

RITE AID CORP  
Form 10-Q  
December 29, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended November 26, 2011

OR

**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 mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months

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(or for such shorter period that the Registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The registrant had 898,454,487 shares of its \$1.00 par value common stock outstanding as of December 14, 2011.

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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;

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

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

our ability to realize same store sales growth;

our ability to hire and retain qualified personnel;

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

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

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

our ability to manage expenses;

our ability to realize the benefits from actions to further reduce costs and investment in working capital;

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

changes in state or federal legislation or regulations, and the impact of healthcare reform;

the outcome of lawsuits and governmental investigations;

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

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

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein and included in our Annual Report on Form 10-K for the fiscal year ended February 26, 2011 (the "Fiscal 2011 10-K"),

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which we filed with the SEC on April 26, 2011, our Quarterly Report on Form 10-Q for the thirteen weeks ended May 28, 2011 (the "First Quarter 2012 10-Q"), which we filed on July 6, 2011, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 27, 2011, which we filed on October 5, 2011 and amended through Amendment No. 1 on Form 10-Q/A filed on October 7, 2011 (as amended, the "Second Quarter 2012 10-Q"). These documents are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements**

**RITE AID CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

(unaudited)

	November 26, 2011	February 26, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 148,474	\$ 91,116
Accounts receivable, net	970,218	966,457
Inventories, net of LIFO reserve of \$942,515 and \$875,012	3,389,054	3,158,145
Prepaid expenses and other current assets	109,358	195,647
<b>Total current assets</b>	<b>4,617,104</b>	<b>4,411,365</b>
Property, plant and equipment, net	1,940,470	2,039,383
Other intangibles, net	560,963	646,177
Other assets	438,497	458,925
<b>Total assets</b>	<b>\$ 7,557,034</b>	<b>\$ 7,555,850</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 25,313	\$ 63,045
Accounts payable	1,376,009	1,307,872
Accrued salaries, wages and other current liabilities	1,133,065	1,049,406
<b>Total current liabilities</b>	<b>2,534,387</b>	<b>2,420,323</b>
Long-term debt, less current maturities	6,172,550	6,034,525
Lease financing obligations, less current maturities	113,808	122,295
Other noncurrent liabilities	1,142,134	1,190,074
<b>Total liabilities</b>	<b>9,962,879</b>	<b>9,767,217</b>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock series G, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued .006 and .006	1	1
Preferred stock series H, par value \$1 per share, liquidation value \$100 per share; 2,000 shares authorized; shares issued 1,690 and 1,616	169,034	161,650
Common stock, par value \$1 per share; 1,500,000 authorized; shares issued and outstanding 898,400 and 890,297	898,400	890,297
Additional paid-in capital	4,277,215	4,281,623
Accumulated deficit	(7,722,124)	(7,514,796)
Accumulated other comprehensive loss	(28,371)	(30,142)
<b>Total stockholders' deficit</b>	<b>(2,405,845)</b>	<b>(2,211,367)</b>

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Total liabilities and stockholders' deficit	\$ 7,557,034	\$ 7,555,850
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See accompanying notes to condensed consolidated financial statements.



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

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	November 26, 2011	November 27, 2010
Revenues	\$ 6,312,584	\$ 6,202,353
Costs and expenses:		
Cost of goods sold	4,641,204	4,561,200
Selling, general and administrative expenses	1,583,098	1,578,142
Lease termination and impairment charges	11,540	17,003
Interest expense	129,927	133,742
Gain on sale of assets, net	(2,172)	(7,050)
	6,363,597	6,283,037
Loss before income taxes	(51,013)	(80,684)
Income tax expense (benefit)	972	(1,613)
Net loss	\$ (51,985)	\$ (79,071)
Computation of loss attributable to common stockholders:		
Net loss	\$ (51,985)	\$ (79,071)
Accretion of redeemable preferred stock	(26)	(26)
Cumulative preferred stock dividends	(2,498)	(2,354)
Loss attributable to common stockholders basic and diluted	\$ (54,509)	\$ (81,451)
Basic and diluted loss per share	\$ (0.06)	\$ (0.09)

See accompanying notes to condensed consolidated financial statements.

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	<b>Thirty-Nine Week Period Ended</b>	
	<b>November 26, 2011</b>	<b>November 27, 2010</b>
Revenues	\$ 18,974,468	\$ 18,758,441
Costs and expenses:		
Cost of goods sold	13,963,208	13,766,924
Selling, general and administrative expenses	4,773,086	4,827,780
Lease termination and impairment charges	43,748	56,820
Interest expense	391,516	415,077
Loss on debt modifications and retirements, net	17,510	44,003
Gain on sale of assets, net	(7,812)	(10,786)
	19,181,256	19,099,818
Loss before income taxes	(206,788)	(341,377)
Income tax expense	533	8,354
Net loss	\$ (207,321)	\$ (349,731)
Computation of loss attributable to common stockholders:		
Net loss	\$ (207,321)	\$ (349,731)
Accretion of redeemable preferred stock	(77)	(77)
Cumulative preferred stock dividends	(7,384)	(6,957)
Loss attributable to common stockholders basic and diluted	\$ (214,782)	\$ (356,765)
Basic and diluted loss per share	\$ (0.24)	\$ (0.40)

See accompanying notes to condensed consolidated financial statements.

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**RITE AID CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

	<b>Thirty-Nine Week Period Ended</b>	
	<b>November 26, 2011</b>	<b>November 27, 2010</b>
<b>Operating activities:</b>		
Net loss	\$ (207,321)	\$ (349,731)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	333,381	378,998
Lease termination and impairment charges	43,748	56,820
LIFO charges	67,503	44,080
Gain on sale of assets, net	(7,812)	(10,786)
Stock-based compensation expense	11,612	13,902
Loss on debt modifications and retirements, net	17,510	44,003
Changes in operating assets and liabilities:		
Accounts receivable	(7,636)	(18,970)
Inventories	(298,936)	(136,496)
Accounts payable	179,925	272,730
Other assets and liabilities, net	124,067	172,852
<b>Net cash provided by operating activities</b>	<b>256,041</b>	<b>467,402</b>
<b>Investing activities:</b>		
Payments for property, plant and equipment	(146,138)	(104,383)
Intangible assets acquired	(28,090)	(16,071)
Proceeds from sale-leaseback transactions	2,428	
Proceeds from dispositions of assets and investments	16,955	17,266
<b>Net cash used in investing activities</b>	<b>(154,845)</b>	<b>(103,188)</b>
<b>Financing activities:</b>		
Proceeds from issuance of long-term debt	341,285	650,000
Net proceeds from (repayments to) revolver	163,000	(22,000)
Principal payments on long-term debt	(439,553)	(775,236)
Change in zero balance cash accounts	(106,347)	(144,693)
Net proceeds from issuance of common stock	566	101
Financing fees paid for early debt retirement		(19,666)
Deferred financing costs paid	(2,789)	(34,272)
<b>Net cash used in financing activities</b>	<b>(43,838)</b>	<b>(345,766)</b>
<b>Increase in cash and cash equivalents</b>	<b>57,358</b>	<b>18,448</b>
Cash and cash equivalents, beginning of period	91,116	103,594
<b>Cash and cash equivalents, end of period</b>	<b>\$ 148,474</b>	<b>\$ 122,042</b>
<b>Supplementary cash flow data:</b>		
Cash paid for interest (net of capitalized amounts of \$240 and \$385, respectively)	\$ 340,423	\$ 313,615
Cash payments of income taxes, net of refunds	\$ 2,911	\$ 8,028
Equipment financed under capital leases	\$ 6,476	\$ 2,836

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Equipment received for noncash consideration	\$	3,092	\$	2,428
Reduction in lease financing obligation	\$		\$	
Preferred stock dividends paid in additional shares	\$	7,384	\$	6,957
Gross borrowings from revolver	\$	1,629,000	\$	882,000
Gross repayments to revolver	\$	1,466,000	\$	904,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents**RITE AID CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010****(Dollars and share information in thousands, except per share amounts)****(unaudited)****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are of a recurring nature and, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended November 26, 2011 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 2011 10-K.

**2. Loss Per Share**

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

	<b>Thirteen Week Period Ended</b>		<b>Thirty-Nine Week Period Ended</b>	
	<b>November 26, 2011</b>	<b>November 27, 2010</b>	<b>November 26, 2011</b>	<b>November 27, 2010</b>
<b>Numerator for loss per share:</b>				
Net loss	\$ (51,985)	\$ (79,071)	\$ (207,321)	\$ (349,731)
Accretion of redeemable preferred stock	(26)	(26)	(77)	(77)
Cumulative preferred stock dividends	(2,498)	(2,354)	(7,384)	(6,957)
<b>Loss attributable to common stockholders, basic and diluted</b>	<b>\$ (54,509)</b>	<b>\$ (81,451)</b>	<b>\$ (214,782)</b>	<b>\$ (356,765)</b>
<b>Denominator:</b>				
Basic and diluted weighted average shares	886,629	883,515	885,388	882,668
Basic and diluted loss per share	\$ (0.06)	\$ (0.09)	\$ (0.24)	\$ (0.40)

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Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted loss per share as of November 26, 2011 and November 27, 2010:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Stock options	76,537	87,235	76,537	87,235
Convertible preferred stock	30,734	28,957	30,734	28,957
Convertible debt	24,800	24,800	24,800	24,800
	132,071	140,992	132,071	140,992

Also excluded from the computation of diluted loss per share as of November 26, 2011 and November 27, 2010 are restricted shares and restricted stock units of 11,567 and 7,282, respectively, which are included in shares outstanding.

**3. Lease Termination and Impairment Charges**

Lease termination and impairment charges consist of amounts and number of locations as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Impairment charges	\$ 1,439	\$ 751	\$ 2,829	\$ 3,197
Facility and equipment lease exit charges	10,101	16,252	40,919	53,623
	\$ 11,540	\$ 17,003	\$ 43,748	\$ 56,820

Impairment charges				
Number of Stores	18	19	45	42
Number of Distribution Centers		1		1
	18	20	45	43

Lease exit charges				
Number of Stores	2	11	13	31
Number of Distribution Centers				
	2	11	13	31

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

**Facility and equipment lease exit charges**

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 ASC 420, "Exit or Disposal Cost Obligations." The Company calculates the liability for closed stores on a store-by-store basis. The calculation includes the discounted effect of future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting or favorable lease terminations. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

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

	<b>Thirteen Week Period Ended</b>		<b>Thirty-Nine Week Period Ended</b>	
	<b>November 26, 2011</b>	<b>November 27, 2010</b>	<b>November 26, 2011</b>	<b>November 27, 2010</b>
Balance beginning of period	\$ 390,161	\$ 395,098	\$ 405,350	\$ 412,654
Provision for present value of noncancellable lease payments of closed stores	2,282	5,076	5,453	21,707
Changes in assumptions about future sublease income, terminations and changes in interest rates	1,157	4,922	16,378	13,288
Interest accretion	6,341	6,326	19,912	19,661
Cash payments, net of sublease income	(24,381)	(23,977)	(71,533)	(79,865)
Balance end of period	\$ 375,560	\$ 387,445	\$ 375,560	\$ 387,445

The Company's revenues and loss before income taxes for the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010 include results from stores that have been

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closed or are approved for closure as of November 26, 2011. The revenue, operating expenses, and loss before income taxes of these stores for the periods are presented as follows:

	Thirteen Week Period Ended		Thirty-Nine Week Period Ended	
	November 26, 2011	November 27, 2010	November 26, 2011	November 27, 2010
Revenues	\$ 25,719	\$ 64,802	\$ 103,605	\$ 234,434
Operating expenses	30,525	72,752	117,005	263,647
Gain from sale of assets	(4,327)	(4,365)	(10,137)	(9,818)
Other expenses	799	506	575	2,279
Loss before income taxes	(1,278)	(4,091)	(3,838)	(21,674)
Included in these stores' loss before income taxes are:				
Depreciation and amortization	226	878	991	3,048
Inventory liquidation charges	714	825	1,173	3,145

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 and operating expenses.

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

Long-lived assets are measured at fair value on a nonrecurring basis for purposes of calculating impairment using Level 2 and Level 3 inputs as defined in the fair value hierarchy. The fair value of long-lived assets using Level 2 inputs is determined by evaluating the current economic conditions in the geographic area for similar use assets. The fair value of long-lived assets using Level 3 inputs is determined by estimating the amount and timing of net future cash flows and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located.

The table below sets forth by level within the fair value hierarchy the long-lived assets as of the impairment measurement date for which an impairment assessment was performed and total losses for



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## RITE AID CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010

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

(unaudited)

**3. Lease Termination and Impairment Charges (Continued)**

the thirteen and thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses	
					Thirteen Week Period Ended November 26, 2011	Thirty-Nine Week Period Ended November 26, 2011
Long-lived assets held and used	\$	\$	\$	\$	\$ 750	\$ 1,692
Long-lived assets held for sale		\$ 2,800		\$ 2,800	\$ 689	\$ 1,137
<b>Total</b>	<b>\$</b>	<b>\$ 2,800</b>	<b>\$</b>	<b>\$ 2,800</b>	<b>\$ 1,439</b>	<b>\$ 2,829</b>

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Values as of Impairment Date	Total Losses	
					Thirteen Week Period Ended November 27, 2010	Thirty-Nine Week Period Ended November 27, 2010
Long-lived assets held and used	\$	\$ 3,493	\$ 162	\$ 3,655	\$ 751	\$ 3,197
Long-lived assets held for sale						
<b>Total</b>	<b>\$</b>	<b>\$ 3,493</b>	<b>\$ 162</b>	<b>\$ 3,655</b>	<b>\$ 751</b>	<b>\$ 3,197</b>

**4. Income Taxes**

The Company recorded an income tax expense of \$972 and an income tax benefit of \$1,613 for the thirteen week periods and an income tax expense of \$533 and \$8,354 for the thirty-nine week periods ended November 26, 2011 and November 27, 2010, respectively. The income tax expense for the thirteen and thirty-nine week periods ended November 26, 2011 is primarily for adjustments to unrecognized tax benefits and the accrual of state and local taxes, offset by benefits of \$1,747 and \$8,040, respectively for discrete items related to the recognition of previously unrecognized tax benefits. The provision for income taxes for the thirteen and thirty-nine week periods ended November 27, 2010 is primarily due to the need for an accrual of additional state taxes resulting from the receipt of a final audit determination and adjustments to unrecognized tax benefits.

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The Company is indemnified by Jean Coutu Group for certain tax liabilities incurred for all years ended up to and including the acquisition date of June 4, 2007, related to the Brooks Eckerd acquisition. Although the Company is indemnified by Jean Coutu Group, the Company remains the primary obligor to the tax authorities with respect to any tax liability arising for the years prior to the acquisition. Accordingly, as of November 26, 2011 and February 26, 2011, the Company had a corresponding recoverable indemnification asset of \$164,675 and \$158,209 from Jean Coutu Group, respectively, included in the 'Other Assets' line of the Consolidated Balance Sheets, to reflect the indemnification for such liabilities.

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**RITE AID CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010**

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

**(unaudited)**

**4. Income Taxes (Continued)**

The Company files U.S. federal income tax returns as well as income tax returns in those states where it does business. The consolidated federal income tax returns have been subject to examination by the Internal Revenue Service (IRS) through fiscal 2008. 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 has completed the examination of the consolidated U.S. income tax returns for Brooks Eckerd for the periods leading up to the acquisition which include fiscal years 2004 through 2007. A revenue agent report (RAR) has been received for each of the three audit cycles, with the last RAR received in the third quarter of fiscal 2011. The company is appealing these audit results. Management believes that the Company has adequately provided for any potential adverse results. Furthermore, pursuant to the tax indemnification referenced above, Jean Coutu Group is required to reimburse the Company for any assessment that may arise. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. However, as a result of filing amended returns, the Company has statutes open in some states from fiscal 2004.

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

Over the next 12 months, the Company believes that it is reasonably possible that the amount of unrecognized tax positions including interest and penalties could decrease tax liabilities by approximately \$95,764, which would impact the effective tax rate if our tax positions are sustained upon audit, the controlling statute of limitations expires or we agree to a disallowance. The primary driver of the decrease is contingent upon the timing of the conclusion of the pre-acquisition period's audit of the consolidated U.S. income tax returns for Brooks Eckerd and will impact the effective rate by decreasing tax expense by approximately \$61,129. This amount will be completely offset by the reversal of the indemnification asset which will be recorded in selling, general and administrative expenses.

The valuation allowances as of November 26, 2011 and February 26, 2011 apply to the net deferred tax assets of the Company. The Company continues to maintain a full valuation allowance of \$2,272,489 and \$2,199,302 against net deferred tax assets at November 26, 2011 and February 26, 2011, respectively.

**5. Sale Leaseback Transactions**

During the thirteen week period ended November 26, 2011, the Company sold one owned property to an independent third party. Net proceeds from the sale were \$2,428. Concurrent with the sale, the Company entered into an agreement to lease the store back from the purchaser over a minimum lease term of 10 years. The Company accounted for the lease as an operating lease. The transaction resulted in a loss of \$3,456 which is included in the gain on sale of assets, net for the thirteen and thirty-nine weeks ended November 26, 2011.

During the thirteen and thirty-nine week period ended November 27, 2010, the Company had no sale leaseback transactions.

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**RITE AID CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Thirteen and Thirty-Nine Week Periods Ended November 26, 2011 and November 27, 2010**

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

**(unaudited)**

**6. Intangible Assets**

The Company's intangible assets are finite-lived and amortized over their useful lives. Following is a summary of the Company's amortizable intangible assets as of November 26, 2011 and February 26, 2011.

<b>November 26, 2011</b>		<b>February 26, 2011</b>	
<b>Gross</b>	<b>Remaining</b>	<b>Gross</b>	
<b>Carrying</b>	<b>Weighted</b>	<b>Carrying</b>	
<b>Amount</b>	<b>Average</b>	<b>Amount</b>	
<b>Amortization</b>	<b>Amortization</b>	<b>Amortization</b>	
<b>Period</b>	<b>Period</b>	<b>Amortization</b>	