bears interest at a rate per annum equal to, at our option, either (a) an adjusted LIBOR rate (with a LIBOR floor of 3.00% per annum) plus 6.50% or (b) Citibank's base rate (with a floor of 4.00% per annum) plus 5.50%. We must make mandatory prepayments of the Tranche 4 Term Loan with the proceeds of certain asset dispositions (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 total debt outstanding under the senior secured credit facility exceeds the borrowing base, prepayment of the Tranche 4 Term Loan may also be required. All prepayments of the Tranche 4 Term Loan occurring on or prior to the third anniversary of the initial borrowing of the Tranche 4 Term Loan are subject to a prepayment premium in an amount equal to (i) 5.0% of the principal amount prepaid if such prepayment occurs on or prior to the first anniversary of such borrowing, (ii) 3.0% of the principal amount prepaid if such prepayment occurs on or prior to the second anniversary of such borrowing and (iii) 1.0% of the principal amount prepaid if such prepayment occurs on or prior to the third anniversary of such borrowing.

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, 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 and for the voluntary repurchase of debt with a maturity after June 4, 2014 if we maintain availability on the revolving credit facility of at least $100.0 million

Our credit facility has a financial covenant which is the maintenance of a fixed charge coverage ratio test of 1.10 if availability on the revolving credit facility is less than $150.0 million. At May 29, 2010, we had availability on the revolving credit facility of $1.032 billion and were in compliance with our fixed charge coverage ratio test. However, we may not meet this test during the third and fourth quarters of fiscal 2011, which will limit the amount we can borrow under our revolving credit facility because we will not be able to draw against the revolver or issue letters of credit such that our resulting availability will be less than $150.0 million. Based on our liquidity position, we do not anticipate this to have a significant impact on our operations.

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 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 May 29, 2010, the amount of additional secured and unsecured debt that could be incurred under these indentures was $1.1 billion (which does not include the ability to enter into certain sale and leaseback transactions.) However, we could not incur any additional secured debt assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under these indentures is subject to an interest coverage ratio test.

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

Cash provided by operating activities was $519.6 million in the thirteen week period ended May 29, 2010. Operating cash flow was positively impacted by an increase in accounts payable due to the timing of purchases as well as rent, pension funding and interest payments. Cash flow provided by operating activities in the thirteen week period ended May 30, 2009 was $357.6 million due primarily to a significant reduction in excess inventory and the timing of rent and interest payments.

Cash used in investing activities in the thirteen week period ended May 29, 2010 was $35.2 million for purchases of property, plant and equipment and $5.4 million for the purchase of prescription files.

Cash used in financing activities was $258.7 million for the thirteen week period ended May 29, 2010 due to the reduction of borrowings on our revolving credit facility and zero balance cash accounts.

Capital Expenditures

During the thirteen week period ended May 29, 2010, we spent $40.6 million on capital expenditures, consisting of $13.2 million related to new store construction, store relocation and store remodel projects, $22.0 million related to backstage, infrastructure and maintenance requirements, and $5.4 million related to the purchase of prescription files from independent pharmacists. We plan to make total capital expenditures of approximately $250.0 million during fiscal 2011, consisting of approximately 33% related to new store construction, store relocation and remodels, 20% related to prescription file purchases and 47% related to backstage, infrastructure and maintenance requirements. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities.

Table of Contents

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 and planned improvements in our operating performance, 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 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 coverage in our senior secured credit facility, to have any impact on our business in the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance, and other relevant circumstances. Should we determine, at any time, that it is necessary to obtain additional short-term liquidity, we will evaluate our alternatives and take appropriate steps to obtain sufficient additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or if obtained, would be on terms acceptable to us. From time to time, we may enter into transactions to exchange debt for shares of common stock in order to reduce our outstanding debt.

Critical Accounting Policies and Estimates

For a description of the critical accounting policies that require the use of significant judgments and estimates by management, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" included in our fiscal 2010 10-K.

Factors Affecting Our Future Prospects

For a discussion of risks related to our financial condition, operations and industry, refer to "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our fiscal 2010 10-K.

Adjusted EBITDA

In addition to net income determined in accordance with GAAP, we use certain non-GAAP measures in assessing our operating performance. We believe the non-GAAP measure serves as an appropriate measure to be used in evaluating the performance of our business. We define adjusted EBITDA as net loss excluding the impact of income taxes, interest expense and securitization costs, depreciation and amortization, LIFO adjustments, charges or credits for facility closing and impairment, inventory write-down liquidation expenses, stock-based compensation expense, debt modifications and retirements, sale of assets and investments, revenue deferrals related to our customer loyalty card programs, and other items. We reference this 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 and gives a better indication of our core operating performance. In addition, we base incentive compensation and our forward-looking estimates on adjusted EBITDA to facilitate quantification of planned business activities and enhance subsequent follow-up. We include this non-GAAP financial measure in our earnings announcement 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. Management believes that adjusted EBITDA also facilitates comparisons of our results of operations with those of companies having different capital

Table of Contents

structures. However, we do not, and do not recommend that adjusted non-GAAP measures are solely used to assess our financial performance or to formulate investment decisions. Additionally, our definition of adjusted EBITDA may not be calculated in the same manner as other companies.

The following is a reconciliation of adjusted EBITDA to our net loss for the thirteen week periods ended May 29, 2010 and May 30, 2009:

	Thirteen Week Period Ended	
	May 29, 2010	May 30, 2009
	(dollars in thousands)	
Net loss	$ (73,684)	$ (98,446)
Interest expense and securitization costs	141,619	123,923
Income tax expense	7,141	5,327
Depreciation and amortization expense	127,500	138,238
LIFO charges	20,528	14,770
Lease termination and impairment charges	13,457	66,986
Stock-based compensation expense	5,485	6,417
Loss (gain) on sale of assets, net	237	(19,951)
Closed facility liquidation expense	2,422	6,518
Severance costs	10	3,996
Customer loyalty card programs revenue deferral	5,037	
Other	38	1,418
Adjusted EBITDA	$ 249,790	$ 249,196

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of May 29, 2010.

	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value at 05/29/2010
	(dollars in thousands)							
Long-term debt, including current portion								
Fixed Rate	$ 2,108	$ 105	$ 114	$ 190,852	$	$ 3,951,000	$ 4,144,179	$ 3,583,868
Average Interest Rate	4.70%	7.00%	7.00%	6.95%	0.0%	9.05%	8.95%	
Variable Rate	$ 12,140	$ 21,050	$ 21,050	$ 21,050	$ 1,375,950	$ 619,125	$ 2,070,365	$ 1,927,279
Average Interest Rate	4.41%	5.02%	5.02%	5.02%	3.06%	9.50%	5.05%	
Totals	$ 14,248	$ 21,155	$ 21,164	$ 211,902	$ 1,375,950	$ 4,570,125	$ 6,214,544	$ 5,511,147

As of June 29, 2010, 33.3% of our total debt is exposed to fluctuations in variable interest rates. The interest rate on our variable rate borrowings, which include our revolving credit facility and our Tranche 2 Term loan, Tranche 3 Term loan and Tranche 4 Term loan, are all based on LIBOR.

Table of Contents

However, the interest rate on our revolving credit facility, Tranche 3 Term loan and Tranche 4 Term loan all have a LIBOR floor of 300 basis points.

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 will be materially adversely affected. We cannot assure you that any such borrowing or equity financing could be successfully completed.

ITEM 4. Controls and Procedures

(a)
Disclosure Controls and Procedures

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

(b)
Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

See Item 3 to Annual Report on Form 10-K for the fiscal year ended February 27, 2010 relating to material pending legal proceedings.

ITEM 1A. Risk Factors

In addition to the amended and restated risk factor set forth below and the other information set forth in this Quarterly Report, you should carefully consider the factors discussed below and in "Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K", for the year ended February 27, 2010, which could materially affect our business, financial condition or future results.

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.

We currently are in compliance with all NYSE listing rules. However, there can be no assurance that we will maintain compliance with the NYSE minimum share price rule or other continued listing requirements. As of May 29, 2010, we have outstanding $158.0 million of 8.5% Convertible Notes due May 2015 (the "Notes"). In the event of a delisting, we would be required to make an offer to the holders of the Notes to repurchase them, which would result in a default under our senior credit facility. Although there can be no assurance that we would be able to do so, we may seek to refinance or otherwise acquire the Notes to avoid such a scenario, as our senior credit facility permits us to do; provided that, before and after such transaction, no default or event of default shall have occurred and be continuing under the senior credit facility and we have at least $100.0 million of availability under our revolving credit facility.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. [Removed and Reserved]

ITEM 5. Other Information

Not applicable

ITEM 6. Exhibits

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

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

28

Exhibit Numbers