

RITE AID CORP
Form 10-Q
January 09, 2008

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**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 December 1, 2007
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.

(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 ☒ No ☐

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

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

The registrant had 795,328,782 shares of its \$1.00 par value common stock outstanding as of January 4, 2008.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

our high level of indebtedness;

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

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

our ability to realize the benefits of the Brooks Eckerd acquisition;

our ability to hire and retain pharmacists and other store personnel;

our ability to open or relocate stores according to our real estate development program;

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

competitive pricing pressures and continued consolidation of the drugstore industry;

changes in state or federal legislation or regulations;

the outcome of lawsuits and governmental investigations;

general economic conditions and inflation, interest rate movements and access to capital; and

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

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended March 3, 2007 ("the Fiscal 2007 10-K"), which we filed with the SEC on April 30, 2007. This document is available on the SEC's website at www.sec.gov.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

RITE AID CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(unaudited)

	December 1, 2007	March 3, 2007
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 173,642	\$ 106,148
Accounts receivable, net	731,803	374,493
Inventories, net	4,270,255	2,335,679
Prepaid expenses and other current assets	163,146	136,668
	<u> </u>	<u> </u>
Total current assets	5,338,846	2,952,988
Property, plant and equipment, net	2,892,242	1,743,104
Goodwill	1,589,459	656,037
Other intangibles, net	1,231,586	178,220
Deferred tax assets	1,262,241	1,380,942
Other assets	236,466	179,733
	<u> </u>	<u> </u>
Total assets	\$ 12,550,840	\$ 7,091,024
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 29,997	\$ 16,184
Accounts payable	1,542,509	902,807
Accrued salaries, wages and other current liabilities	1,160,299	670,934
	<u> </u>	<u> </u>
Total current liabilities	2,732,805	1,589,925
Long-term debt, less current maturities	5,919,892	2,909,983
Lease financing obligations, less current maturities	153,327	174,121
Other noncurrent liabilities	1,083,772	754,149
	<u> </u>	<u> </u>
Total liabilities	9,889,796	5,428,178
Commitments and contingencies		
Stockholders' equity:		
Preferred stock series E, par value \$1 per share, liquidation value \$50 per share; 2,500 shares authorized; shares issued 2,500	120,000	120,000
Preferred stock series G, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued 1,369 and 1,299	136,858	129,917
Preferred stock series H, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued 1,332 and 1,274	133,204	127,385
Preferred stock series I, par value \$1 per share, liquidation value \$25 per share; 5,200 shares authorized; shares issued 4,820	116,415	116,415
Common stock, par value \$1 per share; 1,500,000 authorized; shares issued and outstanding 795,352 and 536,686	795,352	536,686
Additional paid-in capital	3,967,116	3,118,299
Accumulated deficit	(2,585,096)	(2,462,197)

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	December 1, 2007	March 3, 2007
Accumulated other comprehensive loss	(22,805)	(23,659)
Total stockholders' equity	2,661,044	1,662,846
Total liabilities and stockholders' equity	\$ 12,550,840	\$ 7,091,024

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	December 1, 2007	December 2, 2006
Revenues	\$ 6,523,544	\$ 4,320,208
Costs and expenses:		
Cost of goods sold	4,772,895	3,166,165
Selling, general and administrative expenses	1,738,926	1,079,509
Store closing and impairment charges	21,836	5,119
Interest expense	130,306	68,184
Gain on sale of assets and investments, net	(2,105)	(48)
	6,661,858	4,318,929
(Loss) income before income taxes	(138,314)	1,279
Income tax (benefit) expense	(53,468)	175
Net (loss) income	\$ (84,846)	\$ 1,104
Computation of loss attributable to common stockholders:		
Net (loss) income	\$ (84,846)	\$ 1,104
Accretion of redeemable preferred stock	(26)	(26)
Cumulative preferred stock dividends	(8,168)	(7,897)
Loss attributable to common stockholders	\$ (93,040)	\$ (6,819)
Basic and diluted loss per share	\$ (0.12)	\$ (0.01)

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006
Revenues	\$ 17,580,559	\$ 12,945,650
Costs and expenses:		
Cost of goods sold	12,810,905	9,456,572
Selling, general and administrative expenses	4,617,594	3,247,208
Store closing and impairment charges	42,453	24,153
Interest expense	322,281	205,703
Acquisition related financing commitment charge	12,900	
Gain on sale of assets and investments, net	(4,684)	(1,403)
	<u>17,801,449</u>	<u>12,932,233</u>
(Loss) income before income taxes	(220,890)	13,417
Income tax (benefit) expense	(94,080)	1,688
Net (loss) income	<u>\$ (126,810)</u>	<u>\$ 11,729</u>
Computation of loss attributable to common stockholders:		
Net (loss) income	\$ (126,810)	\$ 11,729
Accretion of redeemable preferred stock	(77)	(77)
Cumulative preferred stock dividends	(24,295)	(23,494)
Preferred stock beneficial conversion	(556)	
Loss attributable to common stockholders	<u>\$ (151,738)</u>	<u>\$ (11,842)</u>
Basic and diluted loss per share	<u>\$ (0.22)</u>	<u>\$ (0.02)</u>

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006
Operating activities:		
Net (loss) income	\$ (126,810)	\$ 11,729
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Depreciation and amortization	337,941	201,228
Store closing and impairment charges	42,453	24,153
LIFO charges	41,373	26,838
Gain on sale of assets and investments, net	(4,684)	(1,403)
Stock-based compensation expense	27,618	15,851
Acquisition related financing commitment charge	12,900	
Changes in deferred taxes	(89,872)	5,302
Proceeds from insured loss	8,550	
Changes in operating assets and liabilities:		
Net proceeds from accounts receivable securitization	50,000	40,000
Proceeds from the sale of inventory	8,156	
Accounts receivable	8,044	(6,872)
Inventories	(561,144)	(153,850)
Prepaid expenses and other current assets	(6,083)	(687)
Other assets	6,337	(7,652)
Income taxes receivable/payable	(15,061)	(7,279)
Accounts payable	(39,837)	54,343
Other liabilities	70,044	(18,956)
Net cash (used in) provided by operating activities	(230,075)	182,745
Investing activities:		
Payments for property, plant and equipment	(478,431)	(224,008)
Intangible assets acquired	(40,737)	(23,813)
Acquisition of Jean Coutu USA, net of cash acquired	(2,306,554)	
Proceeds from sale-leaseback transactions	20,757	31,682
Proceeds from dispositions of assets and investments	23,566	7,714
Proceeds from insured loss	5,950	
Net cash used in investing activities	(2,775,449)	(208,425)
Financing activities:		
Proceeds from issuance of long term debt	2,306,005	145,000
Net proceeds from revolver	708,000	341,000
Proceeds from financing secured by owned property		11,072
Principal payments on long-term debt	(10,919)	(399,885)
Change in zero balance cash accounts	121,058	9,642
Excess tax deduction on stock options	5,882	434
Net proceeds from issuance of common stock	12,722	4,301
Payments for preferred stock dividends	(11,535)	(11,535)
Financing costs paid	(58,195)	(2,019)

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	Thirty-Nine Week Period Ended	
Net cash provided by financing activities	3,073,018	98,010
Increase in cash and cash equivalents	67,494	72,330
Cash and cash equivalents, beginning of period	106,148	76,067
Cash and cash equivalents, end of period	\$ 173,642	\$ 148,397
Supplementary cash flow data:		
Cash paid for interest (net of capitalized amounts of \$1,515 and \$1,027, respectively)	\$ 206,974	\$ 183,455
Cash payments of income taxes, net of refunds	\$ 2,762	\$ 1,777
Equipment financed under capital leases	\$ 6,357	\$ 6,888
Equipment received for noncash consideration	\$ 290	\$ 3,304
Reduction in lease financing obligation	\$ 30,520	\$ 10,691
Preferred stock dividends paid in additional shares	\$ 12,760	\$ 11,959

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Thirteen and Thirty-Nine Week Periods Ended December 1, 2007 and December 2, 2006

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended December 1, 2007 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Fiscal 2007 10-K.

2. Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." The interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company's tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination, based on the technical merits of the position. If it is determined that a tax position should be recognized, then the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 on March 4, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. In December 2007, a FASB Staff Position (FSP) was proposed to delay the effective dates of SFAS No. 157 as it relates to all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, or at least annually. The Company is currently evaluating the impact of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised) "Business Combinations". SFAS 141 (Revised) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the assets acquired and liabilities assumed in a business

combination and makes several changes to the method of accounting for business combinations previously set forth in SFAS No. 141. SFAS No. 141 (Revised) will become effective for acquisitions consummated in fiscal years beginning after December 15, 2008.

3. Acquisition

On June 4, 2007, the Company acquired all of the membership interests of JCG (PJC) USA, LLC ("Jean Coutu USA") from Jean Coutu Group (PJC) Inc. ("Jean Coutu Group"), pursuant to the terms of the Stock Purchase Agreement (the "Agreement") dated August 23, 2006. As consideration for the acquisition of Jean Coutu USA (the "Acquisition"), the Company paid \$2,307,747 and issued 250,000 shares of Rite Aid common stock. The Company financed the cash payment via the establishment of a new term loan facility, issuance of senior notes and borrowings under its existing revolving credit facility. The consideration associated with the common stock was \$1,090,000 based on a stock price of \$4.36 per share, representing the average closing price of Rite Aid common stock beginning two days prior to the announcement of the Acquisition on August 24, 2006 and ending two days after the announcement.

The shares of Rite Aid common stock issued to Jean Coutu Group in the Acquisition represented approximately 30.2% of the total Rite Aid voting power as of June 4, 2007. The Company expanded its Board of Directors to 14 members, with four of the seats being held by members designated by the Jean Coutu Group. In connection with the Acquisition, the Company entered into a Stockholder Agreement (the "Stockholder Agreement") with Jean Coutu Group and certain Coutu family members. The Stockholder Agreement contains provisions relating to Jean Coutu Group's ownership interest in the Company, board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. The Company and Jean Coutu Group also entered into a Registration Rights Agreement giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of Rite Aid common stock issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market rights under the Stockholder Agreement.

The Company's consolidated financial statements for the thirteen and thirty-nine week periods ended December 1, 2007 include Jean Coutu USA results of operations for the thirteen and twenty-six week periods ended December 1, 2007. The Company's financial statements reflect preliminary purchase accounting adjustments in accordance with SFAS No. 141 "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 expected to change and the impact of such changes may be material.

<i>Preliminary purchase price</i>	
Cash consideration	\$ 2,307,747
Stock consideration	1,090,000
Capitalized acquisition costs	43,044
	<hr/>
Total	\$ 3,440,791
	<hr/>
<i>Preliminary purchase price allocation</i>	
Cash and cash equivalents	\$ 25,868
Accounts receivable	429,854
Inventories	1,422,961
Other current assets	52,062
	<hr/>
Total current assets	1,930,745
Property and equipment(1)	990,771
Intangible assets(2)	1,135,000
Goodwill	933,422
Other assets	4,913
	<hr/>
Total assets acquired	4,994,851
	<hr/>
Accounts payable	575,903
Deferred tax liability	40,792
Other current liabilities(3)	420,000
	<hr/>
Total current liabilities	1,036,695
Deferred tax liability non-current	206,095
Other long term liabilities(4)	311,270
	<hr/>
Total liabilities assumed	1,554,060
	<hr/>
<i>Net assets acquired</i>	\$ 3,440,791
	<hr/>

- (1) Property, plant and equipment is recorded at estimated fair value, as determined by management based on available information including a preliminary valuation prepared by an independent third party.
- (2) Intangible assets are recorded at estimated fair value, as determined by management based on available information including a preliminary valuation prepared by an independent third party. Included in intangible assets are prescription file intangibles of \$693,200 and intangible assets for operating leases with favorable market terms of \$441,800.
- (3) Included in accrued liabilities is an accrual for severance payments to associates of Jean Coutu USA who were involuntarily terminated of \$11,137.
- (4) Included in other long-term liabilities is an accrual of \$29,504 to reserve for the remaining lease liability on stores of Jean Coutu USA that the Company entered into a formal plan to close. Also included in other long-term liabilities is an intangible liability of \$141,300 for operating leases with unfavorable market terms. Intangible liabilities are recorded at estimated fair value, as determined by management based on available information

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including a preliminary valuation prepared by an independent third party.

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In connection with the Acquisition, the Company entered into a transition services agreement with the Jean Coutu Group. Under the terms of this agreement, Jean Coutu Group provides certain information technology, network and support services to the Company. Jean Coutu Group must provide these services to the Company for a minimum period of nine months following the closing date of the Acquisition. The Company has the option to extend the term of the agreement for up to three additional three-month periods. During the thirteen and thirty-nine week periods ended December 1, 2007, the Company recorded expense of \$999 and \$3,185, respectively, for services provided under this agreement.

The following *unaudited* pro forma consolidated financial data gives effect to the Acquisition as if it had occurred as of the beginning of the periods presented.

	Thirteen week Periods Ended		Thirty-Nine week Periods Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
	Actual	Pro forma	Pro forma	Pro forma
Net revenues	\$ 6,523,544	\$ 6,672,260	\$ 19,973,349	\$ 20,074,093
Net loss	(84,846)	(32,598)	(184,344)	(101,584)
Basic and diluted loss per share	\$ (0.12)	\$ (0.05)	\$ (0.27)	\$ (0.16)

The pro forma information for the thirteen weeks ended December 1, 2007 is identical to the actual results reported by the Company as Jean Coutu USA results were included in the consolidated operations of the Company for the entire period.

The pro forma combined information assumes the acquisition of Jean Coutu USA occurred at the beginning of each period presented. These results have been prepared by combining the historical results of the Company and historical results of Jean Coutu USA. The pro forma financial data for all periods presented include adjustments to reflect the incremental interest expense that results from the incurrence of the additional debt to finance the acquisition and additional depreciation and amortization expense resulting from the preliminary purchase price allocation described above. The pro forma information for the thirty-nine week period ended December 1, 2007 includes charges of \$116,564 resulting from the integration of the Jean Coutu USA stores. Pro forma results for periods prior to the acquisition do not include any incremental cost savings that may result from the integration. Additionally, pro forma results for periods prior to the acquisition have not been adjusted to reflect the divestiture of stores required by the FTC.

The pro forma information does not purport to be indicative of the results that actually would have been achieved if the operations were combined during the periods presented and is not intended to be a projection of future results or trends.

4. Loss Per Share

Basic loss 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 loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company subject to anti-dilution limitations.

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Numerator for loss per share:				
Net (loss) income	\$ (84,846)	\$ 1,104	\$ (126,810)	\$ 11,729
Accretion of redeemable preferred stock	(26)	(26)	(77)	(77)
Cumulative preferred stock dividends	(8,168)	(7,897)	(24,295)	(23,494)
Preferred stock beneficial conversion			(556)	
Loss attributable to common stockholders, basic and diluted	\$ (93,040)	\$ (6,819)	\$ (151,738)	\$ (11,842)
Denominator:				
Basic and diluted weighted average shares	785,512	524,556	699,453	523,465
Basic and diluted loss per share:	\$ (0.12)	\$ (0.01)	\$ (0.22)	\$ (0.02)

Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted loss per share:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Stock options	65,712	65,511	65,712	65,511
Convertible preferred stock	110,272	99,333	110,272	99,333
Convertible debt		38,462		38,462
	175,984	203,306	175,984	203,306

5. Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Impairment charges	\$ 5,825	\$ 689	\$ 8,151	\$ 12,081
Store and equipment lease exit charges	16,011	4,430	34,302	12,072
	\$ 21,836	\$ 5,119	\$ 42,453	\$ 24,153

Impairment charges

Impairment charges include non-cash charges of \$5,825 and \$689 for the thirteen week periods ended December 1, 2007 and December 2, 2006, for the impairment of long-lived assets at 52 and 11 stores, respectively. Impairment charges include non-cash charges of \$8,151 and \$12,081 for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, for the impairment of long-lived assets at 75 and 30 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store.

Store and equipment lease exit charges

During the thirteen week periods ended December 1, 2007 and December 2, 2006, the Company recorded charges for 16 and 15 stores to be closed or relocated under long term leases in each respective period. During the thirty-nine week periods ended December 1, 2007 and December 2, 2006, the Company recorded charges for 36 and 33 stores to be closed or relocated under long term leases in each respective period. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The Company calculates its liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

The following table reflects the closed store charges that relate to new closures, changes in assumptions and interest accretion. The table for the thirteen and thirty-nine week periods ended December 1, 2007 also reflects the increase in the closed store reserve related to the acquisition of the existing closed store portfolio from Jean Coutu USA as well as the additional liability related to the acquired stores that Company management plans to close as a result of the acquisition. These liabilities

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represent the estimated fair value of the respective store lease commitments as of the date of the acquisition and are therefore recorded as part of allocation of the purchase price of Jean Coutu USA.

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Balance beginning of period	\$ 326,250	\$ 201,702	\$ 195,205	\$ 208,455
Provision for present value of noncancellable lease payments of closed stores	5,353	2,058	16,722	9,496
Changes in assumptions about future sublease income, terminations and changes in interest rates	8,419	975	9,561	(3,205)
Reversal of reserves for stores that management has determined will remain open	(1,465)	(812)	(1,465)	(812)
Interest accretion	3,933	2,219	10,067	7,068
Leased properties of Jean Coutu USA closed or designated to be closed as part of integration plan	(1,304)		134,868	
Cash payments, net of sublease income	(15,688)	(8,965)	(39,460)	(23,825)
Balance end of period	\$ 325,498	\$ 197,177	\$ 325,498	\$ 197,177

The Company's revenues and income before income taxes for the thirteen and thirty-nine week periods ended December 1, 2007 and December 2, 2006 include results from stores that have been closed or are planned to be closed as of December 1, 2007. The revenue and operating losses of these stores for the periods are presented as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Revenues	\$ 106,857	\$ 118,126	\$ 373,111	\$ 373,019
Loss from operations	(2,572)	(2,205)	(1,085)	(2,465)

Included in these stores' loss from operations for the thirteen week periods ended December 1, 2007 and December 2, 2006, are depreciation and amortization charges of \$820 and \$1,100 and closed store inventory liquidation charges of \$1,681 and \$864, respectively. Included in these stores' loss from

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operations for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, are depreciation and amortization charges of \$2,741 and \$3,430 and closed store inventory liquidation charges of \$4,272 and \$4,532, respectively. Loss from operations does not include any allocation of corporate level overhead costs. The above results are not necessarily indicative of the impact that these closures will have on revenues and operating results of the Company in the future, as the Company often transfers the business of a closed store to another Company store, thereby retaining a portion of these revenues.

On January 4, 2008, the Company announced that it would terminate the operation of 28 stores in Las Vegas Nevada area and had entered into an agreement to sell the prescription files of these stores. The Company owns 4 of the stores and is currently in the process of selling these stores. The remaining stores are leased. The lease rights for 17 of these stores are expected to be assigned to other parties and the remaining stores will be closed. The Company plans to complete the sale, closure and lease assignment process over the next three months. The Company has not completed all the steps necessary to estimate the related gain or loss on the sale of these assets or the closed store charge, but does not expect these items to have a material effect on its financial position or results of operations.

The Company's revenues and income before income taxes for the thirteen and thirty-nine weeks ended December 1, 2007 and December 2, 2006 include results from these stores. The impact of these results is presented as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Revenues	\$ 25,514	\$ 26,458	\$ 78,162	\$ 79,395
Loss from operations	(1,854)	(962)	(4,624)	(2,780)

Included in these stores' loss from operations for the thirteen week periods ended December 1, 2007 and December 2, 2006, are depreciation and amortization charges of \$204 and \$186. Included in these stores' loss from operations for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, are depreciation and amortization charges of \$600 and \$581. Loss from operations does not include any allocation of corporate level overhead costs.

6. Income Taxes

The Company recorded an income tax benefit of \$53,468 and income tax expense of \$175 for the thirteen week periods ended December 1, 2007 and December 2, 2006 respectively, and income tax benefit of \$94,080 and income tax expense of \$1,688 for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively.

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The benefit from income taxes for the thirty-nine week period ended December 1, 2007 included a net benefit of \$7,860 for the increase in deferred tax assets as a result of enacted state tax legislation as well as a net benefit of \$5,974 for discrete items related to the recognition of previously unrecognized tax benefits. The discrete items associated with the previously unrecognized tax benefits included tax of \$5,163 and related interest of \$2,490 due to expiration of certain state statutes. The benefit from income taxes for the thirty-nine week period ended December 2, 2006 was net of a reduction of a liability for state taxes of \$7,467.

Effective March 4, 2007, the Company adopted the provisions of FIN 48. As of March 4, 2007, unrecognized tax benefits totaled \$37,186. As a result of the implementation of FIN 48, the Company's tax contingencies decreased \$6,636, and after the deferred tax impact of \$2,170, the net effect was accounted for as an increase to retained earnings of \$4,466. The decrease in unrecognized tax benefits would have decreased income tax expense in prior periods. To the extent the remaining unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, management does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

A preliminary liability of \$23,650 was established for Jean Coutu USA for uncertain tax positions. The Company is still evaluating the tax positions of the acquired entities and adjustments, if any, could be material. Upon finalization of the purchase price allocation, any such adjustments related to pre-acquisition tax periods will result in adjustments to assets and liabilities acquired in connection with the Acquisition.

The Company recognizes interest and penalties related to tax contingencies as income tax expense. Prior to the adoption of FIN 48, the Company included interest as income tax expense and penalties as an operating expense. As of December 1, 2007 and March 4, 2007, the total amount of accrued income tax-related interest and penalties was \$10,700 and \$14,182, respectively.

The Company files U.S. federal income tax returns as well as income tax returns in those states where it does business. The federal income tax returns are closed to examination by the Internal Revenue Service (IRS) through fiscal 2002. However, any net operating losses that were generated in these prior closed years may be subject to examination by the IRS upon utilization. The IRS is currently examining the consolidated U.S. income tax return for Jean Coutu USA for fiscal years 2004 and 2005. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. However, as a result of reporting IRS audit adjustments, the Company has statutes open in some states from fiscal 1996.

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In addition to unrecognized tax benefits, the Company has valuation allowances related to tax benefits in certain jurisdictions arising primarily from state net operating loss carryforwards and federal capital loss carryforwards. On an ongoing basis, the Company reassesses the need for such valuation allowances based on recent operating results, its assessment of the likelihood of future taxable income and developments in relevant tax jurisdictions. The Company had a valuation allowance against net deferred tax assets of \$239,836 at March 3, 2007.

7. Accounts Receivable

The Company maintains securitization agreements with several multi-seller asset-backed commercial paper vehicles ("CPVs"). Under the terms of the securitization agreements, the Company sells substantially all of its eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retains servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of the Company's affiliates. These agreements provide for the Company to sell, and for the SPE to purchase these receivables. The SPE then transfers an interest in these receivables to various CPVs.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution ("Securitization Formula"). Adjustments to this amount can occur on a weekly basis. At December 1, 2007 and March 3, 2007, the total outstanding receivables that have been transferred to CPVs were \$400,000 and \$350,000, respectively. The average amount of outstanding receivables transferred during the thirteen week periods ended December 1, 2007 and December 2, 2006 was \$320,879 and \$345,549, respectively. Total receivable transfers for the thirteen week periods ended December 1, 2007 and December 2, 2006 totaled approximately \$1,233,000 and \$1,242,000, respectively. Collections made by the Company as part of the servicing agreements on behalf of the CPVs, for the thirteen week periods ended December 1, 2007 and December 2, 2006 totaled approximately \$1,123,000 and \$1,197,000, respectively. The average amount of outstanding receivables transferred during the thirty-nine week periods ended December 1, 2007 and December 2, 2006 was \$332,637 and \$333,388, respectively. Total receivable transfers for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 totaled approximately \$3,673,000 and \$3,473,000, respectively. Collections made by the Company as part of the servicing agreements on behalf of the CPVs, for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 totaled approximately \$3,623,000 and \$3,433,000, respectively. At December 1, 2007 and March 3, 2007, the Company retained an interest in the eligible third party pharmaceutical receivables not transferred to the CPVs of \$568,130 and \$255,057, respectively, inclusive of the allowance for uncollectible accounts, which was included in accounts receivable, net, on the consolidated balance sheet.

On September 18, 2007, the Company amended its securitization agreements. As a result of this amendment the total amount of interest in receivables than can be transferred to the CPV was increased to \$650,000 from \$400,000. The ongoing program fee was decreased from the CPVs' commercial paper rate (which often approximates 1-month LIBOR) plus 1.125% to the CPVs' commercial paper rate plus 1.00%. The liquidity fee was reduced from 0.375% to 0.25%.

The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Program and liquidity fees for the thirteen week periods ended December 1, 2007 and December 2, 2006 were \$6,310 and \$5,637 respectively. Program and liquidity fees for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 were \$17,289 and \$16,065 respectively.

Rite Aid Corporation guarantees certain performance obligations of its affiliates under the securitization agreements, which includes the continued servicing of such receivables, but does not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2008 with the option to annually extend the commitment to purchase. Should any of the CPVs fail to renew their commitment under these securitization agreements, the Company has access to a backstop credit facility, which is backed by the CPVs and which expires in September 2010, to provide liquidity to the Company.

Proceeds from the collections under the receivables securitization agreements are submitted to an independent trustee on a daily basis. The trustee withholds any cash necessary to (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to the Company's corporate concentration account. At December 1, 2007 and March 3, 2007, the Company had \$2,629 and \$3,000 of cash respectively that is restricted for the payment of trustee fees.

The Company has determined that the transactions meet the criteria for sales treatment in accordance with SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Additionally, the Company has determined that it does not hold a variable interest in the CPVs, pursuant to the guidance in FIN 46R, "Consolidation of Variable Interest Entities", and therefore has determined that the de-recognition of the transferred receivables is appropriate.

8. Sale Leaseback Transactions

During the thirty-nine week period ended December 1, 2007, the Company sold a total of five owned properties to independent third parties. Net proceeds from these sales were \$20,757. Concurrent with these sales, the Company entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. The Company accounted for all of these leases as operating leases. A gain on the sale of these stores of \$1,928 was deferred and is being recorded over the minimum term of these leases.

During the thirty-nine week period ended December 2, 2006, the Company sold the land and buildings on 17 owned properties to independent third parties. Net proceeds from these sales were \$42,754. Concurrent with these sales, the Company entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. The Company accounted for 13 of these leases as operating leases. A gain of \$2,072 was deferred and is being recorded over the minimum lease term. The remaining four leases were originally accounted for using the financing method, as the lease agreements contained a clause that allowed the buyer to force the Company to repurchase the

properties under certain conditions. Subsequent to December 2, 2006, the clause that allowed the buyer to force the Company to repurchase the properties lapsed on three of the four leases. Therefore, these leases are now accounted for as operating leases. The Company recorded a capital lease obligation of \$3,029 related to the remaining lease.

9. Goodwill and Other Intangibles

The Company evaluates goodwill for impairment on an annual basis at the end of its fiscal year. The increase in goodwill as of December 1, 2007 is a result of the acquisition of Jean Coutu USA. Intangible assets other than goodwill are finite-lived and amortized over their useful lives. Following is a summary of the Company's amortizable intangible assets as of December 1, 2007 and March 3, 2007.

	December 1, 2007			March 3, 2007		
	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period
Favorable leases and other	\$ 746,574	\$ (236,292)	9 years	\$ 297,679	\$ (199,414)	10 years
Prescription files	1,145,509	(424,205)	9 years	428,282	(348,326)	3 years
Total	\$ 1,892,083	\$ (660,497)		\$ 725,961	\$ (547,740)	

Also included in other non-current liabilities as of December 1, 2007 and March 3, 2007 are unfavorable lease intangibles with a gross carrying amount of \$197,788 and \$58,017, respectively, and accumulated amortization of \$48,105 and \$39,977, respectively. These intangible liabilities are amortized over their remaining lease terms.

Amortization expense for these intangible assets and liabilities was \$53,209 and \$112,884 for the thirteen and thirty-nine week periods ended December 1, 2007. Amortization expense for these intangible assets and liabilities was \$10,214 and \$30,028 for the thirteen and thirty-nine week periods ended December 2, 2006. The anticipated annual amortization expense for these intangible assets and liabilities is 2008 \$162,547; 2009 \$189,375; 2010 \$171,144; 2011 \$158,364; and 2012 \$125,072. These anticipated annual amortization expenses could change upon the final allocation of the purchase price of Jean Coutu USA.

In connection with its acquisition of Jean Coutu USA, the Company determined that the acquired prescription files will be amortized over an estimated useful life of ten years on an accelerated basis, which approximates the anticipated prescription file retention and related cash flows.

10. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at December 1, 2007 and March 3, 2007:

	December 1, 2007	March 3 2007
Secured Debt:		
Senior secured revolving credit facility due September 2010	\$ 1,008,000	\$ 300,000
Senior secured credit facility term loan due September 2010	145,000	145,000
Senior secured credit facility term loan due June 2014	1,105,000	
8.125% senior secured notes due May 2010 (\$360,000 face value less unamortized discount of \$1,667 and \$2,167)	358,333	357,833
7.5% senior secured notes due January 2015	200,000	200,000
7.5% senior secured notes due March 2017	500,000	500,000
Other secured	1,027	1,521
	3,317,360	1,504,354
Guaranteed unsecured Debt:		
9.25% senior notes due June 2013 (\$150,000 face value less unamortized discount of \$1,321 and \$1,501)	148,679	148,499
8.625 senior notes due March 2015	500,000	500,000
9.375% senior notes due December 2015 (\$410,000 face value less unamortized discount of \$5,634)	404,366	
9.5% senior notes due June 2017 (\$810,000 face value less unamortized discount of \$12,358)	797,642	
	1,850,687	648,499
Unsecured Debt:		
6.125% fixed-rate senior notes due December 2008	150,000	150,000
6.875% senior debentures due August 2013	184,773	184,773
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	757,773	757,773
Lease financing obligations	177,396	189,662
Total debt	6,103,216	3,100,288
Current maturities of long-term debt and lease financing obligations	(29,997)	(16,184)
Long-term debt and lease financing obligations, less current maturities	\$ 6,073,219	\$ 3,084,104

Credit Facility

The Company has a senior secured credit facility that includes a \$1,750,000 revolving credit facility. Borrowings under the revolving secured credit facility currently bear interest at LIBOR plus 1.50%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending upon the amount of the revolver availability, as specified in the senior secured credit facility. The Company is required to pay fees of 0.25% per annum on the daily unused amount of the revolving credit facility. The amounts drawn on the revolving credit facility become due and payable in September 2010.

The Company's ability to borrow under the revolving credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At December 1, 2007, the Company had \$1,008,000 of borrowings outstanding under the revolving credit facility. At December 1, 2007, the Company also had letters of credit outstanding against the revolving credit facility of \$184,827, which gave the Company additional borrowing capacity of \$557,173.

In November 2006, the Company entered into an amendment of its senior secured credit facility to permit the closing of the acquisition of Brooks Eckerd. Pursuant to the terms of the senior secured credit facility amendment, the Company borrowed \$145,000 under a senior secured term loan. Proceeds from the borrowings under this senior secured term loan (the "Tranche 1 Term Loans") were used to pay amounts outstanding under the revolving credit facility.

The Tranche 1 Term Loans currently bear interest at LIBOR plus 1.50%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending on the amount of availability under the Company's revolving credit facility, as specified in the senior secured credit facility. The amounts outstanding under the Tranche 1 Term Loans become due and payable on September 30, 2010, or earlier, if there is a shortfall in the Company's borrowing base under its revolving credit facility.

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

The senior secured credit facility allows the Company to have outstanding, at any time, up to \$1,500,000 in secured second priority debt and unsecured debt in addition to borrowings under the senior secured credit facility and existing indebtedness, provided that not in excess of \$750,000 of such secured second priority debt and unsecured debt shall mature or require scheduled payment of principal prior to three months after September 30, 2014. However, other debentures do not permit additional secured debt if the revolver is fully drawn and there is no additional collateral. The senior

secured credit facility allows the Company to incur an unlimited amount of unsecured debt with a maturity beyond three months after September 30, 2014; however other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows for the repurchase of any debt with a maturity on or before June 4, 2014, and for the repurchase of debt with a maturity after June 4, 2014, if the Company maintains availability on the revolving credit facility of at least \$100,000.

The senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payments of dividends, mergers and acquisitions and the granting of liens. The senior secured credit facility also requires the Company to maintain a minimum fixed charge coverage ratio, but only if availability on the revolving credit facility is less than \$100,000.

The senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if the Company fails to make any required payment on debt having a principal amount in excess of \$50,000 or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity of such debt.

Substantially all of Rite Aid Corporation's wholly-owned subsidiaries guarantee the obligations under the senior secured credit facility. The subsidiary guarantees of the senior secured credit facility are secured by a first priority lien on, among other things the inventory and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from its subsidiaries to service payments due under the senior secured credit facility. The 8.125% senior secured notes due 2010, the 7.5% senior secured notes due 2015 and the 7.5% senior secured notes due 2017 are guaranteed by substantially all of the Company's wholly-owned subsidiaries, which are the same subsidiaries that guarantee the senior secured credit facility and are secured on a second priority basis by the same collateral as the senior secured credit facility. The 9.25% senior notes due 2013, the 8.625% senior notes due 2015, the 9.375% senior notes due 2015 and the 9.5% senior notes due 2017 are also guaranteed by substantially all of the Company's wholly-owned subsidiaries.

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

Other

On June 4, 2007 the Company incurred \$1,220,000 aggregate principal amount of senior notes. The issue consisted of \$410,000 of 9.375% senior notes due 2015 and \$810,000 of 9.5% senior notes due 2017. The Company's obligations under each series of notes are fully and unconditionally guaranteed, jointly and severally, by all of the Company's subsidiaries that guarantee its obligations under the existing senior secured credit facility and other outstanding senior secured notes. The notes are

unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all of the Company's other unsecured, unsubordinated debt. The indentures governing the notes contain covenants that limit the Company's ability and the ability of its restricted subsidiaries to, among other things, incur additional debt, pay dividends or make other restricted payments, purchase, redeem or retire capital stock or subordinated debt, make asset sales, enter into transactions with affiliates, incur liens, enter into sale-leaseback transactions, provide subsidiary guarantees, make investments and merge or consolidate with any other persons.

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2008 and thereafter are as follows: 2008 \$155; 2009 \$158,618; 2010 \$11,157; 2011 \$1,522,481; 2012 \$11,165 and \$4,222,244 in 2013 and thereafter. At December 1, 2007 the Company was in compliance with restrictions and limitations included in the provisions of various loan and credit agreements.

11. Stock Option and Stock Awards

Effective March 5, 2006, the Company adopted SFAS No. 123 (R), "Share-Based Payment" using the modified prospective transition method. Total share based compensation expense for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 was \$29,833 and \$15,851, respectively. Share-based compensation expense for the thirty-nine week period ended December 1, 2007 includes \$2,215 for one time grants related to the Acquisition integration. Share-based compensation expense is included in the consolidated statements of operations within selling, general and administrative expenses.

The total number and type of grants and the related weighted average fair value for the thirty-nine week periods are as follows:

	December 1, 2007		December 2, 2006	
	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
Stock options awarded	10,446	\$ 3.24	6,779	\$ 2.47
Stock awards granted	7,042	\$ 6.07	4,994	\$ 4.35
Total awards	17,488		11,773	

Stock options granted vest, and are subsequently exercisable in equal annual installments over a four-year period for employees. Non-employee director options granted vest, and are subsequently exercisable in equal annual installments over a three-year period. Stock awards granted vest in equal annual installments over a three year period. Additionally, vesting of 975 shares awarded to certain senior executives is conditional upon the Company meeting specified performance targets.

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The Company calculates the fair value of stock options using the Black-Scholes-Merton option pricing model. The following assumptions were used in the Black-Scholes-Merton option pricing model:

	Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006
Expected stock price volatility	52%	56%
Expected dividend yield	0%	0%
Risk-free interest rate	5.0%	5.0%
Expected option life	5.5 years	5.5 years

As of December 1, 2007, there was \$36,291 of total unrecognized pre-tax compensation costs related to unvested stock options, net of estimated forfeitures. These costs are expected to be recognized over a weighted average period of 2.9 years. As of December 1, 2007, there was \$38,888 of total unrecognized pre-tax compensation costs related to unvested restricted stock grants, net of estimated forfeitures. These costs are expected to be recognized over a weighted average period of 2.1 years.

Certain of the Company's executives have employment agreements with change-in-control clauses that resulted in the full vesting of unvested stock options and stock awards upon the closing of the Acquisition. In connection with this vesting the Company recorded additional share-based compensation expense of \$4,299 in the thirty-nine week period ended December 1, 2007.

12. Retirement Plans

Net periodic pension expense recorded in the thirteen and thirty-nine week periods ended December 1, 2007 and December 2, 2006, for the Company's defined benefit plans includes the following components:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plans		Defined Benefit Pension Plan		Nonqualified Executive Retirement Plans	
	Thirteen Week Period Ended				Thirty-Nine Week Period Ended			
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
Service cost	\$ 724	\$ 863	\$ 12	\$ 21	\$ 2,440	\$ 2,423	\$ 36	\$ 63
Interest cost	1,354	1,294	285	276	4,106	3,906	861	828
Expected return on plan assets	(1,246)	(1,206)			(3,790)	(3,144)		
Amortization of unrecognized net transition obligation			21	21			65	63
Amortization of unrecognized prior service cost	249	192			747	546		
Amortization of unrecognized net loss	164	(2)	24	44	634	1,260	72	132
Net pension expense	\$ 1,245	\$ 1,141	\$ 342	\$ 362	\$ 4,137	\$ 4,991	\$ 1,034	\$ 1,086

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Defined Benefit Pension Plan	Nonqualified Executive Retirement Plans	Defined Benefit Pension Plan	Nonqualified Executive Retirement Plans

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During the thirteen and thirty-nine week periods ended December 1, 2007 the Company contributed \$466 and \$1,373, respectively, to the Nonqualified Executive Retirement Plan and \$10,100 to the Defined Benefit Pension Plan. During the remainder of fiscal 2008, the Company expects to contribute \$458 to the Nonqualified Executive Retirement Plans.

13. Commitments and Contingencies

The Company is subject from time to time to lawsuits and governmental investigations arising in the ordinary course of business, including employment related lawsuits arising from alleged violations of certain state and federal laws. Some of these suits purport to have been determined to be class or collective actions and/or seek substantial damages. In the opinion of the Company's management, these matters are adequately covered by insurance or, if not so covered, are without merit or are of such nature or involve amounts that would not have a material adverse effect on the Company's financial condition, results of operations or cash flows if decided adversely.

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

Overview

Net loss for the thirteen week period ended December 1, 2007 was \$84.8 million compared to net income of \$1.1 million for the thirteen week period ended December 2, 2006. Although there was an increase in revenue related to the Brooks Eckerd acquisition and improvements in gross margin rate, these items were exceeded primarily by an increase in selling, general and administrative expenses ("SG&A") as a percent of revenues and an increase in interest expense. These items are described in further detail in the following sections.

Net loss for the thirty-nine week period ended December 1, 2007 was \$126.8 million compared to net income of \$11.7 million for the thirty-nine week period ended December 2, 2006. The operating results for the thirty-nine week period ended December 1, 2007 include the operating results of Brooks Eckerd for the twenty-six week period ended December 1, 2007. Although there was an increase in revenue related to the Brooks Eckerd acquisition and improvements in gross margin rate, these items were exceeded primarily by an increase in SG&A as a percent of revenues and an increase in interest expense. These items are described in further detail in the following sections. Also contributing to the loss in the thirty-nine week period ended December 1, 2007 was a \$12.9 million charge related to a financing commitment charge that was incurred as a result of the Brooks Eckerd acquisition.

Acquisition of Jean Coutu USA

On June 4, 2007, we acquired all of the membership interests of JCG (PJC) USA, LLC ("Jean Coutu USA") from Jean Coutu Group (PJC) Inc. ("Jean Coutu Group"), pursuant to the terms of the Stock Purchase Agreement (the "Agreement") dated August 23, 2006. As consideration for the acquisition of Jean Coutu USA (the "Acquisition"), we paid \$2.31 billion, in cash and issued 250 million shares of Rite Aid common stock. We financed the cash payment via the establishment of a new term loan facility, issuance of notes and borrowings under our existing revolving credit facility.

The shares of our common stock issued to Jean Coutu Group in the Acquisition represented approximately 30.2% of the total voting power as of June 4, 2007. We expanded our Board of Directors to 14 members, with four of the seats being held by members designated by the Jean Coutu Group. In connection with the Acquisition, we entered into a Stockholder Agreement (the "Stockholder Agreement") with Jean Coutu Group and certain Coutu family members. The Stockholder Agreement contains provisions relating to Jean Coutu Group's ownership interest in the Company, board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. We have also entered into a Registrations Rights Agreement with Jean Coutu Group giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of our common stock issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market rights under the Stockholder Agreement.

The Brooks Eckerd stores are being integrated in phases. These phases include the replacement of the Brooks Eckerd store systems with our store systems and a minor remodel of substantially all stores. We have commenced the Brooks Eckerd store system conversions and the minor remodels and have integrated the six new distribution centers. All stores are expected to be converted and re-branded as Rite Aid by October 2008.

Over the next several years, we plan to fully remodel many of the Brooks Eckerd stores. We will also continue our store development program with plans to open 800 to 1,000 new and relocated stores over the next five years.

Results of Operations*Revenues and Other Operating Data*

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
	(dollars in thousands)			
Revenues	\$ 6,523,544	\$ 4,320,208	\$ 17,580,559	\$ 12,945,650
Revenue growth	51.0%	4.2%	35.8%	3.6%
Same store sales growth	0.7%	3.4%	1.4%	3.6%
Pharmacy sales growth	60.6%	5.0%	42.1%	4.4%
Same store pharmacy sales growth	1.2%	4.3%	1.8%	4.5%
Pharmacy sales as a % of total sales	68.3%	64.3%	67.0%	64.1%
Third party sales as a % of total pharmacy sales	96.0%	95.5%	95.9%	95.3%
Front-end sales growth	33.9%	2.8%	24.9%	2.2%
Same store front-end sales (decline) growth	(0.4)%	1.9%	0.6%	2.1%
Front-end sales as a % of total sales	31.7%	35.7%	33.0%	35.9%
Store data:				
Total stores (beginning of period)	5,142	3,315	3,333	3,323
New stores	12	10	29	21
Store acquisitions, net			1,862	2
Closed stores	(65)	(3)	(135)	(24)
Total stores (end of period)	5,089	3,322	5,089	3,322
Relocated stores	21	13	36	34
Remodeled stores	93	4	128	18

Revenues

Revenue growth was 51.0% and 35.8% for the thirteen and thirty-nine week periods ended December 1, 2007, respectively. This revenue growth was driven primarily by the acquisition of Brooks Eckerd. Same store sales trends, which do not include the Brooks Eckerd stores, are described in the following paragraphs. Brooks Eckerd store sales decreased from last year's comparable period due primarily to the expected impact of current and ongoing integration activities. The Brooks Eckerd stores are being integrated in phases and therefore integration activities are expected to have a negative impact on Brooks Eckerd store sales trends in future periods.

Pharmacy same store sales increased by 1.2% and 1.8% in the thirteen and thirty-nine week periods ended December 1, 2007, respectively, primarily driven by an increase in price per prescription and by same store prescription growth of 0.2% and 0.5% in the thirteen and thirty-nine week periods ended December 1, 2007, respectively. In addition to favorable demographic trends, our script growth was positively impacted by Medicare Part D and by initiatives such as our focus on customer satisfaction, prescription file buys, our senior citizen loyalty program and the new and relocated store program. Partially offsetting these items was an increase in generic sales and lower reimbursement rates, including the lower reimbursement rates from the new Medicare Part D program. The rate of same store pharmacy sales growth has declined from last year's comparable periods. This decline is primarily due to a lower rate of growth in Medicare Part D enrollment in the thirteen and thirty-nine week periods ended December 1, 2007, a greater mix of generic prescriptions and a slower start to the cough, cold and flu season.

Front end same store sales decreased by 0.4% and increased 0.6% in the thirteen and thirty-nine week periods ended December 1, 2007. The same store sales decrease for the thirteen week period

ended December 1, 2007 was caused primarily by a lower percentage of promotional and seasonal sales in the current year thirteen week period when compared to the prior year, a decrease in photo and film sales and a slower start to the cough, cold and flu season. These items were partially offset by strong performance in core categories, such as over-the-counter and consumables. The same store sales increase for the thirty-nine week period ended December 1, 2007 was due to strong performance in core categories, such as over-the-counter and consumables, offset somewhat by a decrease in photo and film sales.

We include in same store sales all stores that have been open or owned at least one year. Relocated stores are not included in the same store sales for one year. Stores in liquidation are considered closed. The Brooks Eckerd stores will be included in same store sales following the one-year anniversary of the Acquisition.

Costs and Expenses

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
	(dollars in thousands)			
Cost of goods sold	\$ 4,772,895	\$ 3,166,165	\$ 12,810,905	\$ 9,456,572
Gross profit	1,750,649	1,154,043	4,769,654	3,489,078
Gross margin rate	26.8%	26.7%	27.1%	27.0%
Selling, general and administrative expenses	1,738,926	1,079,509	4,617,594	3,247,208
Selling, general and administrative expenses as a percentage of revenues	26.7%	25.0%	26.3%	25.1%
Store closing and impairment charges	21,836	5,119	42,453	24,153
Interest expense	130,306	68,184	322,281	205,703
Acquisition related financing commitment charge			12,900	
Gain on sale of assets and investments, net	(2,105)	(48)	(4,684)	(1,403)

Cost of Goods Sold

Gross margin rate was 26.8% for the thirteen week period ended December 1, 2007 compared to 26.7% for the thirteen week period ended December 2, 2006. The improvement in gross margin rate was driven by an improvement in pharmacy and front-end gross margin rates. The improvement in the pharmacy gross margin rate was primarily due to an increase in the percentage of generic drugs sold and a lower cost of generics partially offset by lower reimbursement rates and an increase in Medicare Part D sales as a percentage of total pharmacy sales. The improvement in the front-end gross margin rate was primarily due to an increase in vendor promotional support, a reduction in the mix of promotional sales and an increase in photo category gross margin rate. The improvement in front-end and pharmacy gross margin rates were partially offset by an increase in distribution expense as a percentage of sales, due to higher fuel costs and increases in other expenses not offset by productivity improvements, and an increased LIFO charge.

Gross margin rate was 27.1% for the thirty-nine week period ended December 1, 2007 compared to 27.0% for the thirty-nine week period ended December 2, 2006. The improvement in gross margin rate was driven by an improvement in pharmacy and front-end gross margin rates, offset somewhat by an increased LIFO charge. The improvement in the pharmacy gross margin rate was primarily due to an increase in the percentage of generic drugs sold and a lower cost of generics, partially offset by lower reimbursement rates and an increase in Medicare Part D sales as a percentage of total pharmacy sales. The improvement in the front-end gross margin rate was primarily due to an increase in vendor promotional support.

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We use the last-in, first-out (LIFO) method of inventory valuation, which is determined annually when inflation rates and inventory levels are finalized. Therefore, LIFO costs for interim period financial statements are estimated. Cost of sales includes LIFO charges of \$16.0 million and \$41.4 million for the thirteen and thirty-nine week periods ended December 1, 2007 versus LIFO charges of \$8.9 million and \$26.8 million for the thirteen and thirty-nine week periods ended December 2, 2006.

Selling, General and Administrative Expenses

SG&A as a percentage of revenues was 26.7% in the thirteen week period ended December 1, 2007 compared to 25.0% in the thirteen week period ended December 2, 2006. The increase in SG&A as a percentage of revenues is primarily due to an increase in expenses related to the integration of the Brooks Eckerd stores and distribution centers, an increase in depreciation and amortization expense related primarily to increased intangible assets resulting from the preliminary allocation of the purchase price of Brooks Eckerd and an increase in rent and occupancy expense from new and relocated stores and the sale and leaseback of owned stores. These increases were partially offset by expense management in other expense categories.

SG&A as a percentage of revenues was 26.3% in the thirty-nine week period ended December 1, 2007 compared to 25.1% in the thirty-nine week period ended December 2, 2006. The increase in SG&A as a percentage of revenues is primarily due to an increase in expenses related to the integration of the Brooks Eckerd stores and distribution centers, an increase in depreciation and amortization expense related primarily to increased intangible assets resulting from the preliminary allocation of the purchase price of Brooks Eckerd and an increase from rent and occupancy expense in new and relocated stores and the sale and leaseback of owned stores. These increases were partially offset by expense management in other expense categories.

Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	December 1, 2007	December 2, 2006	December 1, 2007	December 2, 2006
	(dollars in thousands)			
Impairment charges	\$ 5,825	\$ 689	\$ 8,151	\$ 12,081
Store and equipment lease exit charges	16,011	4,430	34,302	12,072
	<u>\$ 21,836</u>	<u>\$ 5,119</u>	<u>\$ 42,453</u>	<u>\$ 24,153</u>

Impairment Charges: Impairment charges include non-cash charges of \$5.8 million and \$0.7 million in the thirteen week periods ended December 1, 2007 and December 2, 2006, respectively, for the impairment of long-lived assets at 52 and 11 stores, respectively. Impairment charges include non-cash charges of \$8.2 million and \$12.1 million for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively, for the impairment of long-lived assets at 75 and 30 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store.

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Store and Equipment Lease Exit Charges: During the thirteen week periods ended December 1, 2007 and December 2, 2006, we recorded charges for 16 and 15 stores, respectively, to be closed or relocated under long-term leases. During the thirty-nine week periods ended December 1, 2007 and December 2, 2006, we recorded charges for 36 and 33 stores, respectively, to be closed or relocated under long-term leases. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". We calculate our liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or favorable lease terminations. We evaluate these assumptions each quarter and adjust the liability accordingly. The increase in the store and equipment lease exit charge for the thirteen and thirty-nine week periods ended December 1, 2007 is primarily due to a decrease in the discount rate used to calculate the store lease exit charge liability.

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

Interest Expense

Interest expense was \$130.3 million and \$322.3 million for the thirteen and thirty-nine week periods ended December 1, 2007, compared to \$68.2 million and \$205.7 million for the thirteen and thirty-nine week periods ended December 2, 2006. The increase in interest expense for the thirteen and thirty-nine week periods ended December 1, 2007 was primarily due to increased borrowings to fund the Brooks Eckerd acquisition and related integration activities and an increase in LIBOR, which increased interest expense on borrowings under our senior secured credit facility.

The weighted average interest rates on our indebtedness for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 were 7.7% and 7.5%, respectively.

Income Taxes

We recorded an income tax benefit of \$53.5 million and income tax expense of \$0.2 million for the thirteen week periods ended December 1, 2007 and December 2, 2006, respectively and income tax benefit of \$94.1 million and income tax expense of \$1.7 million for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively.

The benefit from income taxes for the thirty-nine week period ended December 1, 2007 included a net benefit of \$7.9 million for the increase in deferred tax assets as a result of enacted state tax legislation as well as a net benefit of \$6.0 million for discrete items related to the recognition of previously unrecognized tax benefits. The discrete items associated with the previously unrecognized tax benefits included tax of \$5.2 million and related interest of \$2.5 million due to expiration of certain state statutes. The benefit from income taxes for the thirty-nine week period ended December 2, 2006 was net of a reduction of a liability for state taxes of \$7.5 million.

As a result of the implementation of FIN 48, our tax contingencies decreased \$6.6 million, and after the deferred tax impact of \$2.2 million, the net effect was accounted for as an increase to retained earnings of \$4.5 million. The decrease in unrecognized tax benefits would have decreased income tax expense in prior periods. To the extent our remaining unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. While it is expected that the amount of unrecognized tax benefits will change in the next twelve months, we do not expect the change to have a significant impact on the results of operations or the financial position of our company. We are still evaluating the tax positions of the acquired entities and adjustments, if any, could

be material. Upon finalization of the purchase price allocation, any such adjustments related to pre-acquisition tax periods will result in adjustments to assets and liabilities acquired in connection with the Acquisition.

Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties in accordance with the provisions of FIN 48. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable.

Liquidity and Capital Resources

General

We have five primary sources of liquidity: (i) cash and cash equivalents, (ii) cash provided by operating activities, (iii) the sale of accounts receivable under our receivable securitization agreements, (iv) the revolving credit facility under our senior secured credit facility and (v) sale-leasebacks of owned property. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt, to provide funds for capital expenditures and the costs of integrating the Brooks Eckerd stores and distribution centers and to provide funds for payment of our debt.

Credit Facility

Our senior credit facility includes a \$1.75 billion revolving credit facility. Borrowings under the revolving credit facility currently bear interest at LIBOR plus 1.50%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending on the amount of revolver availability, as specified in the senior secured credit facility. We are required to pay fees of 0.25% per annum on the daily unused amount of the revolving credit facility. The amounts drawn on the revolving credit facility become due and payable in September 2010.

Our ability to borrow under the senior secured credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At December 1, 2007, we had \$1,008.0 million of borrowings outstanding under the revolving credit facility. At December 1, 2007, we also had letters of credit outstanding against the revolving credit facility of \$184.8 million, which gave us additional borrowing capacity of \$557.2 million.

In November 2006, we entered into an amendment of our senior secured credit facility to permit the closing of the acquisition of Brooks Eckerd. Pursuant to the terms of the senior secured credit facility amendment, we borrowed \$145.0 million under a senior secured term loan. Proceeds from the borrowings under this senior secured term loan (the "Tranche 1 Term Loans") were used to pay amounts outstanding under the revolving credit facility.

The Tranche 1 Term Loans currently bear interest at LIBOR plus 1.50%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending on the amount of availability under our revolving credit facility, as specified in the senior secured credit facility. The amounts outstanding under the Tranche 1 Term Loans become due and payable on September 30, 2010, or earlier, if there is a shortfall in our borrowing base under our revolving credit facility.

On June 4, 2007, we further amended our senior secured credit facility to establish a new senior secured term loan in the aggregate principal amount of \$1,105.0 million and borrowed the full amount thereunder. A portion of the proceeds from the borrowings under this senior secured term loan (the "Tranche 2 Term Loans") were used to fund the acquisition of Brooks Eckerd. The Tranche 2 Term Loans will mature on June 4, 2014 and currently bears interest at LIBOR plus 1.75%, if we choose to

make LIBOR borrowings, or at Citibank's base rate plus 0.75%. We must make mandatory prepayments of the Tranche 2 Term Loans with the proceeds of asset dispositions (subject to certain limitations), with a portion of any excess cash flow generated by us and with the proceeds of certain issuances of equity and debt (subject to certain exceptions). If at any time there is a shortfall in our borrowing base under our revolving credit facility, prepayment of the Tranche 2 Term Loans may also be required.

The senior secured credit facility allows us to have outstanding, at any time, up to \$1.5 billion in secured second priority debt and unsecured debt in addition to borrowings under the senior secured credit facility and existing indebtedness, provided that not in excess of \$750.0 million of such secured second priority debt and unsecured debt shall mature or require scheduled payments of principal prior to three months after September 30, 2014. However, other debentures do not permit additional secured debt if the revolver is fully drawn and there is no additional collateral. The senior secured credit facility allows us to incur an unlimited amount of unsecured debt with a maturity beyond three months after September 30, 2014; however other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows for the repurchase of any debt with a maturity on or before June 4, 2014 and for the repurchase of debt with a maturity after June 4, 2014 if we maintain availability on the revolving credit facility of at least \$100.0 million.

The senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, mergers and acquisitions and the granting of liens. The senior secured credit facility also requires us to maintain a minimum fixed charge coverage ratio, but only if availability on the revolving credit facility is less than \$100.0 million.

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

Other

On June 4, 2007 we incurred \$1.22 billion aggregate principal amount of senior notes. The issue consisted of \$410.0 million of 9.375% senior notes due 2015 and \$810.0 million of 9.5% senior notes due 2017. Our obligations under each series of notes are fully and unconditionally guaranteed (on an unsecured basis), jointly and severally, by all of our subsidiaries that guarantee our obligations under our existing senior secured credit facility and our outstanding senior secured notes. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all of our other unsecured, unsubordinated debt. The indentures governing the notes contain covenants that limit our ability and the ability of our restricted subsidiaries to, among other things; incur additional debt, pay dividends or make other restricted payments, purchase, redeem or retire capital stock or subordinated debt, make asset sales, enter into transactions with affiliates, incur liens, enter into sale-leaseback transactions, provide subsidiary guarantees, make investments and merge or consolidate with any other persons.

The aggregate annual principal payments of long-term debt as of December 1, 2007 for the remainder of fiscal 2008 and thereafter are as follows: 2008 \$0.2 million; 2009 \$158.6 million; 2010 \$11.2 million; 2011 \$1,522.5 million; 2012 \$11.2 million; and \$4,222.2 million in 2013 and thereafter. At December 1, 2007 we were in compliance with restrictions and limitations included in the provisions of various loan and credit agreements.

Sale Leaseback Transactions

During the thirty-nine week period ended December 1, 2007, we sold a total of five owned properties to independent third parties. Net proceeds from these sales were \$20.8 million. Concurrent with these sales, we entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. We accounted for all of these leases as operating leases. A gain on the sale of these stores of \$1.9 million was deferred and is being recorded over the minimum term of these leases.

During the thirty-nine week period ended December 2, 2006, we sold the land and buildings on 17 owned properties to independent third parties. Net proceeds from these sales were approximately \$42.8 million. Concurrent with these sales, we entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. We accounted for 13 of these leases as operating leases. A gain of approximately \$2.1 million was deferred and is being recorded over the minimum lease term. The remaining four leases were originally accounted for using the financing method, as the lease agreements contained a clause that allowed the buyer to force us to repurchase the properties under certain conditions. Subsequent to December 2, 2006, the clause that allowed the buyer to force us to repurchase the properties lapsed on three of the four leases. Therefore, these three leases are now accounted for as operating leases. We recorded a capital lease obligation of \$3.0 million related to the remaining lease.

Off Balance Sheet Obligations

We maintain receivables securitization agreements with several multi-seller asset-backed commercial paper vehicles ("CPVs"). Under the terms of the securitization agreements, we sell substantially all of our eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity ("SPE") and retain servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of our affiliates. These agreements provide for us to sell, and for the SPE to purchase these receivables. The SPE then transfers an interest in these receivables to various CPVs.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution ("Securitization Formula"). Adjustments to this amount can occur on a weekly basis. At December 1, 2007 and March 3, 2007, the total of outstanding receivables that had been transferred to the CPVs were \$400.0 million and \$350.0 million, respectively. The average amount of outstanding receivables transferred during the thirteen week periods ended December 1, 2007 and December 2, 2006 was \$320.9 million and \$345.5 million, respectively. Total receivable transfers for both the thirteen week periods ended December 1, 2007 and December 2, 2006 totaled approximately \$1,233.0 million and \$1,242.0 million, respectively. Collections made by us as part of the servicing arrangement on behalf of the CPVs, for the thirteen week periods ended December 1, 2007 and December 2, 2006 totaled \$1,123.0 million and \$1,197.0 million, respectively. The average amount of outstanding receivables transferred during the thirty-nine week periods ended December 1, 2007 and December 2, 2006 was \$332.6 million and \$333.4 million, respectively. Total receivable transfers for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 totaled \$3,673.0 million and \$3,473.0 million, respectively. Collections made by us as part of the servicing agreements on behalf of the CPVs, for the thirty-nine week periods ended December 1, 2007 and December 2, 2006 totaled \$3,623.0 million and \$3,433.0 million, respectively. At December 1, 2007 and March 3, 2007, we retained an interest in the eligible third party pharmaceutical receivables not transferred to the CPVs of \$568.1 million and \$255.1 million, respectively, inclusive of the allowance for uncollectible accounts, which was included in accounts receivable, net, on the consolidated balance sheet.

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On September 18, 2007 we amended our securitization agreements. As a result of this amendment the total amount of interest in receivables than can be transferred to the CPV was increased to \$650.0 million from \$400.0 million. The ongoing program fee was decreased from the CPVs' commercial paper rate (which often approximates 1-month LIBOR) plus 1.125% to the CPVs' commercial paper rate plus 1.00%. The liquidity fee was reduced from 0.375% to 0.25%.

The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Program and liquidity fees for the thirteen and thirty-nine weeks ended December 1, 2007 were \$6.3 million and \$17.3 million, respectively. Program and liquidity fees for the thirteen and thirty-nine weeks ended December 2, 2006 were \$5.6 million and \$16.1 million, respectively. We guarantee certain performance obligations of our affiliates under the securitization agreements, which includes continued servicing of such receivables, but does not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2008 with the option to annually extend the commitment to purchase. Should any of the CPVs fail to renew their commitment under these securitization agreements, we have access to a backstop credit facility, which is backed by the CPVs which expire in September 2010. It is our intent to renew our receivables securitization agreements with the CPVs.

Proceeds from the collections under the receivables securitization agreements are submitted to an independent trustee on a daily basis. The trustee withholds any cash necessary to (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to our corporate concentration account. At December 1, 2007 and March 3, 2007, we had \$2.6 million and \$3.0 million of cash, respectively, that was restricted for the payment of trustee fees.

We have determined that the transactions meet the criteria for sales treatment in accordance with SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Additionally, we have determined that we do not hold a variable interest in the CPVs, pursuant to the guidance in FIN 46R, "Consolidation of Variable Interest Entities", and therefore have determined that de-recognition of the transferred receivables is appropriate.

As of December 1, 2007, we had no material off balance sheet arrangements, other than the receivables securitization agreements described above and operating leases.

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

Our operating activities used \$230.1 million and provided \$182.7 million of cash in the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively. The use in operating cash for the thirty-nine week period ended December 1, 2007 was caused primarily by a net loss of \$126.8 million and an increase in inventory, partially offset by net proceeds from our accounts receivable securitization. The increase in inventory is due to seasonal build and also caused by Brooks Eckerd integration activities. Integration activities that require a temporary investment in inventory include replacing non-go-forward inventory, increasing the number of SKU's at the Brooks Eckerd distribution centers and retrofitting the planograms in the Brooks Eckerd stores. We expect the levels of inventory to decrease as these activities are completed.

Operating cash for the thirty-nine week period ended December 2, 2006 was provided by net income of \$11.7 million, proceeds of \$40.0 million our accounts receivable securitization and increases in accounts payable, which were partially offset by seasonal increases in inventory.

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Cash used in investing activities was \$2,775.4 million and \$208.4 million for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively. Cash used in investing activities for the thirty-nine week period ended December 1, 2007 was primarily for the acquisition of Brooks Eckerd and purchase of property, plant and equipment and intangible assets offset by proceeds from sale-leaseback transactions and asset dispositions. Cash used in investing activities for the thirty-nine week period ended December 2, 2006 was for the purchase of property, plant and equipment and intangible assets offset by proceeds from sale-leaseback transactions and asset dispositions.

Cash provided by financing activities was \$3,073.0 million and \$98.0 million for the thirty-nine week periods ended December 1, 2007 and December 2, 2006, respectively. Cash provided by financing activities for the thirty-nine week period ended December 1, 2007 was primarily provided by proceeds from issuance of long-term debt utilized to fund the Brooks Eckerd acquisition, net proceeds from our revolving credit facility, the change in the zero balance cash accounts and net proceeds from the issuance of common stock, offset by financing costs paid, scheduled debt payments and preferred stock dividends. Cash provided by financing activities for the thirty-nine week period ended December 2, 2006 was due to the impact of borrowings under our revolving credit facility and issuance of long-term debt, offset by the payment at maturity of our 12.5% senior secured notes due September 2006 and our 4.75% convertible notes due December 2006 and by preferred stock cash dividend payments.

Capital Expenditures

During the thirty-nine week period ended December 1, 2007, we spent \$519.2 million on capital expenditures, consisting of \$185.8 million related to new store construction, store relocation and store remodel projects, \$91.2 million related to technology enhancements, improvements to distribution centers and other corporate requirements, \$201.5 million related to the integration of Brooks Eckerd and \$40.7 million related to the purchase of prescription files from independent pharmacists. We plan on making total capital expenditures of approximately \$790 million to \$820 million during fiscal 2008, consisting of approximately 40% related to new store construction, store relocation, store remodel and store improvement projects, 40% related to the integration of Brooks Eckerd, 10% related to the purchase of prescription files from independent pharmacies and 10% related to technology enhancements, improvements in distribution centers and other corporate requirements. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities, proceeds from sale-leaseback transactions and use of the revolving credit facility. We plan to open or relocate approximately 123 stores in fiscal 2008, with at least 50% being relocated or expanded stores. These relocations and openings will be focused in our strongest existing markets. We also expect to continue remodeling stores.

During the thirty-nine week period ended December 2, 2006, we spent \$247.8 million on capital expenditures, consisting of \$134.7 million related to new store construction, store relocation and store remodel projects, \$89.8 million related to technology enhancements, improvements to distribution centers and other corporate requirements and \$23.8 million related to the purchase of prescription files from independent pharmacists.

Future Liquidity

We are highly leveraged. Our high level of indebtedness: (i) limits our ability to obtain additional financing; (ii) limits our flexibility in planning for, or reacting to, changes in our business and the industry; (iii) places us at a competitive disadvantage relative to our competitors with less debt; (iv) renders us more vulnerable to general adverse economic and industry conditions; and (v) requires us to dedicate a substantial portion of our cash flow to service our debt, including additional debt incurred for the acquisition of Brooks Eckerd. Based upon our current levels of operations, planned improvements in our operating performance and the opportunities that we believe the acquisition of Brooks Eckerd provides, we believe that cash flow from operations together with available borrowings

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under the senior secured credit facility, sales of accounts receivable under our securitization agreements and other sources of liquidity will be adequate to meet our requirements for working capital, debt service and capital expenditures including capital expenditures related to the Acquisition, for the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance, and other relevant circumstances. Should we determine, at any time, that it is necessary to obtain additional short-term liquidity, we will evaluate our alternatives and take appropriate steps to obtain sufficient additional funds. The restrictions on the incurrence of additional indebtedness in our senior secured credit facility and several of our bond indentures may limit our ability to obtain additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or if obtained, would be on terms acceptable to us.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." The interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company's tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination, based on the technical merits of the position. If it is determined that a tax position should be recognized, then the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We adopted FIN 48 on March 4, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. In December 2007, a FASB Staff Position (FSP) was proposed to delay the effective dates of SFAS No. 157 as it relates to all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, or at least annually. We are currently evaluating the effect of the adoption of SFAS No. 157 on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised) "Business Combinations". SFAS 141 (Revised) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the assets acquired and liabilities assumed in a business combination and makes several changes to the method of accounting for business combinations previously set forth in SFAS No. 141. SFAS No. 141 (Revised) will become effective for acquisitions consummated in fiscal years beginning after December 15, 2008.

Critical Accounting Policies and Estimates

For a description of the critical accounting policies that require the use of significant judgments and estimates by management, refer to "Management's Discussion and Analysis of Financial Condition Critical Accounting Policies and Estimates" included in our fiscal 2007 10-K report.

Factors Affecting Our Future Prospects

For a discussion of risks related to our financial condition, operations and industry, refer to "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our fiscal 2007 10-K.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of December 1, 2007.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value at December 1, 2007
(dollars in thousands)								
Long-term debt, Including current portion								
Fixed rate	\$ 155	\$ 150,330	\$ 107	\$ 358,431	\$ 115	\$ 3,158,682	\$ 3,667,820	\$ 3,200,471
Average Interest Rate	8.00%	6.13%	8.00%	8.16%	8.00%	8.52%	8.39%	
Variable Rate	\$ 0	\$ 8,288	\$ 11,050	\$ 1,164,050	\$ 11,050	\$ 1,063,562	\$ 2,258,000	\$ 2,258,000
Average Interest Rate	%	6.46%	6.46%	6.33%	6.46%	6.46%	6.39%	

As of December 1, 2007, 38.1% of our total debt is exposed to fluctuations in variable interest rates.

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

In addition to the financial instruments listed above, the program fees incurred on proceeds from the sale of receivables under our receivables securitization agreements are determined based on LIBOR.

ITEM 4. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not applicable.

ITEM 1A. Risk Factors

See risk factors disclosed in the Fiscal 2007 10-K.

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

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the security holders during the thirteen week period ended December 1, 2007.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

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

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Stock Purchase Agreement, dated as of August 23, 2006, between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 2 to Form 8-K, filed on August 24, 2006
3.1	Restated Certificate of Incorporation dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation dated February 22, 1999	Exhibit 3(ii) to Form 8-K, filed on November 2, 1999
3.3	Certificate of Amendment to the Restated Certificate of Incorporation dated June 27, 2001	Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
3.4	Certificate of Amendment to the Restated Certificate of Incorporation dated June 4, 2007	Exhibit 4.4 to Registration Statement on Form S-8, filed on October 5, 2007
3.5	7.0% Series E Mandatory Convertible Preferred Stock	Exhibit 3.1 to Form 8-K, filed on February 1, 2005

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Exhibit Numbers	Description	Incorporation By Reference To
	Certificate of Designation dated January 25, 2005	
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3.6	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.7	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.8	5.50% Series I Mandatory Convertible Preferred Stock Certificate of Designation dated August 2, 2005	Exhibit 3.1 to Form 8-K, filed on August 24, 2005
3.9	Amended Restated By-laws	Exhibit 3.1 to Form 8-K, filed on April 13, 2007
4.1	Indenture, dated August 1, 1993 by and between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4A to Registration Statement on Form S-3, File No. 333-63794, filed on June 3, 1993
4.2	Supplemental Indenture dated as of February 3, 2000, between Rite Aid Corporation, as issuer, and U.S. Bank Trust National Association as successor to Morgan Guaranty Trust Company of New York, to the Indenture dated as of August 1, 1993, relating to the Company's 7.70% Notes due 2027 and 6.875% Notes due 2013	Exhibit 4.1 to Form 8-K filed on February 7, 2000
4.3	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K filed on February 7, 2000
4.5	Indenture, dated as of April 22, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 8.125% Senior Secured Notes due 2010	Exhibit 4.11 to Form 10-K, filed on May 2, 2003

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| 4.6 | Supplemental Indenture, dated as of June 4, 2007, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of April 22, 2003 between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 8.125% Senior Secured Notes due 2010 | Filed herewith |
| 4.7 | Indenture, dated as of May 20, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 9.25% Senior Notes due 2013 | Exhibit 4.12 to Form 10-Q, filed on July 3, 2003 |
| 4.8 | Supplemental Indenture, dated as of June 4, 2007, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of May 20, 2003 between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 9.25% Senior Secured Notes due 2013 | Filed herewith |
| 4.9 | Indenture, dated as of January 11, 2005, among Rite Aid Corporation, the subsidiary guarantors described therein, and BNY Midwest Trust Company, as trustee, related to the Company's 7.5% Senior Secured Notes due January 15, 2015 | Exhibit 99.2 to Form 8-K, filed on January 13, 2005 |
| 4.10 | Supplemental Indenture, dated as of June 4, 2007, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of January 11, 2005 between Rite Aid Corporation and BNY Midwest Trust Company, related to the Company's 7.5% Senior Secured Notes due 2015 | Filed herewith |
| 4.11 | Indenture, dated as of February 15, 2007, between Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 7.5% Senior Secured Notes due 2017 | Exhibit 99.1 to Form 8-K, filed on February 26, 2007 |

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|------|---|--|
| 4.12 | Supplemental Indenture, dated as of June 4, 2007, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of February 21, 2007 between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 7.5% Senior Secured Notes due 2017 | Filed herewith |
| 4.13 | Indenture, dated as of February 15, 2007, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 8.625% Senior Notes due 2015 | Exhibit 99.2 to Form 8-K, filed on February 26, 2007 |
| 4.14 | Supplemental Indenture, dated as of June 4, 2007, between Rite Aid Corporation, the subsidiaries named therein and The Bank of New York Trust Company, N.A. to the Indenture dated as of February 21, 2007 between Rite Aid Corporation and The Bank of New York Trust Company, N.A., related to the Company's 8.625% Senior Secured Notes due 2015 | Filed herewith |
| 4.15 | Amended and Restated Indenture, dated as of June 4, 2007 among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.375% Senior Notes due 2015 | Exhibit 4.1 to Form 8-K, filed on June 7, 2007 |
| 4.16 | Amended and Restated Indenture, dated as of June 4, 2007 among Rite Aid Corporation (as successor to Rite Aid Escrow Corp.), the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as Trustee, related to the Company's 9.5% Senior Notes due 2017 | Exhibit 4.2 to Form 8-K, filed on June 7, 2007 |
| 4.17 | Amended and Restated Stockholder Agreement, dated August 23, 2006, amended and restated as of June 4, 2007, by and between Rite Aid Corporation, The Jean Coutu Group (PJC) Inc., Jean Coutu, Marcelle Coutu, Francois J. Coutu, Michel Coutu, Louis Coutu, Sylvie Coutu and Marie-Josée Coutu | Exhibit 2.2 to Form 10-Q, filed on July 12, 2007 |

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4.18	Registration Rights Agreement, dated August 23, 2006, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 10.2 to Form 8-K, filed on August 24, 2006
11	Statement regarding computation of earnings per share. (See Note 4 to the condensed consolidated financial statements)	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended	Filed herewith
32	Certification of CEO and CFO pursuant to 18 United States Code, Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: January 9, 2008

RITE AID CORPORATION

By: /s/ ROBERT B. SARI

Robert B. Sari
Executive Vice President and General Counsel

Date: January 9, 2008

By: /s/ KEVIN TWOMEY

Kevin Twomey
*Chief Financial Officer and
Executive Vice President*

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements are included in this report immediately following Part IV.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

As of October 1, 2016 (the end of the period covered by this report), management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at the end of such period, our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

Management's Annual Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f), and for performing an assessment of the effectiveness of internal control over financial reporting as of October 1, 2016. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U. S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of October 1, 2016 based upon the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment, management determined that our internal control over financial reporting was effective as of October 1, 2016.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting as management’s report was not subject to attestation by our independent registered public accounting firm pursuant to the permanent exemption of the SEC that permits us to provide only management’s report in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financing reporting that occurred during the quarter ended October 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our directors and executive officers is incorporated by reference to the definitive proxy statement for our 2016 annual meeting of stockholders to be filed with the Securities and Exchange Commission (the “SEC”) pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this form (the “Proxy Statement”). Information relating to compliance with Section 16(a) of the Exchange Act is incorporated by reference to the Proxy Statement.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. We will provide any person without charge, upon request, a copy of such code of ethics by mailing the request to us at 85 Fifth Avenue, New York, NY 10003, Attention: Robert Stewart.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)Financial Statements:	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets --</u> <u>at October 1, 2016 and October 3, 2015</u>	F-2
<u>Consolidated Statements of Income --</u> <u>years ended October 1, 2016 and October 3, 2015</u>	F-3
<u>Consolidated Statements of Changes in Equity --</u> <u>years ended October 1, 2016 and October 3, 2015</u>	F-4
<u>Consolidated Statements of Cash Flows --</u> <u>years ended October 1, 2016 and October 3, 2015</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6

(2)Financial Statement Schedules

None.

Exhibits:

(3)

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit List immediately preceding the exhibits.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Ark Restaurants Corp.

We have audited the accompanying consolidated balance sheets of Ark Restaurants Corp. and Subsidiaries (the “Company”) as of October 1, 2016 and October 3, 2015, and the related consolidated statements of income, changes in equity and cash flows for each of the years in the two-year period ended October 1, 2016. Ark Restaurants Corp. and Subsidiaries’ management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ark Restaurants Corp. and Subsidiaries as of October 1, 2016 and October 3, 2015, and their results of operations and cash flows for each of the years in the two-year period ended October 1, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

Jericho, New York

December 30, 2016

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ARK RESTAURANTS CORP. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Per Share Amounts)

	October 1, 2016	October 3, 2015 (see Note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (includes \$889 at October 1, 2016 and \$604 at October 3, 2015 related to VIEs)	\$7,239	\$9,735
Accounts receivable (includes \$429 at October 1, 2016 and \$303 at October 3, 2015 related to VIEs)	3,750	3,221
Employee receivables	453	485
Inventories (includes \$23 at October 1, 2016 and \$24 at October 3, 2015 related to VIEs)	1,892	1,956
Prepaid expenses and other current assets (includes \$228 at October 1, 2016 and \$216 at October 3, 2015 related to VIEs)	2,662	2,365
Total current assets	15,996	17,762
FIXED ASSETS - Net (includes \$22 at October 1, 2016 and \$40 at October 3, 2015 related to VIEs)	29,546	27,804
INTANGIBLE ASSETS - Net	526	499
GOODWILL	7,895	6,813
TRADEMARKS	1,611	1,221
DEFERRED INCOME TAXES	3,416	4,453
INVESTMENT IN AND RECEIVABLE FROM NEW MEADOWLANDS RACETRACK	6,701	6,453
OTHER ASSETS (includes \$71 at October 1, 2016 and October 3, 2015 related to VIEs)	2,564	1,562
TOTAL ASSETS	\$68,255	\$66,567
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade (includes \$114 at October 1, 2016 and \$81 at October 3, 2015 related to VIEs)	\$2,876	\$3,207
Accrued expenses and other current liabilities (includes \$238 at October 1, 2016 and \$131 at October 3, 2015 related to VIEs)	10,555	10,332
Accrued income taxes	606	2,477
Current portion of notes payable	2,617	1,617
Total current liabilities	16,654	17,633
OPERATING LEASE DEFERRED CREDIT (includes \$73 at October 1, 2016 and \$81 at October 3, 2015 related to VIEs)	3,576	3,796
NOTES PAYABLE, LESS CURRENT PORTION, net of deferred financing costs	5,321	3,907
TOTAL LIABILITIES	25,551	25,336
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Common stock, par value \$.01 per share - authorized, 10,000 shares; issued, 3,423 and 4,774 shares at October 1, 2016 and October 3, 2015; outstanding, 3,423 and 3,418 shares at October	34	48

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1, 2016 and October 3, 2015

Additional paid-in capital	12,942	25,682
Retained earnings	27,158	26,548
	40,134	52,278
Less treasury stock, at cost, of 1,356 shares at October 3, 2015	-	(13,220)
Total Ark Restaurants Corp. shareholders' equity	40,134	39,058
NON-CONTROLLING INTERESTS	2,570	2,173
TOTAL EQUITY	42,704	41,231
TOTAL LIABILITIES AND EQUITY	\$68,255	\$66,567

See notes to consolidated financial statements.

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ARK RESTAURANTS CORP. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands, Except Per Share Amounts)

	Year Ended	
	October 1, 2016	October 3, 2015
REVENUES:		
Food and beverage sales	\$ 148,479	\$ 144,588
Other revenue	1,673	1,275
Total revenues	150,152	145,863
COSTS AND EXPENSES:		
Food and beverage cost of sales	39,545	39,435
Payroll expenses	50,718	46,903
Occupancy expenses	16,515	16,790
Other operating costs and expenses	19,719	18,494
General and administrative expenses	11,708	10,885
Depreciation and amortization	4,553	4,415
Total costs and expenses	142,758	136,922
OPERATING INCOME	7,394	8,941
OTHER (INCOME) EXPENSE:		
Interest expense	416	238
Interest income	(180)	(47)
Other (income) expense, net	(430)	(238)
Total other (income) expense, net	(194)	(47)
INCOME BEFORE PROVISION FOR INCOME TAXES	7,588	8,988
Provision for income taxes	2,098	2,596
CONSOLIDATED NET INCOME	5,490	6,392
Net income attributable to non-controlling interests	(1,460)	(1,002)
NET INCOME ATTRIBUTABLE TO ARK RESTAURANTS CORP.	\$4,030	\$5,390
NET INCOME PER ARK RESTAURANTS CORP. COMMON SHARE:		
Basic	\$1.18	\$1.59
Diluted	\$1.15	\$1.54
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	3,418	3,393
Diluted	3,507	3,509

See notes to consolidated financial statements.

ARK RESTAURANTS CORP. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****YEARS ENDED OCTOBER 1, 2016 AND OCTOBER 3, 2015**

(In Thousands, Except Per Share Amounts)

	Common Stock		Additional	Retained		Total Ark	Non-	Total
	Shares	Amount	Paid-In	Earnings	Treasury	Restaurants	controlling	Equity
			Capital		Stock	Corp.	Interests	Shareholders' Equity
BALANCE - September 27, 2014	4,733	\$ 47	\$ 25,167	\$ 24,554	\$(13,220)	\$ 36,548	\$ 2,344	\$ 38,892
Net income	-	-	-	5,390	-	5,390	1,002	6,392
Exercise of stock options	41	1	524	-	-	525	-	525
Tax benefit on exercise of stock options	-	-	113	-	-	113	-	113
Stock-based compensation	-	-	426	-	-	426	-	426
Change in excess tax benefits from stock-based compensation	-	-	(548)	-	-	(548)	-	(548)
Distributions to non-controlling interests	-	-	-	-	-	-	(1,173)	(1,173)
Accrued and paid dividends - \$1.00 per share	-	-	-	(3,396)	-	(3,396)	-	(3,396)
BALANCE - October 3, 2015	4,774	48	25,682	26,548	(13,220)	39,058	2,173	41,231
Net income	-	-	-	4,030	-	4,030	1,460	5,490
Exercise of stock options	5	-	83	-	-	83	-	83
Tax benefit on exercise of stock options	-	-	11	-	-	11	-	11
Stock-based compensation	-	-	286	-	-	286	-	286
Change in excess tax benefits from stock-based compensation	-	-	86	-	-	86	-	86
Retirement of treasury shares	(1,356)	(14)	(13,206)	-	13,220	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	(1,063)	(1,063)
Dividends paid - \$1.00 per share	-	-	-	(3,420)	-	(3,420)	-	(3,420)
BALANCE - October 1, 2016	3,423	\$ 34	\$ 12,942	\$ 27,158	\$-	\$ 40,134	\$ 2,570	\$ 42,704

See notes to consolidated financial statements.

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ARK RESTAURANTS CORP. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)

	Year Ended	
	October 1, 2016	October 3, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$5,490	\$6,392
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Loss on closure of restaurants	16	-
Deferred income taxes	1,134	213
Stock-based compensation	286	426
Depreciation and amortization	4,553	4,415
Amortization of deferred financing costs	43	-
Operating lease deferred credit	(220)	(423)
Excess tax benefits related to stock-based compensation	(11)	(113)
Changes in operating assets and liabilities:		
Accounts receivable	(529)	(205)
Inventories	131	(124)
Prepaid, refundable and accrued income taxes	(1,886)	1,428
Prepaid expenses and other current assets	(191)	(874)
Other assets	(865)	(445)
Accounts payable - trade	(331)	615
Accrued expenses and other current liabilities	(18)	(4)
Net cash provided by operating activities	7,602	11,301
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,160)	(3,204)
Loans and advances made to employees	(198)	(247)
Payments received on employee receivables	230	161
Payments received on note receivable	-	253
Purchase of member interest in Meadowlands Newmark LLC	-	(222)
Loan made to Meadowlands Newmark LLC	(200)	-
Purchase of Shuckers	(717)	-
Purchase of leasehold rights	-	(400)
Net cash used in investing activities	(3,045)	(3,659)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(2,533)	(1,794)
Payment of debt financing costs	(131)	-
Dividends paid	(3,420)	(4,240)
Proceeds from issuance of stock upon exercise of stock options	83	525
Excess tax benefits related to stock-based compensation	11	113
Distributions to non-controlling interests	(1,063)	(1,173)

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Net cash used in financing activities	(7,053)	(6,569)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,496)	1,073
CASH AND CASH EQUIVALENTS, Beginning of year	9,735	8,662
CASH AND CASH EQUIVALENTS, End of year	\$7,239	\$9,735

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$416	\$238
Income taxes	\$2,850	\$956
Non-cash financing activities:		
Note payable in connection with the purchase of Shuckers	\$5,000	\$-
Retirement of 1,356 treasury shares	\$13,220	\$-
Changes in excess tax benefits from stock-based compensation	\$86	\$(548)

See notes to consolidated financial statements.

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ARK RESTAURANTS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of October 1, 2016, Ark Restaurants Corp. and Subsidiaries (the “Company”) owned and operated 21 restaurants and bars, 19 fast food concepts and catering operations, exclusively in the United States, that have similar economic characteristics, nature of products and service, class of customers and distribution methods. The Company believes it meets the criteria for aggregating its operating segments into a single reporting segment in accordance with applicable accounting guidance.

The Company operates six restaurants in New York City, two in Washington, D.C., five in Las Vegas, Nevada, three in Atlantic City, New Jersey, one at the Foxwoods Resort Casino in Ledyard, Connecticut, one in Boston, Massachusetts and three in Florida. The Las Vegas operations include four restaurants within the New York-New York Hotel & Casino Resort and operation of the hotel’s room service, banquet facilities, employee dining room and six food court concepts and one restaurant within the Planet Hollywood Resort and Casino. In Atlantic City, New Jersey, the Company operates a restaurant and a bar in the Resorts Atlantic City Hotel and Casino and a restaurant and bar at the Tropicana Hotel and Casino. The operation at the Foxwoods Resort Casino consists of one fast food concept and a restaurant. In Boston, Massachusetts, the Company operates a restaurant in the Faneuil Hall Marketplace. The Florida operations include two Rustic Inn’s, one in Dania Beach, Florida and one in Jupiter, Florida, Shuckers in Jensen Beach, Florida and the operation of five fast food facilities in Tampa, Florida and seven fast food facilities in Hollywood, Florida, each at a Hard Rock Hotel and Casino.

Basis of Presentation — The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States of America (“GAAP”). The Company’s reporting currency is the United States dollar.

During the quarter ended July 2, 2016, the Company identified an immaterial error in previously issued financial statements related to an overstatement of a rent liability in the amount of \$261,000 (\$191,000 net of tax or \$0.06 per basic and \$0.05 per diluted share for the 13 and 39-weeks ended July 2, 2016). The Company reviewed this accounting error utilizing SEC Staff Accounting Bulletin No. 99, “Materiality” (“SAB 99”) and SEC Staff Accounting Bulletin No. 108, “Effects of Prior Year Misstatements on Current Year Financial Statements” (“SAB 108”) and determined the impact of the error to be immaterial to any prior period’s presentation. The accompanying consolidated financial statements as of October 1, 2016 reflect the correction of the aforementioned immaterial error.

Accounting Period — The Company’s fiscal year ends on the Saturday nearest September 30. The fiscal year ended October 1, 2016 included 52 weeks and the fiscal year ended October 3, 2015 included 53 weeks.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting estimates that require management's most difficult and subjective judgments include allowances for potential bad debts on receivables, the useful lives and recoverability of its assets, such as property and intangibles, fair values of financial instruments and share-based compensation, the realizable value of its tax assets and determining when investment impairments are other-than-temporary. Because of the uncertainty in such estimates, actual results may differ from these estimates.

Principles of Consolidation — The consolidated financial statements include the accounts of Ark Restaurants Corp. and all of its wholly-owned subsidiaries, partnerships and other entities in which it has a controlling interest. Also included in the consolidated financial statements are certain variable interest entities ("VIEs"). All significant intercompany balances and transactions have been eliminated in consolidation.

Non-Controlling Interests — Non-controlling interests represent capital contributions, income and loss attributable to the shareholders of less than wholly-owned and consolidated entities.

Seasonality — The Company has substantial fixed costs that do not decline proportionally with sales. The first and second fiscal quarters, which include the winter months, usually reflect lower customer traffic than in the third and fourth fiscal quarters. However, sales in the third and fourth fiscal quarters can be adversely affected by inclement weather due to the significant amount of outdoor seating at the Company's restaurants.

Fair Value of Financial Instruments — The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair values of notes receivable and payable are determined using current applicable rates for similar instruments as of the balance sheet date and approximate the carrying value of such debt.

Cash and Cash Equivalents — Cash and cash equivalents include cash on hand, deposits with banks and highly liquid investments generally with original maturities of three months or less. Outstanding checks in excess of account balances, typically vendor payments, payroll and other contractual obligations disbursed after the last day of a reporting period are reported as a current liability in the accompanying consolidated balance sheets.

Concentrations of Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company reduces credit risk by placing its cash and cash equivalents with major financial institutions with high credit ratings. At times, such amounts may exceed Federally insured limits. Accounts receivable are primarily comprised of normal business receivables such as credit card receivables that are paid off in a short period of time and amounts due from the hotel operators where the Company has a location, and are recorded when the products or services have been delivered. The Company reviews the collectability of its receivables on an ongoing basis, and provides for an allowance when it considers the entity unable to meet its obligation. The concentration of credit risk with respect to accounts receivable is generally limited due to the short payment terms extended by the Company and the number of customers comprising the Company's customer base.

For the years ended October 1, 2016 and October 3, 2015, the Company did not make purchases from any one vendor that accounted for 10% or greater of total purchases.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market, and consist of food and beverages, merchandise for sale and other supplies.

Fixed Assets — Fixed assets are stated at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Estimated lives range from

three to seven years for furniture, fixtures and equipment and up to 40 years for buildings and related improvements. Amortization of improvements to leased properties is computed using the straight-line method based upon the initial term of the applicable lease or the estimated useful life of the improvements, whichever is less, and ranges from 5 to 30 years. For leases with renewal periods at the Company's option, if failure to exercise a renewal option imposes an economic penalty to the Company, management may determine at the inception of the lease that renewal is reasonably assured and include the renewal option period in the determination of appropriate estimated useful lives. Routine expenditures for repairs and maintenance are charged to expense when incurred. Major replacements and improvements are capitalized. Upon retirement or disposition of fixed assets, the cost and related accumulated depreciation are removed from the Consolidated Balance Sheets and any resulting gain or loss is recognized in the Consolidated Statements of Income.

The Company includes in construction in progress improvements to restaurants that are under construction or are undergoing substantial improvements. Once the projects have been completed, the Company begins depreciating and amortizing the assets. Start-up costs incurred during the construction period of restaurants, including rental of premises, training and payroll, are expensed as incurred.

Intangible Assets — Intangible assets consist principally of purchased leasehold rights, operating rights and covenants not to compete. Costs associated with acquiring leases and subleases, principally purchased leasehold rights, and operating rights have been capitalized and are being amortized on the straight-line method based upon the initial terms of the applicable lease agreements. Covenants not to compete arising from restaurant acquisitions are amortized over the contractual period, typically five years.

Long-lived Assets — Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the evaluation of the fair value and future benefits of long-lived assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value. Various factors including estimated future sales growth and estimated profit margins are included in this analysis. No impairment charges were necessary for the years ended October 1, 2016 and October 3, 2015.

Goodwill and Trademarks — Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Trademarks are considered to have an indefinite life. Goodwill and trademarks are not amortized, but are subject to impairment analysis at least once annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. At October 1, 2016, the Company performed a qualitative assessment of factors to determine whether further impairment testing is required. Based on the results of the work performed, the Company has concluded that no impairment loss was warranted at October 1, 2016. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance and other relevant events, management expertise and stability at key positions. Additional impairment analyses at future dates may be performed to determine if indicators of impairment are present, and if so, such amount will be determined and the associated charge will be recorded to the Consolidated Statements of Income.

Investments — Each reporting period, the Company reviews its investments in equity and debt securities, except for those classified as trading, to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on the fair value of such investment. When such events or changes occur, the Company evaluates the fair value compared to cost basis in the investment. For investments in non-publicly traded companies, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds, and appraisals, as appropriate. The Company considers the assumptions that it believes hypothetical marketplace participants would use in evaluating estimated future cash flows when employing the discounted cash flow or estimates of sales proceeds valuation methodologies.

In the event the fair value of an investment declines below the Company's cost basis, management is required to determine if the decline in fair value is other than temporary. If management determines the decline is other than temporary, an impairment charge is recorded. Management's assessment as to the nature of a decline in fair value is based on, among other things, the length of time and the extent to which the market value has been less than the cost basis; the financial condition and near-term prospects of the issuer; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Leases — The Company recognizes rent expense on a straight-line basis over the expected lease term, including option periods as described below. Within the provisions of certain leases there are escalations in payments over the base lease term, as well as renewal periods. The effects of the escalations have been reflected in rent expense on a straight-line basis over the expected lease term, which includes option periods when it is deemed to be reasonably assured that the Company would incur an economic penalty for not exercising the option. Tenant allowances are included in the straight-line calculations and are being deferred over the lease term and reflected as a reduction in rent expense. Percentage rent expense is generally based upon sales levels and is expensed as incurred. Certain leases

include both base rent and percentage rent. The Company records rent expense on these leases based upon reasonably assured sales levels. The consolidated financial statements reflect the same lease terms for amortizing leasehold improvements as were used in calculating straight-line rent expense for each restaurant. The judgments of the Company may produce materially different amounts of amortization and rent expense than would be reported if different lease terms were used.

Revenue Recognition — Company-owned restaurant sales are comprised almost entirely of food and beverage sales. The Company records revenue at the time of the purchase of products by customers. Included in Other Revenues are purchase service fees which represent commissions earned by a subsidiary of the Company for providing purchasing services to other restaurant groups.

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The Company offers customers the opportunity to purchase gift certificates. At the time of purchase by the customer, the Company records a gift certificate liability for the face value of the certificate purchased. The Company recognizes the revenue and reduces the gift certificate liability when the certificate is redeemed. The Company does not reduce its recorded liability for potential non-use of purchased gift cards. As of October 1, 2016, the total liability for gift cards in the amount of \$161,487 is included in Accrued Expenses and Other Current Liabilities in the Consolidated Balance Sheet.

Additionally, the Company presents sales tax on a net basis in its consolidated financial statements.

Occupancy Expenses — Occupancy expenses include rent, rent taxes, real estate taxes, insurance and utility costs.

Defined Contribution Plan — The Company offers a defined contribution savings plan (the “Plan”) to all of its full-time employees. Eligible employees may contribute pre-tax amounts to the Plan subject to the Internal Revenue Code limitations. Company contributions to the Plan are at the discretion of the Board of Directors. During the years ended October 1, 2016 and October 3, 2015, the Company did not make any contributions to the Plan.

Income Taxes — Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has recorded a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. It is the Company’s policy to recognize interest and penalties related to uncertain tax positions as a component of income tax expense. Uncertain tax positions are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

Non-controlling interests relating to the income or loss of consolidated partnerships includes no provision for income taxes as any tax liability related thereto is the responsibility of the individual minority investors.

Income Per Share of Common Stock — Basic net income per share is calculated on the basis of the weighted average number of common shares outstanding during each period. Diluted net income per share reflects the additional dilutive effect of potentially dilutive shares (principally those arising from the assumed exercise of stock options).

Stock-based Compensation — The Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes it as expense over the applicable vesting period using the straight-line method. Upon exercise of options, excess income tax benefits related to share-based compensation expense that must be recognized directly in equity are considered financing rather than operating cash flow activities. The Company did not grant any options during the fiscal years 2016 and 2015. The Company generally issues new shares upon the exercise of employee stock options.

The fair value of each of the Company's stock options is estimated on the date of grant using a Black-Scholes option-pricing model that uses assumptions that relate to the expected volatility of the Company's common stock, the expected dividend yield of the Company's stock, the expected life of the options and the risk free interest rate.

Recently Adopted Accounting Standards — In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which changes the presentation of debt issuance costs in a reporting entity's financial statements. Under this new guidance, debt issuance costs will be presented as a direct deduction from the related debt liability instead of an asset. This accounting change is consistent with the current presentation under GAAP for debt discounts and it also converges the guidance under GAAP with that in the International Financial Reporting Standards. Debt issuance costs will reduce the proceeds from debt borrowings in the statement of cash flows

instead of being presented as a separate caption in the financing section of that statement. Amortization of debt issuance costs will continue to be reported as interest expense in the statements of income. This accounting update does not affect the current accounting guidance for the recognition and measurement of debt issuance costs. This update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for all entities for financial statements that have not been previously issued. This guidance has been adopted by the Company as of October 4, 2015 and did not have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The new guidance simplifies the accounting for adjustments made to provisional amounts recognized in a business combination and eliminates the requirement to retrospectively account for those adjustments. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The new guidance has been adopted by the Company as of October 4, 2015 and did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. The new guidance has been adopted on a prospective basis by the Company for the fiscal year ended October 3, 2015.

New Accounting Standards Not Yet Adopted — In May 2014, the FASB issued updated accounting guidance that provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The pronouncement is effective for annual and interim reporting periods beginning after December 15, 2017. Early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact of the adoption of this guidance on its financial condition, results of operations or cash flows as well as the expected adoption method.

In June 2014, the FASB issued guidance which clarifies the recognition of stock-based compensation over the required service period, if it is probable that the performance condition will be achieved. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and should be applied prospectively. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial condition or results of operations.

In August 2014, the FASB issued guidance that requires management to evaluate, at each annual and interim reporting period, the company's ability to continue as a going concern within one year of the date the financial statements are issued and provide related disclosures. This accounting guidance is effective for the Company on a prospective basis beginning in the first quarter of fiscal 2017 and is not expected to have a material effect on the consolidated financial statements.

In January 2015, the FASB issued guidance simplifying the income statement presentation by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The amendments are effective for annual reporting periods, including interim periods within those reporting periods, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the annual reporting period. The Company does not believe this guidance will have a material impact on its consolidated financial statements.

In February 2015, the FASB amended the consolidation standards for reporting entities that are required to evaluate whether they should consolidate certain legal entities. Under the new guidance, all legal entities are subject to reevaluation under the revised consolidation model. Specifically, the guidance (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting

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interest entities; (ii) eliminates the presumption that a general partner should consolidate a limited partnership; (iii) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (iv) provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act for registered money market funds. The amendments are effective for annual reporting periods, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, rather than the lower of cost or market in the previous guidance. This amendment applies to inventory that is measured using first-in, first-out (FIFO). This amendment is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those years. A reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on its financial position or results of operations.

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance will require equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The amendments in this update will also simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet and require these entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. This guidance also changes the presentation and disclosure requirements for financial instruments as well as clarifying the guidance related to valuation allowance assessments when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The amendments in this guidance are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for financial statements of fiscal years and interim periods that have not been issued. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. This ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers – Principal versus Agent Considerations*. This ASU is intended to clarify revenue recognition accounting when a third party is involved in

providing goods or services to a customer. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation – Improvements to Employee Share-Based Payment Accounting*. This ASU is intended to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, including interim periods within those annual periods, and early application is permitted as of the beginning of an interim or annual

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reporting period. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing*. This ASU is intended to clarify identifying performance obligations and licensing implementation guidance. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, and early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The guidance is to be applied using a retrospective transition method to each period presented and is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company is currently assessing the impact this ASU will have on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other than Inventory*. The amendments in this ASU remove the prohibition against the recognition of current and deferred income tax effects of intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation: Interests Held through Related Parties That Are Under Common Control*. The amendments in this ASU change how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash and require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This ASU is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

2. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

The Company consolidates any variable interest entities in which it holds a variable interest and is the primary beneficiary. Generally, a variable interest entity, or VIE, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) as a group the holders of the equity investment at risk lack (i) the ability to make decisions about an entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. The primary beneficiary of a VIE is generally the entity that has (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

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The Company has determined that it is the primary beneficiary of three VIEs and, accordingly, consolidates the financial results of these entities. Following are the required disclosures associated with the Company's consolidated VIEs:

	October 1, 2016 (in thousands)	October 3, 2015
Cash and cash equivalents	\$ 889	\$ 604
Accounts receivable	429	303
Inventories	23	24
Prepaid expenses and other current assets	228	216
Due from Ark Restaurants Corp. and affiliates (1)	-	103
Fixed assets - net	22	40
Other assets	71	71
Total assets	\$ 1,662	\$ 1,361
Accounts payable - trade	\$ 114	\$ 81
Accrued expenses and other current liabilities	238	131
Due to Ark Restaurants Corp. and affiliates (1)	173	-
Operating lease deferred credit	73	81
Total liabilities	598	293
Equity of variable interest entities	1,064	1,068
Total liabilities and equity	\$ 1,662	\$ 1,361

(1) Amounts due from Ark Restaurants Corp. and affiliates are eliminated upon consolidation.

The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against the Company's general assets.

3. RECENT RESTAURANT EXPANSION

On October 22, 2015, the Company, through its wholly-owned subsidiaries, Ark Shuckers, LLC and Ark Shuckers Real Estate, LLC, acquired the assets of Shuckers Inc. ("Shuckers"), a restaurant and bar located at the Island Beach Resort in Jensen Beach, FL, and six condominium units (four of which house the restaurant and bar operations). In addition, Ark Island Beach Resort LLC, a wholly-owned subsidiary of the Company, acquired Island Beach Resort Inc., a management company that administers a rental pool of certain condominium units under lease. The total purchase price was \$5,717,000. The acquisition is accounted for as a business combination and was financed with a bank loan in the amount of \$5,000,000 and cash from operations. The fair values of the assets acquired were allocated as follows:

Inventory	\$67,000
Commercial condominium units	3,584,800
Residential condominium units	263,000
Furniture, fixtures and equipment	240,000
Trademarks	390,000
Customer list	90,000
Goodwill	1,082,200
	\$5,717,000

The above purchase price allocation resulted in an increase (decrease) related to the trademarks, customer list and goodwill of \$240,000, \$(110,000) and \$(130,000), respectively, from the preliminary allocation. The resulting changes to customer list amortization were not material to any period presented.

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The Consolidated Statement of Income for the year ended October 1, 2016 includes revenues and operating income of approximately \$4,763,000 and \$523,000, respectively, related to Shuckers. Transaction costs incurred in the amount of approximately \$170,000 are included in general and administrative expenses in the Consolidated Statement of Income for the year ended October 1, 2016. The Company expects the Goodwill and indefinite life Trademarks to be deductible for tax purposes.

The unaudited pro forma financial information set forth below is based upon the Company's historical Consolidated Statements of Income for the years ended October 1, 2016 and October 3, 2015 and includes the results of operations for Shuckers for the period prior to acquisition. The unaudited pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the acquisition of Shuckers occurred on the dates indicated, nor does it purport to represent the results of operations for future periods.

	Year Ended October 1, October 3, 2016 2015	
Total revenues	\$150,394	\$150,995
Net income	\$4,051	\$6,330
Net income per share - basic	\$1.19	\$1.87
Net income per share - diluted	\$1.16	\$1.80

On March 27, 2015, the Company, through a wholly-owned subsidiary, entered into an agreement to operate a kiosk in Bryant Park, New York, NY for the sale of food and beverages for an initial period expiring through March 31, 2020 with an option to extend the agreement for five additional years. Renovations totaled approximately \$400,000 and the property opened in July 2015.

On July 24, 2015, the Company, through a wholly-owned subsidiary, paid \$544,000 (including a \$144,000 security deposit) to assume the lease for an event space located in New York, NY. The assumed lease expires through March 31, 2026 with an option to extend the agreement for five additional years and provides for annual rent in the amount of approximately \$300,000.

4. RECENT RESTAURANT DISPOSITIONS

Lease Expirations – On October 31, 2014, the Company's lease at the Towers Deli located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2014, the Company's lease at the Shake & Burger located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

On November 30, 2015, the Company's lease at the V-Bar located at the Venetian Casino Resort in Las Vegas, NV expired. The closure of this property did not result in a material charge.

The Company was advised by the landlord that it would have to vacate the Center Café property located at Union Station in Washington, DC which was on a month-to-month lease. The closure of this property occurred in February 2016 and did not result in a material charge.

5. **INVESTMENT IN AND RECEIVABLE FROM NEW MEADOWLANDS
RACETRACK**

On March 12, 2013, the Company made a \$4,200,000 investment in the New Meadowlands Racetrack LLC ("NMR") through its purchase of a membership interest in Meadowlands Newmark, LLC, an existing member of NMR. On November 19, 2013, the Company invested an additional \$464,000 in NMR through a purchase of an additional membership interest in Meadowlands Newmark, LLC resulting in a total ownership of 11.6% of

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Meadowlands Newmark, LLC and an ownership interest of 7.4% of NMR. In 2015, the Company invested an additional \$222,000, as a result of capital calls, bringing its total investment to \$4,886,000 with no change in ownership. This investment has been accounted for based on the cost method and is included in Other Assets in the accompanying Consolidated Balance Sheets at October 1, 2016 and October 3, 2015.

In addition to the Company's ownership interest in NMR through Meadowlands Newmark, LLC, if casino gaming is approved at the Meadowlands and NMR is granted the right to conduct said gaming, neither of which can be assured, the Company shall be granted the exclusive right to operate the food and beverage concessions in the gaming facility with the exception of one restaurant.

In conjunction with this investment, the Company, through a 97% owned subsidiary, Ark Meadowlands LLC ("AM VIE"), also entered into a long-term agreement with NMR for the exclusive right to operate food and beverage concessions serving the new raceway facilities (the "Racing F&B Concessions") located in the new raceway grandstand constructed at the Meadowlands Racetrack in northern New Jersey. Under the agreement, NMR is responsible to pay for the costs and expenses incurred in the operation of the Racing F&B Concessions, and all revenues and profits thereof inure to the benefit of NMR. AM VIE receives an annual fee equal to 5% of the net profits received by NMR from the Racing F&B Concessions during each calendar year. At October 1, 2016, it was determined that AM VIE is a variable interest entity. However, based on qualitative consideration of the contracts with AM VIE, the operating structure of AM VIE, the Company's role with AM VIE, and that the Company is not obligated to absorb any expected losses of AM VIE, the Company has concluded that it is not the primary beneficiary and not required to consolidate the operations of AM VIE.

The Company's maximum exposure to loss as a result of its involvement with AM VIE is limited to a receivable from AM VIE's primary beneficiary (NMR, a related party) which aggregated approximately \$164,000 and \$272,000 at October 1, 2016 and October 3, 2015, respectively, and are included in Prepaid Expenses and Other Current Assets in the Consolidated Balance Sheets.

On April 25, 2014, the Company loaned \$1,500,000 to Meadowlands Newmark, LLC. The note bears interest at 3%, compounded monthly and added to the principal, and is due in its entirety on January 31, 2024. The note may be prepaid, in whole or in part, at any time without penalty or premium. On July 13, 2016, the Company made an additional loan to Meadowlands Newmark, LLC in the amount of \$200,000. Such amount is subject to the same terms and conditions as the original loan as discussed above. The principal and accrued interest related to this note in the amounts of \$1,814,659 and \$1,566,997, are included in Investment In and Receivable From New Meadowlands Racetrack in the Consolidated Balance Sheets at October 1, 2016 and October 3, 2015, respectively.

In accordance with the cost method, our initial investment is recorded at cost and we record dividend income when applicable, if dividends are declared. We review our Investment in NMR each reporting period to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on its fair value, such as the defeat of the referendum for casino gaming in Northern New Jersey in November 2016 as discussed in Note 16.

As a result, we performed an assessment of the recoverability of our indirect Investment in NMR as of October 1, 2016 which included estimates requiring significant management judgment, include inherent uncertainties and are often interdependent; therefore, they do not change in isolation. Factors that management estimated include, among others, the probability of gambling being approved in Northern NJ which is the most heavily weighted assumption and NMR obtaining a license to operate a casino, revenue levels, cost of capital, marketing spending, tax rates and capital spending.

In performing this assessment, we estimated the fair value of our Investment in NMR using our best estimate of these assumptions which we believe would be consistent with what a hypothetical marketplace participant would use. The variability of these factors depends on a number of conditions, including uncertainty about future events and our inability as a minority shareholder to control certain outcomes and thus our accounting estimates may change from period to period. If other assumptions and estimates had been used when these tests were performed, impairment charges could have resulted. As a result of the above, no impairment was deemed necessary as of October 1, 2016.

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6. FIXED ASSETS

Fixed assets consist of the following:

	October 1, 2016	October 3, 2015
	(In thousands)	
Land and building	\$9,002	\$4,800
Leasehold improvements	43,402	43,960
Furniture, fixtures and equipment	36,062	35,806
Construction in progress	482	27
	88,948	84,593
Less: accumulated depreciation and amortization	59,402	56,789
	\$29,546	\$27,804

Depreciation and amortization expense related to fixed assets for the years ended October 1, 2016 and October 3, 2015 was \$4,490,000 and \$4,399,000, respectively.

Management continually evaluates unfavorable cash flows, if any, related to underperforming restaurants. Periodically it is concluded that certain properties have become impaired based on their existing and anticipated future economic outlook in their respective markets. In such instances, we may impair assets to reduce their carrying values to fair values. Estimated fair values of impaired properties are based on comparable valuations, cash flows and/or management judgment. No impairment charges were necessary for the years ended October 1, 2016 and October 3, 2015.

7. INTANGIBLE ASSETS, GOODWILL AND TRADEMARKS

Intangible assets consist of the following:

	October 1, 2016	October 3, 2015
	(In thousands)	
Purchased leasehold rights (a)	\$2,737	\$2,737
Noncompete agreements and other	303	213
	3,040	2,950

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Less accumulated amortization	2,514	2,451
Total intangible assets	\$ 526	\$ 499

(a) Purchased leasehold rights arose from acquiring leases and subleases of various restaurants.

Amortization expense related to intangible assets for the years ended October 1, 2016 and October 3, 2015 was \$63,000 and \$16,000, respectively. Amortization expense for each of the next five years will be \$63,000.

Goodwill is the excess of cost over fair market value of tangible and intangible net assets acquired. Goodwill is not presently amortized but tested for impairment annually or when the facts or circumstances indicate a possible impairment of goodwill as a result of a continual decline in performance or as a result of fundamental changes in a market. Trademarks, which have indefinite lives, are not currently amortized and are tested for impairment annually or when facts or circumstances indicate a possible impairment as a result of a continual decline in performance or as a result of fundamental changes in a market.

The changes in the carrying amount of goodwill and trademarks for the years ended October 1, 2016 and October 3, 2015 are as follows:

	Goodwill	Trademarks
	(In thousands)	
Balance as of September 27, 2014	\$4,813	\$ 721
Acquired during the year	2,000	500
Impairment losses	-	-
Balance as of October 3, 2015	6,813	1,221
Acquired during the year	1,082	390
Impairment losses	-	-
Balance as of October 1, 2016	\$7,895	\$ 1,611

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	October 1, 2016 (In thousands)	October 3, 2015
Sales tax payable	\$942	\$992
Accrued wages and payroll related costs	2,495	1,832
Customer advance deposits	4,077	3,967
Accrued occupancy and other operating expenses	3,041	3,541
	\$10,555	\$10,332

Two subsidiaries of the Company (“the Ark Subsidiaries”), which operate food courts on Federally protected Indian land, had been involved in litigation with the state in which they operate, whereby the state attempted to collect commercial rent tax from the Ark Subsidiaries. The Company had continued to accrue such taxes as the litigation worked its way through the courts. During July 2016, the state agreed to the entry of consent judgments in favor of the Ark Subsidiaries holding that the state is constitutionally prohibited from taxing rentals of Indian land. In connection with this agreement, the Company reversed the accrual of these liabilities in the amount of \$945,000 during the three months ended July 2, 2016. In addition, the Company received a refund of previously paid amounts in the amount of \$157,000 in August 2016 related to the above matter. Such amounts are included in the Consolidated Statement of Income for the year ended October 1, 2016 as a reduction of Occupancy Expenses.

9. NOTES PAYABLE – BANK

On February 25, 2013, the Company issued a promissory note to Bank Hapoalim B.M. (the “BHBM”) for \$3,000,000. The note bore interest at LIBOR plus 3.5% per annum, and was payable in 36 equal monthly installments of \$83,333, commencing on March 25, 2013. On February 24, 2014, in connection with the acquisition of *The Rustic Inn*, the Company borrowed an additional \$6,000,000 from BHBM under the same terms and conditions as the original loan which was consolidated with the remaining principal balance from the original borrowing at that date. The new loan is payable in 60 equal monthly installments of \$134,722, which commenced on March 25, 2014, and matures February 24, 2019. As of October 1, 2016, the outstanding balance of this note payable was approximately \$3,907,000.

On October 22, 2015, in connection with the acquisition of Shuckers, the Company issued a promissory note to BHBM for \$5,000,000. The note bears interest at LIBOR plus 3.5% per annum, and is payable in 60 equal monthly installments of \$83,333, commencing on November 22, 2015, and matures October 21, 2020. As of October 1, 2016, the outstanding balance of this note payable was approximately \$4,084,000.

On October 22, 2015, in connection with the Shuckers transaction, the Company also entered into a credit agreement (the “Revolving Facility”) with BHBM which expires on October 21, 2017 and provides for total availability of the lesser of (i) \$10,000,000 and (ii) \$20,000,000 less the then aggregate amount of all indebtedness and obligations to BHBM. Borrowings under the Revolving Facility will be evidenced by a promissory note (the “Revolving Note”) in favor of BHBM and will be payable over five years with interest at an annual rate equal to LIBOR plus 3.5% per year. As of October 1, 2016, no additional amounts were outstanding under the Revolving Facility.

Deferred financing costs incurred in connection with the Shuckers transaction in the amount of \$130,585 are being amortized over the life of the agreements on a straight line basis. Amortization expense of \$43,075 for the year ended October 1, 2016 is included in interest expense.

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Borrowings under the Revolving Facility and both of the above promissory notes, are secured by all tangible and intangible personal property (including accounts receivable, inventory, equipment, general intangibles, documents, chattel paper, instruments, letter-of-credit rights, investment property, intellectual property and deposit accounts) and fixtures of the Company.

The loan agreements provide, among other things, that the Company meet minimum quarterly tangible net worth amounts, as defined, maintain a fixed charge coverage ratio of not less than 1.1:1 and minimum annual net income amounts, and contain customary representations, warranties and affirmative covenants. The agreements also contain customary negative covenants, subject to negotiated exceptions, on liens, relating to other indebtedness, capital expenditures, liens, affiliate transactions, disposal of assets and certain changes in ownership. The Company was in compliance with all debt covenants as of October 1, 2016.

Long-term debt consists of the following:

	October 1, 2016 (In thousands)	October 3, 2015
Promissory Note - Rustic Inn purchase	\$3,907	\$5,524
Promissory Note - Shuckers purchase	4,084	-
	7,991	5,524
Less: Current maturities	(2,617)	(1,617)
Less: Unamortized deferred financing costs	(53)	-
Long-term debt	\$5,321	\$3,907

As of October 1, 2016, the aggregate amounts of notes payable maturities are as follows:

2017	\$2,617
2018	2,617
2019	1,674
2020	1,000
2021	83
	\$7,991

Leases — The Company leases its restaurants, bar facilities, and administrative headquarters through its subsidiaries under terms expiring at various dates through 2033. Most of the leases provide for the payment of base rents plus real estate taxes, insurance and other expenses and, in certain instances, for the payment of a percentage of the restaurants' sales in excess of stipulated amounts at such facility and in one instance based on profits.

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As of October 1, 2016, future minimum lease payments under noncancelable leases are as follows:

Fiscal Year	Amount (In thousands)
2017	\$ 10,056
2018	9,694
2019	8,881
2020	8,003
2021	7,042
Thereafter	41,492
Total minimum payments	\$ 85,168

In connection with certain of the leases included in the table above, the Company obtained and delivered irrevocable letters of credit in the aggregate amount of approximately \$388,000 as security deposits under such leases.

Rent expense was approximately \$13,791,000 and \$13,055,000 for the fiscal years ended October 1, 2016 and October 3, 2015, respectively. Contingent rentals, included in rent expense, were approximately \$4,382,000 and \$4,211,000 for the fiscal years ended October 1, 2016 and October 3, 2015, respectively.

Legal Proceedings — In the ordinary course its business, the Company is a party to various lawsuits arising from accidents at its restaurants and worker's compensation claims, which are generally handled by the Company's insurance carriers. The employment by the Company of management personnel, waiters, waitresses and kitchen staff at a number of different restaurants has resulted in the institution, from time to time, of litigation alleging violation by the Company of employment discrimination laws. Management believes, based in part on the advice of counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Share Repurchase Plan — On July 5, 2016, the Board of Directors authorized a share repurchase program authorizing management to purchase up to 500,000 shares of the Company's common stock during the next twelve months. Any repurchase under the program will be effected in compliance with Rule 10b-18 under the Securities Exchange Act of 1934 "Purchases of Certain Equity Securities by the Issuer and Others", funded using the Company's working capital and be based on management's evaluation of market conditions and other factors. No repurchases were made for the year ended October 1, 2016.

The Company has options outstanding under two stock option plans, the 2004 Stock Option Plan (the “2004 Plan”) and the 2010 Stock Option Plan (the “2010 Plan”), which was approved by shareholders in the second quarter of 2010. Effective with this approval, the Company terminated the 2004 Plan. This action terminated the 400 authorized but unissued options under the 2004 Plan, but it did not affect any of the options previously issued under the 2004 Plan. Options granted under the 2004 Plan are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire ten years after the date of grant. Options granted under the 2010 Plan are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted. The options expire ten years after the date of grant.

During the year ended October 3, 2015, options to purchase 136,500 shares of common stock at an exercise price of \$29.60 per share expired unexercised and options to purchase 3,000 shares of common stock at an exercise price of \$22.50 were cancelled.

On April 5, 2016, the shareholders of the Company approved the 2016 Stock Option Plan and the Section 162(m) Cash Bonus Plan. Under the 2016 Stock Option Plan, 500,000 options were authorized for future grant and are exercisable at prices at least equal to the fair market value of such stock on the dates the options were granted.

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The options expire ten years after the date of grant. Under the Section 162(m) Cash Bonus Plan, compensation paid in excess of \$1,000,000 to any employee who is the chief executive officer, or one of the three highest paid executive officers on the last day of that tax year (other than the chief executive officer or the chief financial officer) will meet certain “performance-based” requirements of Section 162(m) and the related IRS regulations in order for it to be tax deductible.

No options were granted during the year ended October 1, 2016. The following table summarizes stock option activity under all plans:

	2016			2015		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, beginning of year	523,800	\$ 20.29		704,161	\$ 21.66	
Options:						
Granted	-			-		
Exercised	(5,192)	\$ 16.26		(40,861)	\$ 12.84	
Canceled or expired	-			(139,500)	\$ 29.36	
Outstanding and expected to vest, end of year	518,608	\$ 20.33	\$ 1,979,232	523,800	\$ 20.29	\$ 2,242,140
Exercisable, end of year	518,608	\$ 20.33	\$ 1,979,232	422,300	\$ 19.76	\$ 2,191,390
Weighted average remaining contractual life	5.1 Years			5.5 Years		
Shares available for future grant	500,000			43,000		

Compensation cost charged to operations for the fiscal years ended October 1, 2016 and October 3, 2015 for share-based compensation programs was approximately \$286,000 and \$426,000, respectively. The compensation cost recognized is classified as a general and administrative expense in the Consolidated Statements of Income. As of October 1, 2016, there was no unrecognized compensation cost related to unvested stock options.

The following table summarizes information about stock options outstanding as of October 1, 2016:

Options Outstanding and Exercisable			
Range of Exercise Prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining contractual life (in years)

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\$12.04	66,000	\$ 12.04	2.6
\$14.40	160,800	\$ 14.40	5.7
\$22.50	201,808	\$ 22.50	7.7
\$32.15	90,000	\$ 32.15	0.2
	518,608	\$ 20.33	5.1

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12.

INCOME TAXES

The provision for income taxes attributable to continuing operations consists of the following:

	Year Ended	
	October 1, 2016	October 3, 2015
	(In thousands)	
Current provision:		
Federal	\$778	\$1,684
State and local	192	699
	970	2,383
Deferred provision (benefit):		
Federal	915	342
State and local	213	(129)
	1,128	213
	\$2,098	\$2,596

The effective tax rate differs from the U.S. income tax rate as follows:

	Year Ended	
	October 1, 2016	October 3, 2015
	(In thousands)	
Provision at Federal statutory rate (34% in 2016 and 2015)	\$2,580	\$3,056
State and local income taxes, net of tax benefits	326	346
Tax credits	(611)	(583)
Income attributable to non-controlling interest	(501)	(341)
Changes in tax rates	9	67
Other	295	51
	\$2,098	\$2,596

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Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	October 1, 2016 (In thousands)	October 3, 2015
Long-term deferred tax assets (liabilities):		
State net operating loss carryforwards	\$3,179	\$3,069
Operating lease deferred credits	772	793
Depreciation and amortization	(256)	259
Deferred compensation	986	794
Partnership investments	(709)	(220)
Prepaid expenses	(444)	(201)
Other	230	182
 Total long-term deferred tax assets	 3,758	 4,676
Valuation allowance	(342)	(223)
 Total net deferred tax assets	 \$3,416	 \$4,453

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. In the assessment of the valuation allowance, appropriate consideration was given to all positive and negative evidence including recent operating profitability, forecasts of future earnings and the duration of statutory carryforward periods. The Company recorded a valuation allowance of \$342,000 and \$223,000 as of October 1, 2016 and October 3, 2015, respectively, attributable to state and local net operating loss carryforwards which are not realizable on a more-likely-than-not basis. During fiscal 2016, the Company's valuation allowance increased by approximately \$119,000 as the Company determined that certain state net operating losses became unrealizable on a more-likely-than-not basis.

As of October 1, 2016, the Company has New York State net operating losses of approximately \$19,961,000 and New York City net operating loss carryforwards of approximately \$18,328,000 that expire through fiscal 2036.

During fiscal 2015, certain equity compensation awards expired unexercised. As such, the Company reversed the related deferred tax asset in the amount of approximately \$548,000 as a charge to Additional Paid-in Capital as there was a sufficient pool of windfall tax benefit available. During fiscal 2016, the Company recorded a credit to Additional Paid-in Capital of \$86,000 related to equity compensation.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits excluding interest and penalties is as follows:

	October 1, 2016 (In thousands)	October 3, 2015
Balance at beginning of year	\$307	\$ 162
Additions based on tax positions taken in current and prior years	105	145
Settlements	(46)	-
Balance at end of year	\$366	\$ 307

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The entire amount of unrecognized tax benefits if recognized would reduce our annual effective tax rate. As of October 1, 2016, the Company accrued approximately \$284,000 of interest and penalties. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax law, both legislated and concluded through the various jurisdictions' tax court systems.

The Company files tax returns in the U.S. and various state and local jurisdictions with varying statutes of limitations. The 2013 through 2016 fiscal years remain subject to examination by the Internal Revenue Service most state and local tax authorities.

13. OTHER INCOME

Other income (expense) consists of the following:

	Year Ended	
	October 1, 2016	October 3, 2015
	(In thousands)	
Licensing fees	\$ 166	\$ 185
Management fees	203	-
Other rentals	3	16
Loss on disposal of assets	(16)	-
Other	74	37
	\$430	\$ 238

14. INCOME PER SHARE OF COMMON STOCK

A reconciliation of the numerators and denominators of the basic and diluted per share computations for the fiscal years ended October 1, 2016 and October 3, 2015 follows:

Net Income Attributable to Ark Restaurants	Shares (Denominator)	Per Share Amount
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Corp.
(Numerator)
(In thousands, except per share
amounts)

Year ended October 1, 2016

Basic EPS	\$4,030	3,418	\$ 1.18
Stock options	-	89	(0.03)
Diluted EPS	\$4,030	\$ 3,507	\$ 1.15

Year ended October 3, 2015

Basic EPS	\$5,390	3,393	\$ 1.59
Stock options	-	116	(0.05)
Diluted EPS	\$5,390	3,509	\$ 1.54

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For the year ended October 1, 2016, options to purchase 66,000 shares of common stock at a price of \$12.04, options to purchase 160,800 shares of common stock at a price of \$14.40 and options to purchase 201,808 shares of common stock at a price of \$22.50 per were included in diluted earnings per share. Options to purchase 90,000 shares of common stock at a price of \$32.15 per share were not included in diluted earnings per share as their impact would be anti-dilutive.

For the year ended October 3, 2015, options to purchase 66,000 shares of common stock at a price of \$12.04, options to purchase 164,800 shares of common stock at a price of \$14.40 and options to purchase 203,000 shares of common stock at a price of \$22.50 per were included in diluted earnings per share. Options to purchase 90,000 shares of common stock at a price of \$32.15 per share were not included in diluted earnings per share as their impact would be anti-dilutive.

15. RELATED PARTY TRANSACTIONS

Employee receivables totaled approximately \$453,000 and \$485,000 at October 1, 2016 and October 3, 2015, respectively. Such amounts consist of loans that are payable on demand and bear interest at the minimum statutory rate (0.66% at October 1, 2016 and 0.54% at October 3, 2015).

16. SUBSEQUENT EVENTS

On November 18, 2016, Ark Jupiter RI, LLC (“Ark Jupiter”), a wholly-owned subsidiary of the Company, entered into a ROFR Purchase and Sale Agreement (the “ROFR”) with SCFRC-HWG, LLC, the landlord (the “Seller”) to purchase the land and building in which the Company operates its Rustic Inn location in Jupiter, Florida. The Seller had entered into a Purchase and Sale Agreement with a third party to sell the premises; however, Ark Jupiter’s lease provided the Company with a right of first refusal to purchase the property. Ark Jupiter exercised the ROFR on October 4, 2016 and made a ten (10%) percent deposit on the purchase price of approximately Five Million Two Hundred Thousand Dollars (\$5,200,000). Concurrent with the execution of the ROFR, Ark Jupiter entered into a Purchase and Sale Agreement with 1065 A1A, LLC to sell this same property for Eight Million Two Hundred Fifty Thousand Dollars (\$8,250,000). In connection with the sale, Ark Jupiter and 1065 A1A, LLC have entered into a temporary lease and sub-lease arrangement which expires April 30, 2017 at which time the Company expects to vacate the space.

On November 30, 2016, the Company, through newly formed, wholly-owned subsidiaries, acquired the assets of the Original Oyster House, Inc., a restaurant and bar located in the City of Gulf Shores, Baldwin County, Alabama and the related real estate and the Original Oyster House II, Inc., a restaurant and bar located in the City of Spanish Fort, Baldwin County, Alabama and the related real estate and an adjacent retail shopping plaza. The total purchase price was for \$10,750,000 plus inventory. The acquisition will be accounted for as a business combination and was financed with a bank loan from the Company’s existing lender in the amount of \$8,000,000 and cash from operations.

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The voter referendum for casino gaming in Northern New Jersey was defeated in November 2016. State law prohibits the issue from being put on the ballot before voters for the following two years. In connection with NMR's restructuring of an existing loan which comes due on June 30, 2018, and to extend the loan through December 2021, the Company expects to fund its proportionate share of an anticipated \$3 million capital call in January 2017 rather than having its interest diluted.

On December 7, 2016, the Board of Directors declared a quarterly dividend of \$0.25 per share on the Company's common stock to be paid on January 3, 2017 to shareholders of record at the close of business on December 20, 2016.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARK RESTAURANTS CORP.

By: /s/ Michael Weinstein
Michael Weinstein
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: December 30, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been duly signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Michael Weinstein (Michael Weinstein)	Chairman of the Board and Chief Executive Officer	December 30, 2016
/s/ Vincent Pascal (Vincent Pascal)	Senior Vice President and Director	December 30, 2016
/s/ Robert Stewart (Robert Stewart)	President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	December 30, 2016
/s/ Marcia Allen (Marcia Allen)	Director	December 30, 2016
/s/ Steven Shulman (Steven Shulman)	Director	December 30, 2016
/s/ Paul Gordon (Paul Gordon)	Senior Vice President and Director	December 30, 2016
/s/ Bruce R. Lewin (Bruce R. Lewin)	Director	December 30, 2016

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/s/ Arthur Stainman (Arthur Stainman)	Director	December 30, 2016
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/s/ Stephen Novick (Stephen Novick)	Director	December 30, 2016
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Exhibits Index

- 3.1 Certificate of Incorporation of the Registrant, filed with the Secretary of State of the State of New York on January 4, 1983.
- 3.2 Certificate of Amendment of the Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of New York on October 11, 1985.
- 3.3 Certificate of Amendment of the Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of New York on July 21, 1988.
- 3.4 Certificate of Amendment of the Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of New York on May 13, 1997.
- 3.5 Certificate of Amendment of the Certificate of Incorporation of the Registrant filed on April 24, 2002 incorporated by reference to Exhibit 3.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2002 (the "Second Quarter 2002 Form 10-Q").
- 3.6 By-Laws of the Registrant, incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-18 filed with the Securities and Exchange Commission on October 17, 1985.
- 10.1 Amended and Restated Redemption Agreement dated June 29, 1993 between the Registrant and Michael Weinstein, incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 2, 1999 ("1994 10-K").
- 10.2 Form of Indemnification Agreement entered into between the Registrant and each of Michael Weinstein, Ernest Bogen, Vincent Pascal, Robert Towers, Jay Galin, Robert Stewart, Bruce R. Lewin, Paul Gordon and Donald D. Shack, incorporated by reference to Exhibit 10.2 to the 1994 10-K.
- 10.3 Ark Restaurants Corp. 2004 Stock Option Plan, as amended, incorporated by reference to the Registrant's Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on January 26, 2004
- 10.4 Ark Restaurants Corp. 2010 Stock Option Plan, incorporated by reference to the Registrant's Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on February 1, 2010.
- 10.5 Securities Purchase Agreement, by and between the Registrant and Estate of Irving Hershkowitz, incorporated by reference to Exhibit 10.01 to the Registrant's Current Report on Form 8-K filed on December 15, 2011.
- 10.6 Promissory Note, in the principal amount of \$2,125,000, issued by the Company to Estate of Irving Hershkowitz, incorporated by reference to Exhibit 10.02 to the Registrant's Current Report on Form 8-K filed on December 15, 2011.
- 10.7 Promissory Note made by the Registrant to Bank Hapoalim B.M., issued as of February 25, 2013, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 1, 2013.

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10.8 Asset Purchase Agreement dated as of November 22, 2013 by and between W and O, Inc. and Ark Rustic Inn LLC, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 26, 2013.

10.9 Amended and Restated Promissory Note made by the Company to Bank Hapoalim B.M., issued as of February 24, 2014, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 28, 2014.

10.10 Term or Installment Loan Rider to Promissory Note to Bank Hapoalim B.M, incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 28, 2014.

10.11 Commercial Contract Agreement and Rider to Commercial Contract Agreement both dated as of August 10, 2015 by and between Ark Shuckers Real Estate LLC and D.C. Holding Company, Inc., incorporated by reference to Exhibit 10.1 and 10.2 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.12 Restaurant Asset Purchase Agreement dated as of August 10, 2015 by and between Ark Shuckers LLC and Ocean Enterprises, Inc. incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.13 Management Purchase Agreement dated as of August 10, 2015 by and between Ark Island Beach Resort LLC and Island Beach Resort, Inc. incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.14 Credit Agreement (Term Facility) between the Company and Bank Hapoalim B.M. issued as of October 21, 2015 incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.15 Term Promissory Note issued by the Company in favor of Bank Hapoalim B.M. on October 21, 2015 incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.16 Credit Agreement (Revolving Facility) and Form of Revolving Promissory Note between the Company and Bank Hapoalim B.M. issued as of October 21, 2015 incorporated by reference to Exhibit 10.7 and 10.8 to the Registrant's Current Report on Form 8-K filed on October 28, 2015.

10.17 Asset Purchase Agreement dated as of October 21, 2016, by and between Ark Gulf Shores Real Estate, LLC, Ark Oyster House Gulf Shores I, LLC, Original Oyster House, Inc. and Premium Properties, Inc. including the Real Estate Purchase and Sale Agreement incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 15, 2016.

10.18 Asset Purchase Agreement dated as of October 21, 2016, by and between Ark Oyster House Causeway II, LLC, Ark Causeway Real Estate, LLC, Original Oyster House II, Inc. and Gumbo Properties, L.L.C. including the Real Estate Purchase and Sale Agreement incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed on November 15, 2016.

10.19 ROFR Purchase and Sale Agreement dated as of October 13, 2016 by and between SCFRC-HWG, LLC and Ark Jupiter RI, LLC incorporated by reference to Exhibit 2.3 to the Registrant's Current Report on Form 8-K filed on November 15, 2016.

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- 10.20 Purchase and Sale Agreement between Ark Jupiter RI, LLC and 1065 A1A, LLC, incorporated by reference to Exhibit 2.4 to the Registrant's Current Report on Form 8-K filed on November 15, 2016.
- 14 Code of Ethics, incorporated by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 27, 2003.
- *21 Subsidiaries of the Registrant.
- *23 Consent of CohnReznick LLP.
- *31.1 Certification of Chief Executive Officer.
- *31.2 Certification of Chief Financial Officer.
- *32 Section 1350 Certification.
- 101.INS** XBRL Instance Document
- 101.SCH** XBRL Taxonomy Extension Schema Document
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB** XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.