

RITE AID CORP
Form 10-K
April 26, 2018

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

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, 2018

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	Name of each exchange on which registered
Common Stock, \$1.00 par value	New York Stock Exchange

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

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

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 o No ý

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 ý No o

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold on the New York Stock Exchange on September 2, 2017 was approximately \$2,554,051,629. For purposes of this calculation, only executive officers and directors are deemed to be affiliates of the registrant.

As of April 16, 2018 the registrant had outstanding 1,067,392,353 shares of common stock, par value \$1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 or an amendment to this Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

our high level of indebtedness;

our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our credit facility and other debt agreements;

the continued impact of private and public third party payors reduction in prescription drug reimbursement rates and their ongoing efforts to limit access to payor networks, including through mail order;

our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs, and our ability to achieve drug pricing efficiencies;

the impact of the loss of one or more major third party payor contracts;

risks related to the expected timing and likelihood of completion of the pending Merger (as defined in Item 1 below) with Albertsons Companies, Inc. ("Albertsons"), including the risk that the transaction may not close due to one or more closing conditions to the transaction not being satisfied or waived, including that the required approval of the Merger by our stockholders was not obtained;

the inability to complete the remaining distribution center closing of the Asset Sale (as defined in Item 7 below), receive the related proceeds and recognize the corresponding expected gain due to the failure to satisfy the minimal remaining conditions applicable only to the distribution centers being transferred at such distribution center closing and other risks related to obtaining the requisite consents to the remaining distribution center closing of the Sale;

risks related to our ability to successfully integrate with Albertsons' business, which may result in the combined company not operating as effectively and efficiently as expected and the risk that the combined company may be unable to achieve cost savings or revenue synergies or it may take longer than expected to achieve those synergies;

the risk of the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement (as defined in Item 1 below) with Albertsons, including circumstances requiring us to pay Albertsons a termination fee pursuant to the Merger Agreement;

the risk that the proposed Merger and its announcement could have an adverse effect on our ability to retain customers and retain and hire key personnel and maintain relationships with our suppliers and customers and on our operating results and businesses generally;

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the impact on our business, operating results and relationships with customers, suppliers, third party payors, and employees, resulting from our efforts over the past two years to consummate a significant transaction with Walgreens Boots Alliance, Inc. ("WBA");

the risk that we will not be able to meet our obligations under our Transition Services Agreement ("TSA") with WBA, which could expose us to significant financial penalties;

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the risk that we cannot reduce our selling, general and administrative expenses enough to offset lost revenue from the TSA agreement as the amount of stores serviced under the agreement decreases;

the risk that there may be a significant decline in our stock price or that there may be changes to our strategy in the event that the Merger and/ or the remaining distribution center closing of the Sale do not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital or incurring other costs associated with restructuring our business;

our ability to refinance our indebtedness on terms favorable to us;

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

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

our ability to hire and retain qualified personnel;

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

our ability to manage expenses and working capital;

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

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

the risk that provider and state contract changes may occur;

risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;

our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration and early price renegotiations prior to contract expirations;

the continued impact of gross margin pressure in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings;

our ability to maintain our current Medicare Part D business and obtain new Medicare Part D business, as a result of the annual Medicare Part D competitive bidding process;

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the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments;

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

the risk that we could experience deterioration in our current Star rating with the Centers of Medicare and Medicaid Services ("CMS") or incur CMS penalties and/or sanctions;

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the nature, cost and outcome of pending and future litigation and other legal proceedings or governmental investigations, including any such proceedings related to the Merger or Sale and instituted against us and others;

the potential reputational risk to our business during the period in which WBA is operating the Acquired Stores (as defined below) under the Rite Aid banner;

the risk that the Tax Cuts and Jobs Act that was enacted on December 22, 2017 may have a negative impact on our financial results;

the inability to fully realize the benefits of our tax attributes;

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

Rite Aid is the third largest retail drugstore chain in the United States based on both revenues and number of stores. As of March 3, 2018, we operated 2,550 stores in 19 states across the country.

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.

Merger Agreement On February 18, 2018, Rite Aid entered into an Agreement and Plan of Merger (the "Merger Agreement") with Albertsons, Ranch Acquisition II LLC, a Delaware limited liability company and a wholly-owned direct subsidiary of Albertsons ("Merger Sub II") and Ranch Acquisition Corp., a Delaware corporation and a wholly-owned direct subsidiary of Merger Sub II ("Merger Sub" and, together with Merger Sub II, the "Merger Subs"). Pursuant to the Merger Agreement, (i) Merger Sub will merge with and into Rite Aid (the "Merger"), with Rite Aid surviving the Merger as a wholly-owned direct subsidiary of Merger Sub II (the "Surviving Corporation"), and (ii) immediately following the Merger, the Surviving Corporation will merge with and into Merger Sub II (the "Subsequent Merger" and, together with the Merger, the "Mergers") with Merger Sub II surviving the Subsequent Merger as a wholly-owned direct subsidiary of Albertsons (the "Surviving Company"). At the effective time of the Merger (the "Effective Time"), each share of Rite Aid's common stock, par value \$1.00 per share, issued and outstanding immediately prior to the Effective Time will be converted into the right to receive and become exchangeable for 0.1000 of a fully paid and nonassessable share of Albertsons common stock, par value \$0.01 per share ("Albertsons Common Stock"), without interest, plus, at the election of the holder of the Rite Aid stock, either (i) an amount in cash equal to \$0.1832 per share, without interest, or (ii) an additional 0.0079 of a fully paid and nonassessable share of Albertsons Common Stock. On March 29, 2018, Rite Aid announced the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 in connection with the Merger. The Merger remains subject to other customary closing conditions, including the approval of Rite Aid shareholders. Subject to these approvals, the merger is expected to close in the early part of the second half of calendar 2018.

Asset Sale On October 17, 2017, we began the process of selling the Assets to be Sold (as defined in Item 6) to WBA in accordance with the terms and provisions as contained in the Amended and Restated Asset Purchase Agreement (the "Amended and Restated Asset Purchase Agreement"), dated as of September 18, 2017, by and among Rite Aid, WBA and Walgreen Co., an Illinois corporation and wholly owned direct subsidiary of WBA ("Buyer"). During the fifty-two weeks ended March 3, 2018, we sold 1,651 stores and related assets to WBA in exchange for proceeds of \$3,553.5 million, which were used to repay outstanding debt, and recognized a pre-tax gain of \$2.1 billion. We estimate that the total pre-tax gain on the Sale will be approximately \$2.5 billion. As of March 27, 2018, we have completed the store transfer process, and all 1,932 stores and related assets have been transferred to WBA. The transfer of the three distribution centers and related inventory is expected to begin after September 1, 2018.

Based on its magnitude and because we are exiting certain markets, the Sale represents a significant strategic shift that has a material effect on our operations and financial results. Accordingly, we have applied discontinued operations treatment for the Sale as required by generally accepted accounting principles ("GAAP").

In fiscal 2018, we continued reporting our business in two distinct segments. Our Retail Pharmacy Segment consists of Rite Aid stores, RediClinic and Health Dialog. Our Pharmacy Services Segment

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consists of EnvisionRx, our PBM that has been rebranded as EnvisionRxOptions ("EnvisionRx" or "EnvisionRxOptions").

Retail Pharmacy Segment In our Rite Aid retail stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2018, prescription drug sales accounted for 65.9% of our total drugstore sales. We believe that pharmacy operations will continue to represent a significant part of our business due to industry trends such as an aging population, increased life expectancy, anticipated growth in the federally funded Medicare Part D prescription program as "baby boomers" continue to enroll and the discovery of new and better drug therapies. We carry a full assortment of front-end products, which accounted for the remaining 34.1% of our total drug store sales in fiscal 2018. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, food and beverages, greeting cards, seasonal merchandise and numerous other everyday and convenience products.

We differentiate our stores from other national chain drugstores, in part, through our **wellness+ Rewards** loyalty program, our Wellness format stores, innovative merchandising, private brands and our strategic partnership with GNC, a leading retailer of vitamin and mineral supplements. We offer a wide variety of products through our portfolio of private brands, which contributed approximately 18.7% of our front-end sales in fiscal 2018.

The average size of each store in our chain is approximately 13,600 square feet, and average store size is larger for our locations in the western United States. As of March 3, 2018, 60% of our stores were freestanding; 53% of our stores included a drive-thru pharmacy; and 59% included a GNC store within a Rite Aid store.

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

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

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

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Industry Trends

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

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

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

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

Strategy

In fiscal 2018 we made significant progress in ensuring that we have sustainable economics for filling prescriptions. We engaged with our payor partners to gain better reimbursement rate predictability and access and we have begun the process of exploring how to best manage our pharmacy purchasing costs long-term. As we continue these efforts and work to complete our proposed merger with Albertsons, in fiscal 2019 we will also focus on further expanding the clinical role of our

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pharmacists; further integrating our three subsidiaries and network of Rite Aid stores; and growing front-end sales and prescription count while controlling costs.

Following are descriptions of some of our key initiatives:

Expanded Healthcare Services In fiscal 2018, we continued to expand the role of our Rite Aid pharmacists in delivering wellness services that go beyond filling prescriptions. A key area of focus has been our immunizations program, which has grown significantly in recent years. In fiscal 2018, our pharmacists administered an all-time company record of 4.4 million immunizations, including more than 2.7 million shots from continuing operations. Immunizations will continue to be a key priority in fiscal 2019 as we continue promoting the value of immunizations that protect against conditions like influenza, shingles, pneumonia and whooping cough.

At the same time, helping our patients take their medications as prescribed continues to be a critical opportunity to improve their health and wellness while also lowering healthcare costs by avoiding illnesses and hospital visits. To support our ongoing efforts, we've launched One Trip Refills in Fiscal 2017, which allows our patients to refill all of their monthly maintenance medications by making a single trip to the pharmacy. The program has been well received by our patients, and when combined with our existing services to send alerts via text message, e-mail or phone when a prescription is ready to be picked up, it creates a more patient-friendly experience for our Rite Aid customers.

An important part of our retail healthcare strategy continues to be finding ways to integrate our expanded suite of healthcare assets with our base of conveniently located retail pharmacies to deliver a higher level of care and service in our communities. This includes leveraging our store base and the capabilities of EnvisionRxOptions in our efforts to create compelling pharmacy offerings across retail, specialty and mail-order channels; deliver cost-effective solutions to employers and health plans; and drive growth. When combined with Rite Aid's retail platform, EnvisionRxOptions' comprehensive suite of services allows Rite Aid to provide additional value and broader choice to customers, patients and payors and will better position us to meet their needs.

Our Pharmacy Services segment's business strategy centers on providing innovative pharmaceutical solutions and quality client service in order to help improve clinical outcomes for our clients' plan members while assisting our clients and their plan members in better managing overall health care costs. Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy services, retail pharmacy network management services, clinical services, disease management services, and other spend management. During fiscal 2018, EnvisionRxOptions made significant progress in Medicare Part D enrollment by adding approximately 188,000 new lives year-over-year as of January 2018 in this fast-growing segment.

RediClinic also represents a key component of our efforts to expand Rite Aid's retail healthcare offering. As of March 3, 2018, we had 39 RediClinics operating in Rite Aid stores throughout the Philadelphia, Seattle and New Jersey markets. Including our locations in Texas, we operated a total of 75 RediClinics at the end of fiscal 2018.

wellness+ Rewards Since the launch of wellness+ in April 2010, our loyalty program has provided customers with the opportunity to earn significant discounts and wellness rewards in return for being loyal Rite Aid shoppers. Enrolled members earn rewards based on the accumulation of points for certain front-end and prescription purchases. The program has been well received by Rite Aid customers and continues to provide significant value to members earning enough points to reach the Gold or Silver tier levels. Gold members, for example, receive a tiered discount of 20-percent off most

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non-pharmacy purchases for an entire year. In addition, all members receive exclusive sale pricing and wellness rewards.

Bonus Cash has been incorporated into wellness+ to create **wellness+ Rewards**. Members continue to earn wellness+ points toward various benefits at Rite Aid including discounts of up to 20% off storewide, exclusive sale prices and 24/7 access to a pharmacist. Members are also able to earn Bonus Cash points whenever they make qualifying purchases at Rite Aid that can be redeemed for future savings. Customers have 60 days to use their Bonus Cash points before expiration.

We currently have over 13 million customers enrolled in **wellness+ Rewards**. In addition, over 60% of transactions at Rite Aid now involve a **wellness+ Rewards** card.

Wellness Store Remodels In fiscal 2018, we continued to strengthen Rite Aid as a wellness destination by completing additional Wellness store remodels. As a result, our total number of Wellness stores reached 1,649 by the end of the fiscal year, which means that over 64% of all Rite Aid stores are now Wellness stores. We also opened 2 new stores and did 14 relocations, all in our groundbreaking Wellness format, which offers improved interior design, expanded clinical pharmacy services, innovative merchandising and new wellness product offerings. Our customers have responded favorably to this unique store format, with our Wellness stores continuing to outperform the rest of our chain in terms of both front-end same store sales and same store prescription count growth.

We plan to complete 132 additional Wellness remodels in fiscal 2019 along with 3 relocations and 2 new store openings. We believe these efforts represent a cost-effective way to strengthen our store base, grow sales and offer our customers an engaging wellness experience.

Prescription File Purchases In fiscal 2018, we spent \$28.9 million on the purchase of prescription files. This represented a decrease in spend from previous years, as the proposed merger with WBA limited our file buy opportunities. We plan to increase our level of prescription file purchases in fiscal 2019 as they typically deliver a strong return on investment.

Drug Purchasing and Distribution Efficiencies In fiscal 2018, we continued to partner with McKesson for pharmaceutical purchasing and distribution. Under this arrangement, McKesson assumes responsibility for purchasing all of the brand and generic medications that we dispense in our stores as well as delivering those medications to our over 2,500 store locations. This drug purchasing and distribution arrangement helps us manage product costs and working capital while optimizing in-stock positions in our stores.

Cost Control In fiscal 2019, we will continue to look for ways to control our costs in order to help mitigate the impact that declining reimbursement rates has on our business. Our cost control initiatives include store and field labor efficiency and initiatives to drive down circular costs. Our centralized indirect procurement group will continue to target not-for-resale purchasing opportunities.

Products and Services

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 65.9%, 66.0% and 66.9% of our total drugstore sales in fiscal years 2018, 2017 and 2016, respectively. In fiscal years 2018, 2017 and 2016, prescription drug sales were \$10.3 billion, \$11.1 billion and \$11.3 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

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available space. No single front end product category contributed significantly to our sales during fiscal 2018. Our Retail Pharmacy segment's principal classes of products in fiscal 2018 were the following:

Product Class	Percentage of Sales
Prescription drugs	65.9%
Over-the-counter medications and personal care	10.9%
Health and beauty aids	4.4%
General merchandise and other	18.8%

We offer a wide variety of products under our private brands to meet the needs of our customers in virtually every non-pharmacy department. We intend to increase our private brand sales and penetration in fiscal 2019 by expanding our product lines, refreshing the package design, along with fully leveraging our Wellness+ database and in-store marketing. We believe that our assortment is differentiated and a compelling value to our customers based on our emphasis on high quality standards and everyday/promotional pricing.

We have a strategic alliance with GNC under which we have opened over 1,507 GNC stores within Rite Aid stores as of March 3, 2018 and have a contractual commitment to open at least 78 additional GNC stores within Rite Aid stores by December 2019. We incorporate the GNC stores within Rite Aid stores concept into many of our new and relocated stores and into many of our Wellness remodels. GNC is a leading nationwide retailer of vitamin and mineral supplements, personal care, fitness and other health-related products.

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

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

Technology

All of our stores are integrated into a common information system, which enables our customers to fill or refill prescriptions in any of our stores throughout the country, reduces chances of adverse drug interactions, and enables our pharmacists to fill prescriptions more accurately and efficiently. Our customers may also order prescription refills over the Internet through our website, *www.riteaid.com*, our mobile app, or over the phone through our telephonic automated refill systems for pick up at a Rite Aid store. We have automated pharmacy dispensing units in high volume stores, which are linked to our pharmacists' computers that fill and label prescription drug orders. We developed central fill technology to facilitate the automated picking, packaging, and labeling of prescriptions in a central filling location, which are sent to certain retail stores for delivery to the customer. We have also developed workload sharing technology within our stores, whereby stores within a close proximity can shift filling volume to stores with excess capacity. The efficiency of these processes allows our pharmacists to spend more time consulting with and answering our customers' questions and concerns about their prescription medications and health conditions. Additionally, each of our stores employs point-of-sale technology that supports sales analysis and recognition of customer trends. This same point-of-sale technology facilitates the maintenance of perpetual inventory records which, together with our sales analysis, drives our automated inventory replenishment process.

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

Sources and Availability of Raw Materials

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

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

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

Customers and Third Party Payors

During fiscal 2018, our stores filled approximately 177.4 million prescriptions and served an average of 1.2 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2018, substantially all 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 2018, the top five third party payors accounted for approximately 78.6% of our pharmacy sales. The largest third party payor, Caremark, represented 27.2% of our pharmacy sales.

During fiscal 2018, Medicaid and related managed care Medicaid payors sales were approximately 20.4% of our pharmacy sales, of which the largest single Medicaid payor was approximately 1.9% of our pharmacy sales. During fiscal 2018, approximately 34.1% of our pharmacy sales were to customers covered by Medicare Part D.

Through our Pharmacy Services segment we provide innovative pharmaceutical solutions for our clients which are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States.

Competition

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

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consolidation of the drugstore industry, and the aggressive discounting of generic drugs by supermarkets and mass merchandisers will further increase competitive pressures in the industry.

Marketing and Advertising

In fiscal 2018, marketing and advertising expense was approximately \$161.8 million, which was spent primarily on our weekly circular (print and digital), our wellness+ Rewards program/customer relationship marketing (CRM), digital marketing and focused pharmacy marketing initiatives including television, radio and direct mail. Our marketing and advertising activities are primarily focused on the following:

Promotional marketing (circular/digital marketing) to drive share of wallet and new customer acquisition;

Our **wellness + Rewards** loyalty program, which benefits our members in several ways:

Members earn wellness+ points for certain front-end and prescription purchases that qualify for savings of up to 20% off of front-end purchases every day for a year

Bonus Cash rewards provide additional savings to our customers/wellness+ members every week

Personalized offers distributed in vehicles such as email and direct mail

Emphasis on the value of our private brand products;

Support of specific market-wide initiatives and individual store programs such as competitor market intrusion, prescription file buys and grand openings for new and remodeled stores; and

Focused efforts on our digital marketing, which includes our Rite Aid app, social media, our riteaid.com website and e-commerce.

Our mission is to be the customer's first choice for health and wellness products, services and information. Under our "With Us It's Personal" tagline, we are focused on educational programs on what matters most to our customers, such as our wellness+ diabetes program and other pharmacy/clinical services to drive brand preference including our One Trip Refills, Vaccine Central and Quit For You smoking cessation programs. We believe all of these programs will help us improve customer loyalty and engagement, along with our ability to grow share of wallet and lifetime value.

Associates

We believe that our relationships with our associates are good. As of March 3, 2018, we had approximately 59,000 Retail Pharmacy segment associates: 11% were pharmacists, 42% were part-time and 35% were represented by unions. Additionally, we have approximately 1,800 Pharmacy Services segment associates. Associate satisfaction is critical to our success. Annually we survey our associates to obtain feedback on various employment-related topics, including job satisfaction and their understanding of our core values and mission.

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

Research and Development

We do not make significant expenditures for research and development.

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Licenses, Trademarks and Patents

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

Collectively, these licenses are material to our operations.

Seasonality

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

Regulation

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

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

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

In addition, in connection with the ownership and operations of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and

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health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites.

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

Corporate Governance and Internet Address

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

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

Our website also provides information on how to contact us and other items of interest to investors. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, Extensible Business Reporting Language ("XBRL") data files of our annual report and quarterly reports beginning with our fiscal 2016 first quarter 10-Q, current reports on Form 8-K and all amendments to these reports, as soon as reasonably practicable after we file these reports with, or furnish them to, the SEC. We do not intend for the information contained on our website to be part of this annual report on Form 10-K.

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Item 1A. Risk Factors

Factors Affecting our Future Prospects

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

Risks Related to our Financial Condition

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

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

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

We had, as of March 3, 2018, \$3.9 billion of outstanding indebtedness and stockholders' equity of \$1,601 million. We also had additional borrowing capacity under our \$3.0 billion amended and restated senior secured revolving credit facility (the "Amended and Restated Senior Secured Credit Facility" or "revolver") of \$2,942.0 million, net of outstanding letters of credit of \$58.0 million. Our earnings were insufficient to cover fixed charges for fiscal 2018 by \$43.8 million. Earnings were sufficient to cover fixed charges for fiscal 2017, 2016, 2015 and 2014 by \$48.4 million, \$151.5 million, \$272.2 million, and \$180.0 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;

limit our ability to reinvest in our business;

render us more vulnerable to general adverse economic, regulatory and industry conditions; and

require us to dedicate a substantial portion of our cash flow to service our debt.

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

We believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal 2019 and have no significant debt maturities prior to January 2020. However, if our operating results, cash flow or capital resources prove inadequate, or if interest rates rise significantly, we could face liquidity constraints. If we are unable to service our debt or experience a significant reduction in our liquidity, we could be forced to reduce or

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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.

Borrowings under our Amended and Restated Senior Secured Credit Facility bear interest at a rate that varies depending on the London Interbank Offered Rate ("LIBOR"). If LIBOR rises, the interest rates on outstanding borrowings under our senior secured credit facility will increase. Therefore an increase in LIBOR would increase our interest payment obligations under those loans and have a negative effect on our cash flow and financial condition. We currently do not maintain hedging contracts that would limit our exposure to variable rates of interest.

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

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

incur debt and liens;

pay dividends;

make redemptions and repurchases of capital stock;

make loans and investments;

prepay, redeem or repurchase debt;

engage in acquisitions, consolidations, asset dispositions, sale-leaseback transactions and affiliate transactions;

change our business;

amend some of our debt and other material agreements;

issue and sell capital stock of subsidiaries;

restrict distributions from subsidiaries; and

grant negative pledges to other creditors.

The Amended and Restated Senior Secured Credit Facility contains covenants which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, sale of assets, mergers and acquisitions and the granting of liens. Our Amended and Restated Senior Secured Credit Facility has a financial covenant which requires us to maintain a minimum fixed charge coverage ratio. The covenant requires that, if availability under the revolver (a) on any date is less than \$200.0 million, or (b) for three consecutive business days is less than \$250.0 million, we maintain a minimum fixed charge coverage ratio of 1.00 to 1.00. As of March 3, 2018, we had availability under our revolver of \$2,942.0 million, our fixed charge coverage ratio as defined in our credit agreement was greater than 1.00 to 1.00, and we were

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in compliance with the senior secured credit facility's financial covenant. Upon closing of the Merger, we expect that all amounts due under the Amended and Restated Senior Secured Credit Facility will be paid in accordance with the terms of the Merger Agreement (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Future Liquidity").

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

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

Risks Related to our Operations

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

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

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

We purchase all of our brand prescription and, with limited exceptions, all of our generic drugs from a single wholesaler, McKesson. Because McKesson acts as a wholesaler for drugs purchased from ultimate manufacturers worldwide, any disruption in the supply of a given drug, including supply shortages of key ingredients, or regulatory actions by domestic or foreign governmental agencies, or specific actions taken by drug manufacturers, could adversely impact McKesson's ability to fulfill our demands, which could adversely affect us. Pharmacy sales represented approximately 65.9% of our total drugstore sales during fiscal 2018. While we believe that alternative sources of supply for most generic and brand name pharmaceuticals are readily available, a significant disruption in our relationship with McKesson could make it difficult for us to continue to operate our business on a regular basis until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes. We believe we could obtain and qualify alternative sources, including through self-distribution, for substantially all of the prescription drugs we sell on an acceptable basis, and accordingly that the impact of any disruption would be temporary. In addition, pursuant to the terms of the Amended and Restated Asset Purchase Agreement, we have the option to purchase pharmaceutical drugs through an affiliate of WBA under terms, including cost, that are substantially equivalent to Walgreen's for a period of ten (10) years, subject to certain terms and conditions.

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

We rely extensively on our computer systems, including those used by EnvisionRx, RediClinic, and Health Dialog, to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes. Our systems have been subject to attack by perpetrators of random or targeted malicious technology-related events, such as cyberattacks, computer viruses, worms, bot attacks or other

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

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

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

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changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

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

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

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

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

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

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

Many organizations in the healthcare industry, including pharmacy benefit managers, have consolidated to create larger healthcare enterprises with greater market power, which has resulted in greater pricing pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services. If these pressures result in reductions in our prices, our business will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. We expect that market demand, government regulation, third-party reimbursement policies,

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government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business, financial condition and results of operations.

The availability of pharmacy drugs is subject to governmental regulations.

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

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

Sales of prescription drugs reimbursed by third party payors, including the Medicare Part D plans and state sponsored Medicaid and related managed care Medicaid agencies, represented substantially all of our pharmacy sales in our Retail Pharmacy segment in fiscal 2018.

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

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

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

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

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

A substantial portion of our pharmacy revenue is currently generated from a limited number of third party payors. While we are not limited in the number of third party payors with which we can do business and results may vary over time, our top five third party payors accounted for 78.6%, 77.1%, and 76.1% of our pharmacy revenue during fiscal 2018, 2017 and 2016, respectively. The largest third party payor, Caremark, represented 27.2% of pharmacy sales during fiscal 2018. The largest third party payor during fiscal 2017 and fiscal 2016, Express Scripts, represented 26.0% and 27.1% of pharmacy sales, respectively. We expect that a limited number of third party payors will continue to account for a significant percentage of our pharmacy revenue, and the loss of, or a significant change to the prescription drug reimbursement rates by, a major third party payor could decrease our revenue and harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

One of our subsidiaries, Envision Insurance Company ("EIC"), is an insurer domiciled in Ohio (with Ohio as its primary insurance regulator) and licensed in all 50 states, and is approved to function as a Medicare Part D Prescription Drug Plan ("PDP") plan sponsor for purposes of individual insurance products offered to Medicare-eligible beneficiaries and for purposes of making employer/union-only group waiver plans available for eligible clients. We also provide other products and services in support of our clients' Medicare Part D plans or the Federal Retiree Drug Subsidy program. We have made, and may be required to make further, substantial investments in the personnel and technology necessary to administer our Medicare Part D strategy. There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program and we can give no assurance that these risks will not materially adversely impact our business and financial results in future periods.

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

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

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

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

We offer our customers private label brand products that are available exclusively at our stores and through our online retail sites. The sale of private label products subjects us to unique risks including potential product liability risks and mandatory or voluntary product recalls, our ability to successfully protect our intellectual property rights and the rights of applicable third parties, and other risks generally encountered by entities that source, market and sell private-label products. Any failure to adequately address some or all of these risks could have an adverse effect on our business, results of operations and financial condition. Additionally, an increase in the sales of our private label brands may negatively affect our sales of products owned by our suppliers which, consequently, could adversely impact certain of our supplier relationships. Our ability to locate qualified, economically stable suppliers who satisfy our requirements, and to acquire sufficient products in a timely and effective manner, is critical to ensuring, among other things, that customer confidence is not diminished. Any failure to develop sourcing relationships with a broad and deep supplier base could adversely affect our financial performance and erode customer loyalty.

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

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

Risks Related to the Sale and the Proposed Merger with Albertsons

The proposed Merger with Albertsons is subject to closing conditions, including stockholder, governmental and regulatory approvals as well as other uncertainties and there can be no assurances as to whether and when the Merger may be completed. The sale of the distribution centers pursuant to the Amended and Restated Asset Purchase Agreement is subject to certain minimal customary closing conditions, and there can be no assurances as to whether and when the sale of such distribution centers may be completed. Failure to complete the Merger or Sale could negatively impact our stock price, future business and financial results and could result in significant changes to our strategy.

There can be no assurance that the proposed Merger with Albertsons or the closing of the distribution centers in the Sale to WBA will occur. Completion of the Merger is subject to certain conditions, including, among others, (i) approval of the Merger Agreement by holders of a majority of

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the outstanding shares of Rite Aid common stock entitled to vote on the Merger, (ii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") (which condition was satisfied on March 28, 2018), (iii) the absence of any law or order prohibiting the Merger, (iv) the absence of a material adverse effect on Rite Aid and Albertsons, in each case, as defined in the Merger Agreement, (v) approval for listing, on the New York Stock Exchange (the "NYSE"), of the shares of Albertsons Common Stock to be issued in the Merger and to be reserved for issuance in connection with the Merger, (vi) Albertsons' registration statement on Form S-4 shall have become effective under the Securities Act of 1933, as amended (the "Securities Act"), and shall not be the subject of any stop order or proceedings seeking a stop order, (vii) approval of the Ohio Department of Insurance for the change of control of Rite Aid's subsidiary, EIC, and (viii) Albertsons shall have delivered to Rite Aid a Lock-Up Agreement, No Action Agreement and Standstill Agreement, in each case, in the form agreed to by the parties to the Merger Agreement. There can be no assurance that the requisite regulatory approvals will be obtained, that the other closing conditions will be satisfied, or that the Merger will be completed within the required time period pursuant to the Merger Agreement. Failure to timely satisfy the closing conditions may delay the completion of the Merger, and if the closing conditions are not satisfied prior to the End Date specified in the Merger Agreement, Rite Aid and Albertsons will not be obligated to complete the Merger.

Additionally, while the majority of the closing conditions to the Sale have been satisfied, the transfers of Rite Aid's distribution centers and related assets to WBA remain subject to minimal customary closing conditions applicable only to the distribution centers being transferred at such closing, as specified in the Amended and Restated Asset Purchase Agreement. There can be no assurance that the minimal remaining closing conditions will be satisfied, or that the distribution center closing of the Sale will be completed.

If the Merger or the distribution center closing of the Sale are not completed for any reason, we will have incurred substantial expenses. We have incurred substantial legal, accounting and financial advisory fees that are payable by us whether or not the Merger or the distribution center closing of the Sale is completed, and our management has devoted considerable time and effort in connection with the pending Merger and Sale. If the Merger Agreement is terminated under certain limited circumstances specified in the Merger Agreement, the Merger Agreement may require us to pay Albertsons a termination fee of \$65 million. In addition, the trading price of our common stock could be adversely affected to the extent that the current price reflects an assumption that the Merger and/or the distribution center closing of the Sale will be completed. Additionally, there may be changes to our strategy in the event that the Merger and/or the distribution center closing of the Sale do not close, which may include delaying or reducing capital or other expenditures, selling assets or other operations, closing underperforming stores, attempting to restructure or refinance our debt, seeking additional capital or incurring other costs associated with restructuring our business. Additionally, we may not be able to restructure or refinance our existing debt on satisfactory terms or in a timely manner. Any of these event could cause us to incur significant charges. For these and other reasons, a failed Merger or failure to complete the distribution center closing of the Sale could materially adversely affect our business, operating results or financial condition.

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

The pendency of the Merger and the Sale could cause disruptions in and create uncertainty regarding our business, which could have an adverse effect on our financial condition and results of operations, regardless of whether the Merger and the distribution center closing of the Sale are

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completed. These risks, which could be exacerbated by a delay in the completion of the Merger and the distribution center closing of the Sale, include the following:

certain vendors may change their programs or processes which might adversely affect the supply or cost of the products, which then might adversely affect our stores sales or gross profit;

negotiations with third party payors might be adversely affected which then might adversely affect our stores sales or gross profit;

our current and prospective associates may experience uncertainty about their future roles, which might adversely affect our ability to attract and retain key personnel;

key management and other employees may be difficult to retain or may become distracted from day-to-day operations because matters related to the Merger or the Sale may require substantial commitments of their time and resources, which could adversely affect our operations and financial results;

our current and prospective customers may experience uncertainty about the ability of our stores to meet their needs, which might cause customers to make purchases or fill their prescriptions elsewhere;

our ability to pursue alternative business opportunities, including strategic acquisitions, is limited by the terms of the Merger Agreement and the Amended and Restated Asset Purchase Agreement (with respect to the distribution centers and related assets being sold pursuant thereto). If the Merger and/or the Sale is not completed for any reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely affected;

our ability to make appropriate changes to our business may be restricted by covenants in the Merger Agreement or the Amended and Restated Asset Purchase Agreement (with respect to the distribution centers and related assets being sold pursuant thereto); these restrictions generally require us to conduct our business in the ordinary course and subject us to a variety of specified limitations absent Albertsons' or WBA's prior written consent, as applicable. We may find that these and other contractual restrictions in the Merger Agreement or the Amended and Restated Asset Purchase Agreement may delay or prevent us from responding, or limit our ability to respond, effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management believes they may be advisable; and

the costs and potential adverse outcomes of litigation relating to the Merger or the Sale.

Item 1B. Unresolved SEC Staff Comments

None

Item 2. Properties

As of March 3, 2018, we operated 2,550 retail drugstores. The average selling square feet of each store in our chain is approximately 10,500 square feet. The average total square feet of each store in our chain is approximately 13,600. The stores in the eastern part of the U.S. average 8,800 selling square feet per store (11,200 average total square feet per store). The stores in the western part of the U.S. average 14,300 selling square feet per store (19,000 average total square feet per store).

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The table below identifies the number of stores by state as of March 3, 2018:

State	Store Count
California	570
Colorado	3
Connecticut	34
Delaware	42
Idaho	14
Massachusetts	10
Maryland	44
Michigan	269
North Carolina	8
Nevada	1
New Hampshire	62
New Jersey	133
New York	321
Ohio	214
Oregon	73
Pennsylvania	529
Vermont	6
Virginia	78
Washington	139
Total	2,550

Our stores have the following attributes at March 3, 2018:

Attribute	Number	Percentage
Freestanding	1,521	59.6%
Drive through pharmacy	1,364	53.5%
GNC stores within a Rite Aid store	1,507	59.1%

We lease 2,414 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 136 drugstore facilities are owned.

We own our corporate headquarters, which is located in a 213,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease 547,000 square feet of space in various buildings near Harrisburg, Pennsylvania for document warehousing use and additional administrative personnel. We own additional buildings near Harrisburg, Pennsylvania which total 100,000 square feet and house our model store and additional administrative personnel.

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

Location	Owned or Leased	Approximate Square Footage
Distribution centers, continuing operations		
Perryman, Maryland	Owned	885,000
Perryman, Maryland(1)	Leased	262,000
Pontiac, Michigan	Owned	325,000
Woodland, California	Owned	513,000
Woodland, California(1)	Leased	220,000
Wilsonville, Oregon	Leased	547,000
Lancaster, California	Owned	914,000
Liverpool, New York	Owned	828,000

(1)

Satellite distribution locations.

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

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

We lease approximately 19,800 square feet in 36 HEB grocery stores in Texas under a master lease agreement that contains various renewal options through 2024.

Our Pharmacy Services segment leases approximately 235,000 square feet of space in various buildings primarily in Twinsburg, Ohio for additional administrative personnel. In addition, we own approximately 53,000 square feet of space in North Canton, Ohio for our mail order and specialty drug facilities.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, underperforming or otherwise deemed unsuitable. We also evaluate strategic dispositions and acquisitions of facilities and prescription files. When we reduce in size, close or relocate a store or close distribution center facilities, we often continue to have leasing obligations or own the property. We attempt to sublease this space. As of March 3, 2018, we had 4,199,254 square feet of excess space, 2,825,434 square feet of which was subleased.

Item 3. Legal Proceedings

The information in response to this item is incorporated herein by reference to Note 22, Commitments and Contingencies of the Consolidated Financial Statements of this Annual Report.

Item 4. Mine Safety Disclosures

Not applicable

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Our common stock is listed on the NYSE under the symbol "RAD." On April 16, 2018, we had approximately 11,432 stockholders of record. Quarterly high and low sales prices, based on the composite transactions, are shown below.

Fiscal Year	Quarter	High	Low
2019 (through April 16, 2018)	First	\$ 1.97	\$ 1.46
2018	First	6.02	3.32
	Second	4.21	2.21
	Third	2.80	1.38
	Fourth	2.55	1.71
2017	First	8.20	7.41
	Second	7.88	6.66
	Third	8.30	6.33
	Fourth	8.77	5.20

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 of our common stock, during the period covered by this report.

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

STOCK PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on our common stock for the last five fiscal years with the cumulative total return on (i) the Russell 1000 Consumer Staples Index, and (ii) the Russell 1000 Index, over the same period (assuming the investment of \$100.00 in our common stock and such indexes on March 2, 2013 and reinvestment of dividends).

For comparison of cumulative total return, we have elected to use the Russell 1000 Consumer Staples Index, consisting of 50 companies including the three largest drugstore chains, and the Russell 1000 Index. This allows comparison of the company to a peer group of similar sized companies. We are one of the companies included in the Russell 1000 Consumer Staples Index and the Russell 1000 Index. The Russell 1000 Consumer Staples Index is a capitalization-weighted index of companies that provide products directly to consumers that are typically considered nondiscretionary items based on consumer purchasing habits. The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index and represents the universe of large capitalization stocks from which many active money managers typically select.

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STOCK PERFORMANCE GRAPH
Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100 on March 2, 2013
March 3, 2018

	2014	2015	2016	2017	2018
RITE AID CORP	392.26	475.00	473.81	324.40	113.69
Russell 1000 Index	126.10	144.86	135.43	170.10	195.57
Russell 1000 Consumer Staples Index	114.73	140.20	148.04	165.46	160.44

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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.

	March 3, 2018 (52 weeks)(*)	March 4, 2017 (53 weeks)(*)	Fiscal Year Ended(2)		March 1, 2014 (52 weeks)
			February 27, 2016 (52 weeks)(*)	February 28, 2015 (52 weeks)	
(Dollars in thousands, except per share amounts)					
Summary of Continuing Operations:					
Revenues from continuing operations	\$ 21,528,968	\$ 22,927,540	\$ 20,770,237	\$ 16,558,195	\$ 15,874,638
Net (loss) income from continuing operations	(349,532)	4,080	102,088	2,011,846	199,458
Basic and diluted income per share:					
Basic (loss) income per share from continuing operations	\$ (0.33)	\$ 0.00	\$ 0.10	\$ 2.07	\$ 0.18