UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 28, 2015

OR

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

For the transition period from to

Commission File Number: 1-5742

RITE AID CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Not Applicable

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

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

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

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

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

The registrant had 1,046,463,323 shares of its $1.00 par value common stock outstanding as of December 17, 2015.

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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 refer and relate to our future prospects, developments and business strategies.

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our credit facilities and other debt agreements;
- the continued impact of private and public third party payors reduction in prescription drug reimbursement and their efforts to limit access to payor networks, including mail order;
- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs;
- our ability to continue to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to maintain or grow prescription count and realize front-end sales growth;
- our ability to hire and retain qualified personnel;
- competitive pricing pressures, including aggressive promotional activity from our competitors;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities, which could result in further 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;
- changes in state or federal legislation or regulations, and the continued impact from the ongoing implementation of the Patient Protection and Affordable Care Act as well as other healthcare reform;
- 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 realize the benefits of our recent acquisition of EnvisionRx (the Acquisition);

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

- the continued impact of declining gross margins in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings,

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

- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments and related tax matters;

- the inability to complete the proposed acquisition (the Merger) of us by Walgreens Boots Alliance, Inc., a Delaware corporation (WBA), due to the failure to obtain stockholder approval to adopt the Merger Agreement (as defined herein) or failure to satisfy the other conditions to the completion of the Merger, including receipt of required regulatory approvals:

- the risk that the Merger Agreement may be terminated in certain circumstances that require us to pay WBA a termination fee of $325 million and/or reimburse WBA s expenses of $45 million, which reimbursement would be deducted from any termination fee owed to WBA;

- risks that the proposed Merger disrupts our current plans and operations or affects our ability to retain or recruit key employees;

- the effect of the announcement of the Merger on Rite Aid s business relationships (including, without limitation customers and suppliers), operating results and business generally;

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- the amount of the costs, fees, expenses and charges related to the Merger Agreement or the Merger;
- risks related to the Merger diverting management s or employees attention from ongoing business operations;
- risks associated with the financing of the Merger transaction;
- the risk that our stock price may decline significantly if the Merger is not completed;
- risks related to obtaining the requisite consents to the Merger, including, without limitation, the timing (including possible delays) and expiration or termination of the applicable waiting periods under the HSR Act and other applicable antitrust laws, and the risk that such consents might not be received;
- the risk that the Merger may not be completed in a timely manner, if at all;
- 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;
- 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 and instituted against us and others; and
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the SEC).

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations either included herein or in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015 (the Fiscal 2015 10-K), which we filed with the SEC on April 23, 2015, our Quarterly Report on Form 10-Q for the thirteen weeks ended May 30, 2015 (the First Quarter 2016 10-Q), which we filed on June 22, 2015, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 29, 2015 (the Second Quarter 2016 10-Q), which we filed on October 6, 2015. These documents are available on the SEC s website at *www.sec.gov*.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(unaudited)

		November 28, 2015		February 28, 2015
ASSETS				
Current assets:				
Cash and cash equivalents	$	226,252	$	115,899
Accounts receivable, net		1,555,352		980,904
Inventories, net of LIFO reserve of $1,015,487 and $997,528		2,871,929		2,882,980
Deferred tax assets		17,823		17,823
Prepaid expenses and other current assets		133,811		224,152
Total current assets		4,805,167		4,221,758
Property, plant and equipment, net		2,264,251		2,091,369
Goodwill		1,554,747		76,124
Other intangibles, net		1,206,105		421,480
Deferred tax assets		1,573,295		1,766,349
Other assets		314,515		286,172
Total assets	$	11,718,080	$	8,863,252
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current maturities of long-term debt and lease financing obligations	$	29,135	$	100,376
Accounts payable		1,663,483		1,133,520
Accrued salaries, wages and other current liabilities		1,412,694		1,193,419
Deferred tax liabilities		57,685		57,685
Total current liabilities		3,162,997		2,485,000
Long-term debt, less current maturities		7,287,911		5,483,415
Lease financing obligations, less current maturities		50,434		61,152
Other noncurrent liabilities		715,910		776,629
Total liabilities		11,217,252		8,806,196
Commitments and contingencies				
Stockholders equity:				
		1,046,469		988,558

Common stock, par value $1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,046,469 and 988,558				
Additional paid-in capital		4,805,243		4,521,023
Accumulated deficit		(5,306,826)		(5,406,675)
Accumulated other comprehensive loss		(44,058)		(45,850)
Total stockholders equity		500,828		57,056
Total liabilities and stockholders equity	$	11,718,080	$	8,863,252

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended			
		November 28, 2015		November 29, 2014
Revenues	$	8,154,184	$	6,692,333
Costs and expenses:				
Cost of revenues		6,151,305		4,769,020
Selling, general and administrative expenses		1,777,647		1,692,437
Lease termination and impairment charges		7,011		8,702
Interest expense		106,879		97,400
Loss on debt retirements, net				18,512
Loss (gain) on sale of assets, net		3,331		(455)
		8,046,173		6,585,616
Income before income taxes		108,011		106,717
Income tax expense		48,468		1,871
Net income	$	59,543	$	104,846
Computation of income attributable to common stockholders:				
Net income	$	59,543	$	104,846
Add back interest on convertible notes				1,364
Income attributable to common stockholders diluted	$	59,543	$	106,210
Basic income per share	$	0.06	$	0.11
Diluted income per share	$	0.06	$	0.10

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

	Thirteen Week Period Ended	
	November 28, 2015	**November 29, 2014**
Net income	$ 59,543	$ 104,846
Other comprehensive income:		
Defined benefit pension plans:		
Amortization of prior service cost, net transition obligation and net actuarial losses included in net periodic pension cost, net of $398 and $0 tax expense	597	660
Total other comprehensive income	597	660
Comprehensive income	$ 60,140	$ 105,506

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirty-Nine Week Period Ended			
	November 28, 2015		November 29, 2014	
Revenues	$	22,466,521	$	19,680,448
Costs and expenses:				
Cost of revenues		16,681,822		14,059,577
Selling, general and administrative expenses		5,203,058		4,977,315
Lease termination and impairment charges		21,670		20,661
Interest expense		345,895		299,170
Loss on debt retirements, net		33,205		18,512
Loss (gain) on sale of assets, net		3,651		(2,540)
		22,289,301		19,372,695
Income before income taxes		177,220		307,753
Income tax expense		77,372		33,612
Net income	$	99,848	$	274,141
Computation of income attributable to common stockholders:				
Net income	$	99,848	$	274,141
Add back interest on convertible notes				4,092
Income attributable to common stockholders diluted	$	99,848	$	278,233
Basic income per share	$	0.10	$	0.28
Diluted income per share	$	0.10	$	0.27

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

	Thirty-Nine Week Period Ended	
	November 28, 2015	November 29, 2014
Net income	$ 99,848	$ 274,141
Other comprehensive income:		
Defined benefit pension plans:		
Amortization of prior service cost, net transition obligation and net actuarial losses included in net periodic pension cost, net of $1,194 and $0 tax expense	1,792	1,979
Total other comprehensive income	1,792	1,979
Comprehensive income	$ 101,640	$ 276,120

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Thirty-Nine Week Period Ended November 28, 2015	Thirty-Nine Week Period Ended November 29, 2014
Operating activities:		
Net income	$ 99,848	$ 274,141
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	373,782	309,203
Lease termination and impairment charges	21,670	20,661
LIFO charges	17,959	4,632
Loss (gain) on sale of assets, net	3,651	(2,540)
Stock-based compensation expense	26,529	16,932
Loss on debt retirements, net	33,205	18,512
Changes in deferred taxes	50,696	
Excess tax benefit on stock options and restricted stock	(21,436)	(27,647)
Changes in operating assets and liabilities:		
Accounts receivable	315,898	(41,493)
Inventories	339	(8,038)
Accounts payable	89,630	(45,047)
Other assets and liabilities, net	(342,234)	(45,357)
Net cash provided by operating activities	669,537	473,959
Investing activities:		
Payments for property, plant and equipment	(414,338)	(324,938)
Intangible assets acquired	(97,612)	(79,609)
Acquisition of businesses, net of cash acquired	(1,778,377)	(69,793)
Proceeds from dispositions of assets and investments	8,697	10,559
Net cash used in investing activities	(2,281,630)	(463,781)
Financing activities:		
Proceeds from issuance of long-term debt	1,800,000	1,152,293
Net proceeds from revolver	655,000	380,000
Principal payments on long-term debt	(666,967)	(1,443,812)
Change in zero balance cash accounts	(35,011)	(39,934)
Net proceeds from issuance of common stock	8,625	15,523
Financing fees paid for early debt redemption	(26,003)	(13,841)
Excess tax benefit on stock options and restricted stock	21,436	27,647
Deferred financing costs paid	(34,634)	(1,506)
Net cash provided by financing activities	1,722,446	76,370
Increase in cash and cash equivalents	110,353	86,548
Cash and cash equivalents, beginning of period	115,899	146,406
Cash and cash equivalents, end of period	$ 226,252	$ 232,954
Supplementary cash flow data:		

Cash paid for interest (net of capitalized amounts of $128 and $120, respectively)	$	239,869	$	284,134
Cash payments of income taxes, net of refunds	$	5,808	$	5,336
Equipment financed under capital leases	$	3,499	$	4,749
Equipment received for noncash consideration	$	2,011	$	1,600
Stock consideration issued in connection with business acquisitions	$	240,907	$	
Conversion of the 8.5% convertible notes to common stock	$	64,089	$	
Gross borrowings from revolver	$	3,983,000	$	2,864,000
Gross payments to revolver	$	3,328,000	$	2,484,000

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen and Thirty-Nine Week Periods Ended November 28, 2015 and November 29, 2014

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

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are of a recurring nature and, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended November 28, 2015 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Rite Aid Corporation (Rite Aid) and Subsidiaries (together with Rite Aid, the Company) Fiscal 2015 10-K.

In addition to the significant accounting policies discussed in the Company s Fiscal 2015 10-K, the Company has added the following significant accounting policies as a result of its June 24, 2015 acquisition of EnvisionRx (the Acquisition), and the related addition of the new Pharmacy Services segment (please see Note 2. Acquisition and Note 14. Segment Reporting for additional details):

Revenue Recognition Pharmacy Services Segment

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

- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services segment s retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services segment s point-of-sale, which is when the claim is adjudicated by the Pharmacy Services segment s online claims processing system.

- Revenues generated from prescription drugs sold by the Pharmacy Services segment s mail service dispensing pharmacy are recognized when the prescription is delivered. At the time of delivery, the Pharmacy Services segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.

- Revenues generated from administrative fees based on membership or claims volume are recognized monthly upon active membership in the plan or actual claims volume.

The Pharmacy Services segment determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the Pharmacy Services segment has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having discretion in supplier selection, (iii) having involvement in the determination of product or service specifications, and (iv) having credit risk. The Pharmacy Services segment s obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the Pharmacy Services segment is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the

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Pharmacy Services segment is paid by its clients. The Pharmacy Services segment s responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically appropriate and approving the prescription for dispensing. Although the Pharmacy Services segment does not have credit risk with respect to retail co-payments, management believes that all of the other applicable indicators of gross revenue reporting are present.

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

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

See Note 14 for additional information about the revenues of the Company s business segments.

Cost of Revenues Pharmacy Services Segment

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

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

See Note 14 for additional information about the cost of revenues of the Company s business segments.

Vendor Allowances and Purchase Discounts Pharmacy Services Segment

The Company accounts for vendor allowances and purchase discounts as follows:

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

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New Accounting Pronouncements

In May 2013, the FASB issued a proposed Accounting Standards Update, *Leases* (Topic 842): a revision of the 2010 proposed Accounting Standards Update, Leases (Topic 840), that would require an entity to recognize assets and liabilities arising under lease contracts on the balance sheet. The proposed standard, as currently drafted, will have a material impact on the Company s reported results of operations and financial position.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations and cash flows.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation Amendments to the Consolidation Analysis* (Topic 810). This ASU requires reporting entities to reevaluate whether they should consolidate certain legal entities under the revised consolidation model. This standard modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs), eliminates the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with VIEs, especially those that have fee arrangements and related party relationships. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2015-02 on its financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest* (Subtopic 835-30). This ASU simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the debt liability, which is consistent with the treatment of debt discounts. The new guidance should be applied on a retrospective basis, and upon transition, an entity is required to comply with the applicable disclosures necessary for a change in accounting principle. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2015-03 on its financial position.

In July 2015, the FASB issued ASU No. 2015-12, *Plan Accounting Defined Benefit Pension Plans* (Topic 960), *Defined Contribution Pension Plans* (Topic 962) *Health and Welfare Benefit Plans* (Topic 965). There are three parts to the ASU that aim to simplify the accounting and presentation of plan accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II of this ASU requires investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways. Part III of this ASU provides a similar measurement date practical expedient for employee benefit plans as available in ASU No. 2015-04, which allows employers to measure defined benefit plan assets on a month-end date that is nearest to the year s fiscal year-end when the fiscal period does not coincide with a month-end. Parts I and II of the new guidance should be applied on a retrospective basis. Part III of the new guidance should be applied on a prospective basis. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2015-12 on its financial position and results of operations.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*. This ASU requires an acquirer to recognize provisional adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. This amendment requires an acquirer to record the income statement effects, if any, as a result of the change in provisional amounts in the period s financial statements when the adjustment is determined, calculated as if the accounting had been completed at the acquisition date. This amendment eliminates the requirement to retrospectively account for provisional adjustments. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2015-16 on its financial position, results of operations and cash flows.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*. This ASU requires an entity to classify deferred income tax assets and liabilities as noncurrent on the entity s classified statement of financial position. This amendment eliminates the current requirement to classify deferred tax assets and liabilities as either current or noncurrent on the entity s statement of financial position. This amendment may be applied either prospectively to all deferred tax liabilities and assets or retrospective to all periods presented. If applied prospectively, the entity

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should disclose in the first interim and first annual period of change, the nature of and the reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If applied retrospectively, the entity should disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is in the process of assessing the impact of the adoption of ASU 2015-17 on its financial position.

2. Acquisition

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

Pursuant to the terms of the Agreement, as consideration for the Acquisition, the Company paid $1,882,211 in cash and issued 27,754 shares of Rite Aid common stock. The Company financed the cash portion of the Acquisition with borrowings under its senior secured revolving credit facility, and the net proceeds from the April 2, 2015 issuance of $1,800,000 aggregate principal amount of 6.125% senior notes due 2023 (the 6.125% Notes). The consideration associated with the common stock was $240,907 based on a stock price of $8.68 per share, representing the closing price of the Company s common stock on the closing date of the Acquisition. The closing balance sheet has not yet been finalized, as the Company is still in process of finalizing the valuation, and therefore, the final purchase price and related purchase price allocation of the Acquisition is subject to change.

The Company s consolidated financial statements for the thirteen and thirty-nine week periods ended November 28, 2015 include EnvisionRx results of operations from the Acquisition date of June 24, 2015 through November 28, 2015 (please see Note 14 Segment Reporting for the Pharmacy Services segment results included within the consolidated financial statements for the thirteen and thirty-nine week periods ended November 28, 2015, which reflects the results of EnvisionRx). The Company s financial statements reflect preliminary purchase accounting adjustments in accordance with ASC 805 Business Combinations , whereby the purchase price was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the Acquisition date.

The following allocation of the purchase price and the estimated transaction costs is preliminary and is based on information available to the Company s management at the time the consolidated financial statements were prepared. Accordingly, the allocation is subject to change and the impact of such changes may be material.

Preliminary purchase price		
Cash consideration	$	1,882,211
Stock consideration		240,907
Total	$	2,123,118
Preliminary purchase price allocation		

Cash and cash equivalents	$	103,834
Accounts receivable		896,473
Inventories		7,276
Deferred tax assets		516
Prepaid expenses and other current assets		13,820
Total current assets		1,021,919
Property and equipment		13,196
Intangible assets(1)		825,100
Goodwill		1,478,623
Other assets		8,919
Total assets acquired		3,347,757
Accounts payable		491,672
Reinsurance funds held		381,225
Other current liabilities(2)		208,352
Total current liabilities		1,081,249
Other long term liabilities(3)		143,390
Total liabilities assumed		1,224,639
Net assets acquired	$	2,123,118

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

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		Estimated Fair Value	Estimated Useful Life (In Years)
Customer relationships	$	585,500	17
CMS license		108,000	25
Claims adjudication and other developed software		59,500	7
Trademarks		15,600	10
Backlog		12,500	3
Trademarks		44,000	Indefinite
Total	$	825,100	

(2) Other current liabilities includes $116,500 due to TPG under the terms of the Agreement, representing the amounts due to EnvisionRx from CMS, less corresponding amounts due to various reinsurance providers under certain reinsurance programs, for CMS activities that relate to the year ended December 31, 2014. This liability was satisfied with a payment to TPG on November 5, 2015.

(3) Primarily relates to deferred tax liabilities.

The above goodwill represents future economic benefits expected to be recognized from the Company s expansion into the pharmacy services market, as well as expected future synergies and operating efficiencies from combining operations with EnvisionRx. Goodwill resulting from the Acquisition has been allocated to the Pharmacy Services segment and should be deductible for tax purposes. At the time the financial statements were issued, initial accounting for the business combination related to tax matters were preliminary and may be adjusted during the measurement period.

During the thirteen and thirty-nine weeks periods ended November 28, 2015, acquisition costs of $0, and $27,072, respectively, were expensed as incurred. The following *unaudited* pro forma combined financial data gives effect to the Acquisition as if it had occurred as of March 1, 2014.

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

- Incremental interest expense relating to the $1,800,000 6.125% Notes issued on April 2, 2015, the net proceeds of which were used finance the cash portion of the Acquisition.

- Incremental amortization resulting from increased fair value of the identifiable intangible assets as noted in the preliminary purchase price allocation.

- Removal of costs incurred in connection with the Acquisition by both the Company and EnvisionRx, including bridge loan commitment fees of $15,375.

- Removal of interest expense incurred by EnvisionRx as the underlying debt was repaid upon the acquisition date.

- Removal of debt extinguishment charges incurred by EnvisionRx.

- Inclusion of the 27,754 shares of Rite Aid common stock issued to fund the stock portion of the purchase price in the basic and diluted share calculation.

The unaudited pro forma combined results do not include any incremental cost savings that may result from the integration. The adjustments are based on information available to the Company at this time. Accordingly, the adjustments are subject to change and the impact of such changes may be material.

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

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	Thirteen week Periods Ended		Thirty-Nine week Periods Ended	
	November 28, 2015 Pro forma	November 29, 2014 Pro forma	November 28, 2015 Pro forma	November 29, 2014 Pro forma
Net revenues as reported	$ 8,154,184	$ 6,692,333	$ 22,466,521	$ 19,680,448
EnvisionRx revenue, prior to the acquisition		1,080,693	1,735,635	3,067,017
Less pre-acquisition intercompany revenue		(68,154)	(104,731)	(199,567)
Pro forma combined revenues	$ 8,154,184	$ 7,704,872	$ 24,097,425	$ 22,547,898
Net income as reported	$ 59,543	$ 104,846	$ 99,848	$ 274,141
EnvisionRx net income (loss) before income taxes, prior to the acquisition		1,922	(45,307)	9,320
Incremental interest expense on the 6.125% Notes issued on April 2, 2015		(28,852)	(11,097)	(86,555)
Incremental amortization resulting from fair value adjustments of the identifiable intangible assets		(13,088)	(16,509)	(39,618)
Transaction expenses incurred by both the Company and EnvisionRx			55,864	
Interest expense incurred by EnvisionRx		14,678	21,984	37,382
Debt extinguishment charges incurred by EnvisionRx			31,601	
Income tax expense relating to pro forma adjustments			(15,601)	
Pro forma net income	$ 59,543	$ 79,506	$ 120,783	$ 194,670
Basic income per share	$ 0.06	$ 0.08	$ 0.12	$ 0.20
Diluted income per share	$ 0.06	$ 0.08	$ 0.12	$ 0.19

The unaudited pro forma combined information for the thirteen weeks ended November 28, 2015 is identical to the actual results reported by the Company as EnvisionRx results were included in the consolidated operations of the Company for the entire period.

3. Pending Merger

On October 27, 2015, Rite Aid entered into an Agreement and Plan of Merger (the Merger Agreement) with WBA, and Victoria Merger Sub, Inc., a Delaware corporation and a wholly-owned direct subsidiary of WBA (Victoria Merger Sub). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, Victoria Merger Sub will merge with and into Rite Aid (the Merger), with Rite Aid surviving the Merger as a 100 percent owned direct subsidiary of WBA. Completion of the Merger is subject to various closing conditions, including but not limited to (i) approval of the Merger Agreement by holders of a majority of the outstanding shares of Rite Aid s 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, (iii) the absence of any law or order prohibiting the Merger, and (iv) the absence of a material adverse effect on Rite Aid, as defined in the Merger Agreement. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of Rite Aid s common stock, par value $1.00 per share, issued and outstanding immediately prior to the effective time (other than shares owned by (i) WBA, Victoria Merger Sub or Rite Aid (which will be cancelled), (ii) stockholders who have properly exercised and perfected appraisal rights under Delaware law, or (iii) any direct or indirect wholly owned subsidiary of Rite Aid or WBA (which will be converted into shares of common stock of the surviving corporation)) will be converted into the right to receive $9.00 per share in cash, without interest.

Rite Aid and WBA and Victoria Merger Sub have each made customary representations, warranties and covenants in the Merger Agreement, including, among other things, that (i) Rite Aid and its subsidiaries will continue to conduct their business in the ordinary course consistent with past practice between the execution of the Merger Agreement and the closing of the Merger and (ii) Rite Aid will not solicit proposals relating to alternative transactions to the Merger or engage in discussions or negotiations with respect thereto, subject to certain exceptions. The Company currently anticipates that the Merger will close in the second half of calendar 2016.

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4. Income Per Share

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

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 28, 2015	November 29, 2014	November 28, 2015	November 29, 2014
Numerator for income per share:				
Net income	$ 59,543	$ 104,846	$ 99,848	$ 274,141
Add back interest on convertible notes		1,364		4,092
Income attributable to common stockholders diluted	$ 59,543	$ 106,210	$ 99,848	$ 278,233
Denominator:				
Basic weighted average shares	1,039,867	972,688	1,018,783	968,897
Outstanding options and restricted shares, net	17,411	22,793	18,765	25,330
Convertible notes		24,796		24,796
Diluted weighted average shares	1,057,278	1,020,277	1,037,548	1,019,023
Basic income per share	$ 0.06	$ 0.11	$ 0.10	$ 0.28
Diluted income per share	$ 0.06	$ 0.10	$ 0.10	$ 0.27

Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted income per share as of November 28, 2015 and November 29, 2014:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 28, 2015	November 29, 2014	November 28, 2015	November 29, 2014
Stock options	3,534	4,593	3,534	3,251

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

5. Lease Termination and Impairment Charges

Lease termination and impairment charges consist of amounts as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 28, 2015	November 29, 2014	November 28, 2015	November 29, 2014
Impairment charges	$ 540	$ 1,050	$ 818	$ 1,333
Lease termination charges	6,471	7,652	20,852	19,328
	$ 7,011	$ 8,702	$ 21,670	$ 20,661

Impairment Charges

These amounts include the write-down of long-lived assets at locations that were assessed for impairment because of management s intention to relocate or close the location or because of changes in circumstances that indicated the carrying value of an asset may not be recoverable.

Lease Termination Charges

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

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	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 28, 2015	November 29, 2014	November 28, 2015	November 29, 2014
Balance beginning of period	$ 223,667	$ 261,130	$ 241,047	$ 284,270
Provision for present value of noncancellable lease payments of closed stores	438	569	6,410	1,005
Changes in assumptions about future sublease income, terminations and changes in interest rates	2,000	2,418	2,434	3,835
Interest accretion	4,033	4,665	12,553	14,492
Cash payments, net of sublease income	(15,502)	(17,431)	(47,808)	(52,251)
Balance end of period	$ 214,636	$ 251,351	$ 214,636	$ 251,351

6. Fair Value Measurements