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

FORM 10-K

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

For The Fiscal Year Ended February 27, 2021

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, $1.00 par value	RAD	New York Stock Exchange

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☒	Non-Accelerated Filer ☐	Smaller reporting company ☐ Emerging growth company ☐

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold on the New York Stock Exchange on August 29, 2020 was approximately $737,566,209. For purposes of this calculation, only executive officers and directors are deemed to be affiliates of the registrant.

As of April 15, 2021 the registrant had outstanding 55,101,661 shares of common stock, par value $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the impact of widespread health developments, including the continued impact of the global coronavirus (“COVID-19”) pandemic, and the responses thereto (such as quarantines, shut downs and other restrictions on travel and commercial, social and other activities), including changing consumer behavior and preferences and the reinstitution of more stringent regulations (including mandatory stay at home orders and the availability, rollout and supply chain of vaccines to treat the virus), which could materially and adversely affect, among other things, the economic, financial and labor markets in which we operate, access to credit, our front-end and pharmaceutical operations, supply chain, associates and executive and administrative personnel. These widespread health developments, or an increase in the number of cases, could also materially and adversely affect our third-party service providers, including suppliers, vendors and business partners, and customers. The COVID-19 pandemic has resulted in recessionary economic conditions which could negatively impact our sales. Any of these developments could result in a material adverse effect on our business, financial conditions and results of operations;

- our ability to successfully implement RxEvolution, attract and retain a sufficient number of our target consumers, integrate acquisitions, our ability to obtain permits required for store remodels, and improve the operating performance of our stores;

- our high level of indebtedness, the ability to refinance such indebtedness on acceptable terms, and our ability to satisfy our obligations and the other covenants contained in our debt agreements;

- the nature, cost and outcome of pending and future litigation, other legal or regulatory proceedings, or governmental investigations, including those related to Opioids, “usual and customary” pricing or other matters;

- general competitive, economic, industry, market, political (including healthcare reform) and regulatory conditions, civil unrest (including any resulting store closures, damage, or loss of inventory), as well as other factors specific to the markets in which we operate;

- the severity and resulting impact of the cough, cold and flu season;

- the impact on retail pharmacy business as pharmacy benefit management (“PBM”) payors incent or mandate movement away from retail pharmacies to PBM mail order pharmacies;

- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs;

- the risk that changes in federal or state laws or regulations, including to those relating to labor or wages, the Health Care Education Affordability Reconciliation Act, the repeal of all or part of the Patient Protection and the Affordable Care Act (or "ACA"), and decisions of the United States Supreme Court regarding those and other matters relevant to the Company or its operations, and any regulations enacted thereunder may occur;

- the impact of the loss of one or more major third party payor contracts and the risk that providers and state contract changes may occur;

- the risk that we may need to take further impairment charges if our future results do not meet our expectations;
- our ability to sell our Centers of Medicare and Medicaid Services ("CMS") receivables, in whole or in part, which could negatively impact our leverage ratio if we do not consummate a sale;
- our ability to grow prescription count and realize front-end sales growth;
- our ability to achieve cost savings and the other benefits of our organizational restructuring within our anticipated timeframe, if at all;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities, which could result in further charges;
- our ability to manage expenses and our investments in working capital;
- the continued impact of gross margin pressure in the PBM industries due to continued consolidation and client demand for lower prices while providing enhanced service offerings;
- risks related to breaches of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;
- our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration, early price renegotiations prior to contract expirations and the risk that we cannot meet client guarantees;
- our ability to manage our Medicare Part D Plan medical loss ratio ("MLR") and meet the financial obligations of the plan;
- the risk that we could experience deterioration in our current Star rating with the CMS or incur CMS penalties and/or sanctions;
- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments;
- changes in future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies;
- the nature, cost and outcome of pending and future litigation and other legal or regulatory proceedings, and governmental investigations;
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the "SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations—Overview and Factors Affecting Our Future Prospects" included in this Annual Report on Form 10-K. Additionally, the continued impact of COVID-19 could heighten many of the risk factors described herein.

PART I

Item 1. Business

Overview

Rite Aid Corporation ("Rite Aid" or the "Company") is on the front lines of delivering health care services and retail products to over one million Americans daily. Our pharmacists are uniquely positioned to engage with customers and improve their health outcomes. We provide an array of whole being health products and services for the entire family through over 2,500 retail pharmacy locations across 17 states. Through Elixir, our pharmacy benefits manager, we provide pharmacy benefits and services to over three million members nationwide.

Our corporate headquarters are located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011, and our telephone number is (717) 761-2633. Our common stock is listed on the New York Stock Exchange under the trading symbol of "RAD." We were incorporated in 1968 and are a Delaware corporation.

The terms "Company," "Rite Aid," "we," "our" or "us," as used herein and unless otherwise stated or indicated by context, refer to Rite Aid Corporation and its affiliates. The term "affiliates" means direct and indirect subsidiaries of Rite Aid Corporation and partnerships and joint ventures in which such subsidiaries are partners.

Fiscal 2021 was a year of significant challenges for Rite Aid as COVID-19 affected all aspects of our retail pharmacy business and well-being of our customers. In the third week of our fiscal year, in response to the pandemic we implemented business continuity efforts including closing corporate office and call center locations, moving virtually all of our corporate associates to a work from home model, and taking steps to implement safety protocols for our retail and distribution center associates and pharmacy customers. Notwithstanding these challenges, our purchasing teams sourced essential items to stock our stores.

The efforts of our team enabled us to respond to the challenges brought on by the pandemic while also executing on our strategic initiatives aimed at operating as a fully integrated, stand-alone healthcare company with a retail footprint. Our key accomplishments include, but are not limited to, i) advancing our pharmacy strategy, including rebranding our retail stores and Elixir, our pharmacy services operations, ii) launching a new member portal at Elixir, iii) extending all but $91 million of our calendar 2023 bond maturities to calendar 2025 and calendar 2026, iv) introducing three flagship remodels, refreshing over half of our store exteriors and resetting 75% of store merchandise, and v) expanding COVID-19 testing to over 1,200 drive-through locations and beginning the process of expanding our COVID-19 vaccine administration, which covered nearly half of our stores in the first quarter of fiscal 2022. These accomplishments advanced our efforts to drive our new strategy - RxEvolution.

RxEvolution – On March 16, 2020, we held an analyst day where we announced our new strategic plan and initiatives, named "RxEvolution," which includes significant rebranding, a merchandising overhaul, new marketing, and integration and operational initiatives, in both our Retail Pharmacy and Pharmacy Services segments. The execution of these overarching initiatives includes reintroducing the Rite Aid brand to a new generation of consumers, maintaining relevance in an ever-changing marketplace, and thriving as a significant health care services company with a retail footprint. Our initiatives are focused on three primary areas: i) establishing Elixir as a clearly differentiated market leader, ii) unlocking the value of our pharmacists, and iii) renewing our retail and digital experience.

Establishing Elixir as a clearly differentiated market leader: Rite Aid's pharmacy benefits and services company, Elixir, includes technology and claims adjudication software, mail delivery and specialty pharmacy services, network and rebate administration, as well as prescription discount programs and Medicare Part D insurance for individuals and groups. With an integrated offering, this rebranded business is well positioned with mid-market employer groups and regional health plans seeking an alternative to the large, health plan affiliated PBMs. Additionally, given the connection with Rite Aid's stores, Elixir has the opportunity to improve its competitive positioning, deliver exceptional retail and mail order pharmacy services, and contribute to positive health outcomes. Elixir is now the only payor agnostic PBM operated together with a retail pharmacy footprint. We believe Elixir is positioned for improved profitability, and represents a significant growth opportunity for Rite Aid.

Unlocking the value of Rite Aid's pharmacists: Rite Aid is innovating across all of its retail and mail order pharmacy channels, including its PBM and suite of pharmacy service solutions. These innovations go beyond just filling prescriptions to offering an array of over-the-counter, clinical and holistic health and wellness solutions focused on helping customers thrive. Pharmacists are highly educated, knowledgeable, accessible, and among the most trusted

healthcare providers; however, their full potential has not been realized. Rite Aid's approximately 6,400 pharmacists are whole-being health advocates, allowing them to practice at the top of their license and education. Our pharmacists are pushing beyond their traditional role to an expanded role, in which they are encouraging a holistic approach to health. Rite Aid is leveraging LEAN tools, to develop new workflows and technologies to free up our pharmacists' time, and we are also launching our new Pharmacy of the Future, which moves our pharmacists physically closer to the consumer. These new workflows, tools and space will allow our pharmacists to engage more personally with our consumers. Our initiatives to free up pharmacists time are also helping us to expand our pharmacy services to administer COVID-19 vaccines and COVID-19 testing.

Renewing Rite Aid's retail and digital experience: As consumers increasingly focus on self-care, they seek to strike the perfect balance between traditional health and holistic wellness. Rite Aid's goal is to be a whole being health destination that treats mind, body and spirit. To introduce new generations to our iconic brand, Rite Aid is elevating its in-store experience, increasing personalized digital engagement, and refreshing merchandise to include a wide assortment of products with ingredients that are meaningful to Millennial and Gen X shoppers. Rite Aid has re-branded with a new logo to signal this change in pharmacy and retail strategy. Rite Aid continues its store-remodel initiative, including the unveiling of new flagship stores in select markets that demonstrate how Rite Aid is evolving into a trusted household wellness destination that helps consumers on the journey of care for themselves and their parents, children and pets.

We believe that the strategy inherent in our RxEvolution will enable us to unlock the incredible potential of our trusted and iconic brand. By reinvigorating our PBM offerings, enhancing the role of our approximately 6,400 pharmacists and revitalizing our retail and digital experience, we believe Rite Aid will not only remain relevant to a new generation of consumers, but can thrive as an independent healthcare company with a significant retail footprint.

As described in the following paragraphs, under prior leadership, during the past several years, Rite Aid had been involved in certain activities designed to sell itself and portions of its business.

Termination of the Merger Agreement—On February 18, 2018, Rite Aid entered into an Agreement and Plan of Merger (the "Merger Agreement") with Albertsons Companies, Inc. ("Albertsons"), Ranch Acquisition II LLC, a Delaware limited liability company and a wholly-owned direct subsidiary of Albertsons ("Merger Sub II") and Ranch Acquisition Corp., a Delaware corporation and a wholly-owned direct subsidiary of Merger Sub II (together with Merger Sub II, the "Merger Subs"). On August 8, 2018, Rite Aid, Albertsons and the Merger Subs entered into a Termination Agreement (the "Merger Termination Agreement") under which the parties mutually agreed to terminate the Merger Agreement. Subject to limited customary exceptions, the Merger Termination Agreement mutually releases the parties from any claims of liability to one another relating to the contemplated merger. Under the terms of the Merger Agreement, neither Rite Aid nor Albertsons is responsible for any payments to the other party as a result of the termination of the Merger Agreement and Rite Aid is no longer subject to the interim operating covenants and restrictions contained in the Merger Agreement.

Asset Sale—On September 18, 2017, we entered into the Amended and Restated Asset Purchase Agreement (the "Amended and Restated Asset Purchase Agreement") with WBA and Walgreen Co., an Illinois corporation and wholly-owned direct subsidiary of WBA ("Buyer"), which amended and restated in its entirety the previously disclosed Asset Purchase Agreement (the "Original Asset Purchase Agreement"), dated as of June 28, 2017, by and among Rite Aid, WBA and Buyer. Pursuant to the terms and subject to the conditions set forth in the Amended and Restated Asset Purchase Agreement, Buyer purchased from Rite Aid 1,932 Acquired Stores, three distribution centers, related inventory and other specified assets and liabilities related thereto for a purchase price of approximately $4.375 billion, on a cash-free, debt-free basis (the "Asset Sale" or "Sale"). As of February 27, 2021, we sold all 1,932 Acquired Stores, three distribution centers and related assets to WBA in exchange for proceeds of $4.375 billion.

The term of the Transition Services Agreement ("TSA") had been extended to October 17, 2020, unless earlier terminated. On July 14, 2020, we entered into a letter agreement with WBA to terminate the services under the TSA, other than certain specified services relating to real estate, accounting, tax, and accounts receivable systems that continued until October 17, 2020 and certain specified services relating to human resources to be performed after October 17, 2020.

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

We report our business in two distinct segments. Our Retail Pharmacy Segment consists of Rite Aid stores, Health Dialog, and RediClinic, which was closed during fiscal 2021. Our Pharmacy Services Segment consists of Elixir, our PBM.

Retail Pharmacy Segment— In our Rite Aid retail stores, our highly trained pharmacists dispense medications pursuant to prescriptions written by medical providers and educate our customers on alternative remedies that can supplement traditional options. We offer a wide range of healthcare services, including administering immunizations against COVID-19, the flu, shingles and more; assisting our customers with high blood pressure, cholesterol and diabetes; providing guidance on combating obesity and tobacco addiction; and educating our customers on managing medications and potential side effects. Through the pandemic, pharmacists are on the front lines of testing and vaccinating, and made great strides in changing perceptions of pharmacists as providers whose reach extends well beyond filling prescriptions. We believe that offerings such as these will gain additional momentum in a rapidly changing healthcare environment, and establish pharmacists as the most accessible and trusted last-mile connectors in healthcare.

In addition, we offer a wide assortment of front-end merchandise to complement our pharmacy services and to provide convenience to our customers. In fiscal 2021, prescription drug sales accounted for 66.7% of our total drugstore sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to a combination of our efforts to expand the role of our approximately 6,400 pharmacists as whole-being health advocates; demographic trends such as an aging population and increased life expectancy; our focus on growth customers, particularly women between the ages of 25 to 49 who take care of themselves, their children, aging parents, and even pets; anticipated growth in the federally funded Medicare Part D prescription program as "baby boomers" continue to enroll; and the discovery of new and better prescription drug and over-the-counter therapies. We carry a full assortment of front-end products, which accounted for the remaining 33.3% of our total drug store sales in fiscal 2021. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, food and beverages, greeting cards, seasonal merchandise, pet care, and numerous other every day and convenience products.

We seek to differentiate our stores from larger chain drugstores, in part, through our emphasis on the benefits of both traditional and alternative remedies, a reconstituted assortment of clean, natural, organic and eco-friendly merchandise, brand new flagship store format, owned brands and our strategic partnership with GNC, a retailer of vitamin and mineral supplements. We offer a wide variety of products through our portfolio of owned brands, which contributed approximately 19% of our front-end sales in fiscal 2021, and which we are positioning for future growth.

We completed the acquisition of the Bartell Drug Company during December 2020. The strategic acquisition of the Bartell Drug Company fits into our RxEvolution strategy, complementing our commitment to total health and wellness, the importance of the pharmacist as a trusted health advisor and the critical role the neighborhood pharmacy plays. This expansion within the greater Seattle area will allow us to better service customers, health plans and healthcare provides.

The average size of each store in our chain is approximately 13,600 square feet, and average store size is larger for our locations in the western United States. As of February 27, 2021, 59% of our stores were freestanding; 54% of our stores included a drive-through pharmacy; and 66% included a GNC store within a Rite Aid store.

Health Dialog is a provider of healthcare coaching and disease management services to health plans and employers. Health Dialog provides these services using a call-in line staffed by nurse practitioners and through an online platform.

RediClinic, based in Houston, was an operator of retail clinics. RediClinics were staffed by board-certified nurse practitioners and physician assistants, who were trained and licensed to treat common conditions and provide preventative services, in collaboration with local physicians who were affiliated with a leading health care system in each market. We closed all RediClinic locations as of late summer 2020, however, we continue to offer virtual health care services through telehealth.

Pharmacy Services Segment—Elixir, our mid-market national pharmacy benefits manager ("PBM"), provides a suite of PBM offerings including technology solutions, mail delivery services, specialty pharmacy, network and rebate

administration, claims adjudication and pharmacy discount programs. Elixir also provides prescription discount programs and Medicare Part D insurance offerings for individuals and groups. Elixir provides services to various clients across its different lines of business, including major health plans, commercial employers, labor groups and state and local governments, representing approximately 3.25 million covered lives, including approximately 1 million covered lives through our Medicare Part D insurance offerings. Elixir continues to focus its efforts and offerings to its target market of small to mid-market employers, labor unions and regional health plans, including provider-led health plans and government sponsored Medicaid and Medicare plans.

Elixir is an integral component of our new strategy and we believe that Elixir will be established as a differentiated market leader by lowering total healthcare costs through consumer engagement. We are broadening the engagement channels for our members through the introduction of a new member portal in January 2021, modernizing our technology platforms, enhancing our clinical programs and launching our new best in class specialty offering across our book of business. And in markets that overlap with Rite Aid and Bartell stores, we can offer a highly curated clinical offering that not only lowers costs, but also engages members in our stores with our pharmacists. Rite Aid has owned 100% of Elixir (formerly EnvisionRxOptions) since 2015.

Industry Trends

COVID-19—The COVID-19 crisis brought many new challenges to the industry, and severely impacted the U.S. economy. We executed preparedness plans to maintain continuity of our operations, including transitioning many office-based associates to a remote work environment and installing protective equipment in our retail pharmacies. We also provided enhanced benefits to our associates, including bonuses to frontline associates, paid sick leave for part-time associates and paid time off to associates who test positive or are quarantined due to exposure to COVID-19, job protected administrative leave for associates who did not feel comfortable coming to work due to health concerns, and expanded resources to assist associates with the stress caused by the pandemic. Going forward, we expect to incur costs for enhanced cleaning, associate benefits and protection for both our associates and customers, and to provide COVID-19 testing and vaccinations. The longer-term impact of the pandemic including changes in consumer behavior and delayed medical procedures are still being evaluated, but we believe these will continue through our fiscal year 2022.

Aside from the effects of COVID-19, the rate of pharmacy sales growth in the United States continues to be negatively impacted by a decline in new blockbuster drugs, a longer FDA approval process, drug safety concerns, higher copays and an increase in the use of generic (non-brand name) drugs, which are less expensive but do generate higher gross margins. New drug development in the next few years is expected to be concentrated in specialty prescriptions, which are high cost drugs targeted toward complex or rare chronic conditions. On the other hand, we expect prescription usage to continue to grow in the coming years due to the aging U.S. population, increased life expectancy, “baby boomers” continuing to become eligible for the federally funded Medicare prescription program, and new drug therapies. Additionally, rising U.S. healthcare costs and the shortage of primary care physicians are creating opportunities for pharmacists and drugstores to play a more active role in driving positive health outcomes for patients. Services such as immunizations, including those for COVID-19, medication therapy management, chronic condition management, clinics, medication adherence and counseling can all be handled by our trained pharmacists.

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

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

The retail drugstore industry continues to rely significantly on third-party payors. Over the past several years, third-party payors, including the Medicare Part D plans and the state-sponsored Medicaid and related managed care Medicaid agencies, have changed the eligibility requirements of participants and have successfully reduced certain reimbursement rates. This trend is expected to continue, which puts added pressure on Rite Aid and our competitors' results. Medicare Part D providers have also introduced plans that have restricted network options, under which a patient can elect a plan with a lower copay in exchange for the choice to use a limited number of pharmacies to fill their prescriptions. In order to participate in these restricted networks, retail pharmacies generally are required to accept lower reimbursement rates. We expect the use of these restricted network strategies to continue to increase. When third party payors, including the Medicare Part D program and state-sponsored Medicaid agencies, reduce the number of participants and/or reduce their reimbursement rates, sales and margins in the industry could be reduced, and profitability of the industry adversely affected. These possible adverse effects can be partially offset by lowering our product cost, controlling expenses, dispensing higher-margin generics, finding new revenue streams through pharmacy services and growing our share of dispensing prescriptions.

The PBM industry is generally concentrated among the three largest PBMs, although niche PBMs and organizations seeking to carve out specific PBM-related services continue to emerge. Plan sponsor clients of PBMs are seeking new and innovative solutions to manage pharmacy benefit costs. Certain market segments, such as regional health plans, and union/municipal plans and certain mid-market employers are seeking viable alternatives to the Big 3 PBM providers. Also, plan sponsors with covered populations in geographically concentrated areas, such as hospital/health system clients and small to mid-sized employers, are seeking to leverage geographic opportunities to negotiate more favorable pharmacy pricing and/or integrate their community based clinical management resources with Elixir and Rite Aid pharmacies.

Strategy

Our RxEvolution strategy is intended to transform us into the leading whole health destination that treats mind, body and spirit. We strive to fundamentally change our role in health care and become the industry leader in whole health. Our goal is to help our customers get beyond healthy and get thriving.

Rite Aid seeks to deliver a fresh, differentiated experience across all channels by targeting our growth customer – women between the ages of 25 to 49 who take care of themselves, their children, aging parents, and even pets. During the past year the company has been building the foundation for an elevated customer experience. Rite Aid has been establishing on-trend supplier relationships, resetting categories representing over 75% of front end sales according to our new merchandising standards, delivering new and enhanced training, tools and work processes to all in-store associates, using LEAN methodology to free up pharmacists' time, modernizing its e-commerce infrastructure and online experience, and physically refreshing its fleet of stores. Together, this comprehensive approach is aimed at helping customers achieve a level of well-being that goes beyond traditional perceptions of healthy.

Elixir, our pharmacy benefits manager, offers compelling healthcare services to improve clinical outcomes, digital engagement tools and connection to our over 2,500 Rite Aid and Bartell Drugs retail stores. With our integrated offerings and solutions, Elixir provides mid-market employer groups and regional health plans with an alternative to the large, health-plan affiliated PBMs.

As a healthcare company with a retail footprint that operates in many communities throughout the country and engages over one million customers per day through our various lines of business, we believe we are positioned to continue making a meaningful difference in the lives of our customers, associates and neighbors.

Products and Services

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 66.7%, 67.0% and 66.6% of our total drugstore sales in fiscal years 2021, 2020 and 2019, respectively. In fiscal years 2021, 2020 and 2019, prescription drug sales were $10.9 billion, $10.4 billion and $10.4 billion, respectively. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations" and our consolidated financial statements.

We carry a full assortment of non-prescription, or front-end, products. The types and number of front-end products in each store vary, and selections are based on customer needs and preferences and available space. No single front-end product category contributed significantly to our sales during fiscal 2021. Our Retail Pharmacy segment's principal classes of products in fiscal 2021 were the following:

Product Class	Percentage of Sales
Prescription drugs	66.7 %
Over-the-counter medications and personal care	10.8 %
Health and beauty aids	4.8 %
General merchandise and other	17.7 %

We offer a wide variety of own brand products to meet the needs of our customers in virtually every non-pharmacy department. We intend to increase our private brand sales and penetration in fiscal 2022 by expanding our assortment, redefining our brand architecture and brand names, refreshing our package design, and driving greater support through our marketing. We believe that today's consumer expects high quality differentiated own brand products that deliver performance equal to national brands at a better value. A refresh our own brand offering is critical to improving our gross margin and reducing our working capital investment in inventory.

We have a strategic alliance with GNC under which we have opened 1,652 GNC stores within Rite Aid stores as of February 27, 2021, and have a contractual commitment to open at least 33 additional GNC stores within Rite Aid stores by December 2021. We believe the GNC stores enhance our wellness offerings and help differentiate us from our competitors. GNC is a leading nationwide retailer of vitamin and mineral supplements, personal care, fitness and other health-related products.

Through Elixir, we provide a fully integrated suite of PBM offerings including technology solutions, mail delivery services, specialty pharmacy, network and rebate administration, claims adjudication and pharmacy discount programs. In addition to its PBM offerings, Elixir also offers fully integrated mail-order and specialty pharmacy services through Elixir Pharmacy. Through Elixir Insurance ("EI"), Elixir also serves seniors enrolled in Medicare Part D. In addition, Elixir, through its Laker Software, performs prescription adjudication services for its own claims.

Technology

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

We launched our new website, mobile application, and e-commerce solution in the first quarter of fiscal 2021. This personalized user experience is built on a modern and scalable platform that will serve as the foundation for our digital and omni-channel solutions. Through RxEvolution, we will continue to enhance and modernize the technology platforms that support our company, with a meaningful focus on customer experience and design.

We continue to enhance our Elixir mobile app with a focus on providing members with the best and most effective low cost medications, in a manner that is completely personalized. It will not simply facilitate transactions, but rather advance a members ability to improve whole health.

Sources and Availability of Raw Materials

Since fiscal 2015, under our pharmaceutical purchasing and delivery agreement ("Purchasing and Delivery Agreement") with limited exceptions, we purchased all of our branded pharmaceutical products and almost all of our generic (non-brand name) pharmaceutical products from McKesson. If our relationship with McKesson were disrupted, we could temporarily experience difficulties filling prescriptions for branded and generic drugs until we execute a replacement wholesaler agreement or develop and implement self-distribution processes.

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

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

Customers and Third Party Payors

During fiscal 2021, our stores filled approximately 164.1 million prescriptions and served over one million customers per day. The loss of any one customer would not have a material impact on our results of operations.

In fiscal 2021, substantially all of our pharmacy sales were to customers covered by third party payors (such as insurance companies, prescription benefit management companies, government agencies, private employers or other managed care providers) that agree to pay for all or a portion of a customer's eligible prescription purchases based on negotiated and contracted reimbursement rates. During fiscal 2021, the top five third party payors accounted for approximately 77.9% of our pharmacy sales. The largest third party payor, Caremark, represented 30.4% of our pharmacy sales. The loss of, or a significant change to the prescription drug reimbursement rates by, a major third party payor could decrease our revenue and harm our business.

During fiscal 2021, Medicaid and related managed Medicaid payors sales were approximately 17.9% of our pharmacy sales, of which the largest single Medicaid payor was approximately 1.3% of our pharmacy sales. During fiscal 2021, approximately 39.6% of our pharmacy sales were to customers covered by Medicare Part D.

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

During fiscal 2021, Medicare Part D payor revenue was approximately 51.4% of our Pharmacy Services Segment revenue, of which the largest single Medicare Part D payer was approximately 36.6% of our Pharmacy Services Segment revenue. During fiscal 2021, approximately 19.3% of our Pharmacy Services Segment revenue was to customers covered by Commercial payors. During fiscal 2021, approximately 12.1% of our Pharmacy Services Segment revenue was to customers covered by Medicaid payors.

Competition

The retail drugstore and pharmacy benefit management industries are highly competitive. Many of our competitors are larger, better capitalized, have access to greater financial and other resources, are diversified through other industries and have an international presence. Additionally, some of our competitors are vertically integrated, allowing them to leverage healthcare, health plan, and PBM operations together with their retail pharmacy footprint. Increasingly, these competitors are expanding in our existing markets. Greater competition exerts pressure on our pricing and promotional models and may force us to modify or reduce our prices.

Our retail drugstore operations compete with, among others, retail drugstore chains, such as Walgreens and CVS, along with independently owned drugstores, supermarkets such as Kroger, mass merchandisers like Walmart and Target, discount stores, wellness offerings, dollar stores and mail order and internet pharmacies. We compete on the basis of store location, payor access, convenience, price, customer service, and product selection.

Our pharmacy benefit management company competes with other pharmacy benefit managers, such as Caremark, Express Scripts, OptumRx and mid-market PBMs. We will increasingly compete on the basis of our PBM service offerings flexibility, clinical offerings, network management, Rite Aid as an anchor (in Rite Aid markets), omni-channel consumer engagement and the strength of client facing teams.

We believe continued consolidation in the healthcare industry, and the aggressive pricing by supermarkets and mass merchandisers and other PBM service providers will further increase competitive pressures in our industries.

Marketing and Advertising

In fiscal 2021, we advanced efforts to provide a seamlessly connected omni-channel customer experience. We continued to take a holistic approach to managing our media mix while shifting towards a digital-centric strategy. Marketing and advertising expense was approximately $122.7 million. This spend encompasses digital marketing to support pharmacy and front end sales, the wellness+ program and customer relationship marketing, in-store communication, weekly circular (print and digital), marketing campaign support including television, radio, and direct mail. During fiscal 2021, our marketing activities were primarily focused on the following:

- Relaunching the Rite Aid brand through in-store, digital, broadcast, and print media. This was a significant portion of our marketing spend, and we continue to reinforce the new brand proposition into fiscal 2022.
- Reinforcing the new Rite Aid brand position of fusing traditional and alternative remedies to support immunity.
- Supporting the launch of new items and brands as part of our merchandising refresh, including the support of new own brand items.
- Continued optimization of print media to drive marketing spend into more efficient and effective digital channels. We executed a multi-phase test and control program to determine where print advertising was less productive than digital spend, and adjusted marketing investment by channel throughout the year based on these learnings.
- Continued weekly promotional marketing as an important component of our marketing message mix, as we focused on promotions of items and categories that were most relevant to our customers during COVID-19.
- Supported our free wellness+ rewards loyalty program as a component of our customer proposition.
- Supported market-specific initiatives and individual store programs such as grand openings for new and remodeled stores (including the launch of our new store prototype)
- Focused efforts on our omni-channel marketing initiatives including our Rite Aid mobile app, social media, our riteaid.com website and e-commerce
- Additional programs focused on safety and convenience during the pandemic such as free delivery, ancillary immunizations and COVID-19 testing

Human Capital

Overview

As a healthcare company that operates in communities throughout the country and supports the whole health of millions of customers through our various lines of business, Rite Aid is positioned to make a meaningful difference in

the lives of our customers. Our mission is to keep our communities healthy and thriving, and at the core of that mission is our associates.

We believe our associates are integral to the success of our business transformation, through our RxEvolution strategy. In order to transform and grow our business, it is important for us to invest in our associates, giving them opportunities to grow professionally, care for themselves and their families, work in diverse and inclusive environments and be whole health ambassadors in their communities.

As of February 27, 2021, we employed over 50,000 associates across the United States, including Puerto Rico.

Communication and Engagement

Because our associates are so essential to our business strategy, we engage with them to measure and understand their perspectives and gather critical feedback. For the past two years, more than 70% of our associates have participated in our annual and periodic pulse associate surveys. The surveys give us valuable information regarding topics such as career development and growth, well-being, compensation, benefits, recognition, and leadership effectiveness.

Training and Development

Growing and developing our talent is key to our future and our ability to lead at our best every day. We seek to inspire a high-performance culture and promote talent development. We offer development on leadership, safety, compliance and other critical business skills. We offer various instructor-led and virtual instructor-led programs and maintain a vast curriculum of relevant, on-demand learning and development resources.

We also provide discounted tuition and reimbursement programs for associates to pursue degrees at select colleges or universities. We have recently been certified as an ACEP, Accredited Provider of Continuing Pharmacy Education, which will allow us to offer courses that count toward the CE licensing requirements of our pharmacists. In addition, we offer an accredited pharmacy technician certification program. Both efforts allow us to develop pharmacy associates to meet the demands of our business.

Our goal is to grow leaders at all levels and provide associates best-in-class opportunities to develop and grow the skills needed to meet personal goals and support Rite Aid’s future growth and success.

Diversity, Equity and Inclusion

We are proud to be a part of diverse communities with associates and customers that reflect the diversity of those communities. As such, we believe that an inclusive and welcoming culture is essential. We are committed to building a workplace in which every associate is appreciated and respected for their uniqueness and differences. We are transforming our business by viewing health and wellness through the lens of both traditional medicines and alternative remedies; we just don’t want to get healthy - we want to get thriving. On a parallel path, our approach to Diversity, Equity & Inclusion is intended to also be transformative. We just don’t strive to increase diversity; we want our talent to thrive.
We are focused on strengthening our DEI infrastructure which includes the development of a DEI team (a Center of Excellence) and DEI integrated strategy that will address talent processes such as talent acquisition, talent development and talent management. A key focus will be to develop solutions that seek to enhance the work environment so our associates can perform to their best potential and provide an optimum customer experience.

As of December 31, 2020 67% of associates self-reported as female. In addition, associates reported their race/ethnicity as: White 56%; Hispanic 15%; Black 13%; Asian 11%; and Other 5%.

Total Rewards and Recognition

We design compensation and benefit programs to support, recognize and reward performance of our associates. Included within the package of offerings for associates are annual bonuses, 401(k) plans, healthcare benefits, paid time off, life and disability coverage, merchandise discounts, and many other services and programs. In addition, we offer our associates wellness programs and tools for whole health in areas of importance such as mental health, disease management and financial wellness.

We also value and encourage associate recognition in order to celebrate outstanding contributions. We've recently added financial incentives into our recognition platform, and we utilize this tool to both celebrate the great achievements of our teams and create a community experience for our workforce.

COVID-19 Response

Rite Aid associates have been at the heart of our response to the pandemic, providing communities with medications, essential supplies, COVID-19 related information, COVID-19 tests, and COVID-19 vaccines.

During fiscal 2021, we supported our associates and their families in the following ways: bonuses and additional pay for our frontline associates who were working directly for and with our customers; pandemic pay for associates who tested positive or who were required to quarantine due to exposure; additional 15% associate discount; and job protected administrative leave for associates who did not feel comfortable coming to work due to health concerns. Additionally, the separately funded Rite Aid Foundation Associate Relief Fund provided over $3 million in assistance to grant recipient associates experiencing COVID-19 related hardships through financial support payments. As the safety of our customers and associates were our top concern, we also enacted protocols around cleaning, safety and social distancing.

Research and Development

We do not make significant expenditures for research and development.

Licenses, Trademarks and Patents

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

Collectively, these licenses are material to our operations.

Seasonality

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

Regulation

Our business is subject to federal, state and local laws, regulations, and administrative practices concerning the provision of and payment for health care services, including, without limitation: federal, state and local licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy; Medicare, Medicaid and

other publicly financed health benefit plan regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims; the ACA; regulations of the U.S. Food and Drug Administration, the U.S Consumer Product Safety Commission, the U.S. Federal Trade Commission, and the U.S. Drug Enforcement Administration, including regulations governing the purchase, sale, storing and dispensing of controlled substances, listed chemicals, and other products, as well as regulations promulgated by state and other federal agencies concerning automated outbound contacts such as phone calls, text messages and emails and the sale, advertisement and promotion of the products we sell, including nicotine products and alcoholic beverages. We are also subject to laws governing our relationship with our associates, including health and safety, minimum wage requirements, overtime, sick leave, working conditions, equal employment opportunity and unionizing efforts.

The legal environment affecting our business will continue to become more complex as new legal requirements and rules are introduced and existing laws are modified. Such legal changes could also create areas of uncertainty and require that we make material changes in our business operations and practices. Finally, any real or alleged non-compliance with these laws could materially and adversely impact our business and financial condition.

Legal Developments Relating to COVID-19

As one of the federal legislative responses to the COVID-19 pandemic, in March 2020, Congress enacted the Families First Coronavirus Response Act (the "Families First Act") and the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which require insurers and other payors to provide coverage for COVID-19 related medical services, in many cases without member cost-sharing. Pursuant to the government's implementation of COVID-19 related legislation, the Company has received reimbursement for furnishing COVID-19 related testing, vaccinations, and monoclonal antibody treatment. We received provider relief funds under the CARES Act. We also elected to defer paying our employer share of Social Security tax payments for the period beginning March 27, 2020, and we plan to remit such payments by making two equal installments on or about December 31, 2021 and December 31, 2022.

The American Rescue Plan Act of 2021, which was signed into law on March 15, 2021, authorized the government to spend approximately $1.9 trillion to address continued impacts from the COVID-19 pandemic, including approximately $415 billion in increased funding to cover the national vaccination program, COVID-19 testing, contract tracing, research and development, and medical supply manufacturing. Our business began offering COVID-19 vaccinations in its stores during the fourth quarter of fiscal 2021 to eligible individuals based on state and local jurisdiction guidelines.

In addition to the above legislation, we have operated pursuant to a large number of new laws, regulations, and directives from federal, state, county, and city authorities related to the COVID-19 pandemic. For the remainder of the COVID-19 pandemic and for some time thereafter, we anticipate additional mandates and directives, from federal, state, county, and city authorities. Such directives could include additional travel bans and restrictions, quarantines, shelter-in-place orders, and shutdowns or the reinstitution of more stringent regulations (including mandatory stay at home orders). While there is uncertainty regarding the financial and operational impacts of COVID-19 related governmental actions and inactions, such impacts could be material and adverse or could require substantial and permanent changes in the Company's operations.

Health Care Fraud and Abuse Laws

Because we submit claims and other information to Medicare, Medicaid, and other government-sponsored health care programs, the Company is subject to various health care fraud and abuse laws, including the federal False Claims Act ("FCA") and Anti-Kickback Statute ("AKS"), of which many states have similar state counterparts, as well as the federal Physician Self-Referral Law ("Stark Law"), and the beneficiary inducement provision of the Civil Monetary Penalties Law ("CMPL"). Violations of these laws can result in various forms of sanctions, including civil and criminal fines, treble damages, imprisonment, and exclusion from participation in government-sponsored health care programs. FCA lawsuits can be initiated by the government or by individual whistleblowers who pursue *qui tam* actions on behalf of the government. In order to participate in government health care programs and mitigate our risks under the health care fraud and abuse laws, the Company maintains a compliance program. The Department of Health and Human Services ("HHS") has the authority to monitor our operations and compliance efforts through audits and investigations,

and noncompliance can result in the imposition of significant civil and criminal penalties and exclusion from future participation in government programs.

Medicare Laws and Regulations

We participate in the federal government's Medicare Part D program as a stand-alone Prescription Drug Plan ("PDP") through our EI subsidiary, and our PBM business contracts to provide drug benefit administration services for other Medicare plans. Accordingly, we are subject to federal, state, and local regulations, including rules, guidance, memoranda, and updates published by CMS. This includes the governance set forth by the Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers. This program regulates the provision of Medicare outpatient prescription drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. Some Medicare regulations, including those governing pharmacy network, benefit designs, and product pricing, have been and may continue to be modified.

CMS could decrease Medicare reimbursement or increase fees imposed upon PDPs. Among other things, PDPs could be required to pay Medical Loss Ratio ("MLR") rebates for failure to meet minimum MLRs in a given year and repeated failure to meet such minimum annual thresholds can serve as a basis for program termination by CMS. Because our Medicare plan clients are subject to these same regulations, if they are negatively impacted by legal noncompliance or unexpected reimbursement cuts, they could seek to terminate or renegotiate contractual arrangements with our Company.

CMS assesses the quality of PDPs through star ratings, which may impact beneficiary enrollment numbers and sustained negative star ratings can result in plan termination. PDPs that fail or are unable to achieve or maintain star ratings can be terminated from Medicare.

Pharmacy, Professional Licensure, and Controlled Substance Laws and Regulations

We are subject to a wide range of statutes and regulations at the federal and state levels regarding the practice, licensure, and professional regulation of pharmacy and nursing. These statutes and regulations govern our retail, mail order, and specialty pharmacy operations, as well as the professional conduct of our pharmacists, pharmacy technicians, nurses, and physician assistants. Federal and state law also governs the regulation of prescriptions, drug products, and controlled substances. Governmental agencies with regulatory authority to audit and/or investigate our Company's operations in this area include, but are not limited to CMS, DEA, DOJ, FDA, state pharmacy boards, state nursing boards, state controlled substance regulators, and the state attorneys general. These agencies are authorized to impose criminal, civil, and administrative law sanctions for failure to comply with these laws and regulations.

HIPAA, Privacy, and Security Laws

Our business is also subject to patient and consumer privacy obligations, including corporate, pharmacy and associate responsibility imposed by the Health Insurance Portability and Accountability Act ("HIPAA"), as modified by the American Recovery and Reinvestment Act of 2009, including the Health Information Technology for Economic and Clinical Health Act. As a HIPAA covered entity, we are required to implement privacy standards, train our associates on the permitted uses and disclosures of protected health information ("PHI"), report breaches of PHI, provide a notice of privacy practices to our pharmacy customers and permit pharmacy customers to access and amend their records and receive an accounting of disclosures of PHI. We are also subject to regulations governing the receipt of remuneration in exchange for PHI and are subject to audit for HIPAA compliance and failure to satisfy HIPAA standards may result in civil and criminal penalties. Corresponding state health privacy laws also apply to our business to the extent they are more stringent than HIPAA, and require additional compliance efforts that may vary by state.

Data Protection and Cybersecurity Laws

Our business is subject to federal and state privacy and data security laws, with respect to our receipt, use and disclosure by us of personally identifiable information ("PII"), which laws require us to provide appropriate privacy and security safeguards for such information. The Cybersecurity Information Sharing Act of 2015 invites business entities to

share cyber threat indicators with the federal government and directs HHS to create a set of voluntary cybersecurity best practices for health care entities. In addition, we are subject to the recently enacted California Consumer Privacy Act ("CCPA"), which established numerous consumer rights including rights of access and deletion of consumer's data upon request. The approved California Privacy Rights Act (the "CPRA") with a January 1, 2023 compliance deadline amends and expands the CCPA. Similarly, Virginia has enacted the Virginia Consumer Data Protection Act ("CDPA"), which goes into effect on January 1, 2023, and provides for consumer privacy rights and protections that are in many ways similar to those in the California law, although the CDPA does not include a private right of action. Other states are considering laws that would give consumers increased control over their personal data. Courts also may adopt the standards for fair information practices promulgated by the FTC that concern consumer notice, choice, security, and access. Likewise, a number of states that have passed data safeguard legislation, most notably New York's Stop Hacks and Improve Electronic Data Security Act (the "SHIELD Act"), signed into law in July 2019, that requires any person or business owning or licensing computerized data that includes the private information of a resident of New York to implement and maintain reasonable safeguards to protect the security, confidentiality, and integrity of the private information. We are also subject to the Payment Card Industry Data Security Standard promulgated by the payment card industry in connection with handling credit card data. This standard contains requirements devised to aid entities that process, store or transmit credit card information to maintain a secure environment.

Our business faces a significant compliance burden in seeking to satisfy federal as well as multiple and sometimes inconsistent state laws regarding privacy and data security. We further anticipate the introduction of new state data security laws that could increase our compliance burdens or negatively impact our future business plans and operations. Additionally, many of the public health insurance exchanges ("Public Exchanges") governed by the Patient Protection and Affordable Care Act ("ACA") impose their own privacy and security standards. Because these standards may impact downstream entities, such as PBMs, they may impose additional compliance burdens for our business.

Consumer Protection Laws

Our business is required to comply with certain federal and state consumer protection laws. Applicable federal laws include the Federal Trade Commission Act, the Federal Postal Service Act, and the Consumer Product Safety Act. Our retail pharmacies and clinics are also subject to federal and state laws regarding the accessibility of goods and services to people with disabilities. Moreover, our website operations and electronic marketing and customer communications must be employed in compliance with certain consumer protection requirements. Under these laws, regulated entities may be subject to legal action and government investigations in regards to a wide array of customer-facing matters, including product pricing and expiration, disability access, and member loyalty and other financial incentive programs.

Telemarketing and Other Outbound Contacts

The Company engages in certain telemarketing activities that involve outbound phone calls, texts and emails. Accordingly, we are subject to various federal and state laws, including, but not limited to the federal Telephone Consumer Protection Act and the federal Telemarketing Sales Rule, under which federal and state regulators and private individuals may be authorized to take legal action and seek financial penalties for violations.

The Affordable Care Act

The ACA made broad and far-reaching changes to the U.S. health care system and increased access to coverage for persons who may be our patients or enrollees through federally-subsidized coverages. Among other things, the ACA expanded the Medicaid program eligibility in states that accepted federal incentives on such expansion. Pursuant to the ACA, the Company's PBM and PDP businesses, and its health plan clients, have also been subjected to greater government oversight and regulation, including in relation to minimum MLR requirements, benefit plan design mandates, and group rating and pricing practices. Parts of the ACA continue to change over time through federal and state regulatory and policy actions and related litigation. The U.S. Supreme Court is expected to rule on a major legal challenge to the constitutionality of the ACA and the U.S. Congress could take action to repeal, modify, or expand the ACA in the future. While the American Rescue Plan Act of 2021 increased federal subsidies for insurance obtained under the health exchange marketplace, this increase is temporary and it is unclear whether or not Congress will extend

the subsidies beyond their current expiration date at the end of 2022. As a result, there is significant uncertainty regarding the ACA and its ongoing impacts. Furthermore, any changes to the ACA and any state responses to such changes could have a significant adverse effect on our business operations and finances.

340B Drug Pricing Program

Under the 340B Drug Pricing Program, which is overseen by HHS and the Health Resources and Services Administration ("HRSA"), drug manufacturers are required to sell outpatient prescription drugs to certain safety net covered entities at discount prices. Drugs covered under the 340B Program may be dispensed by the covered entity or through contract pharmacies. In recent years, there has been litigation and enforcement actions regarding the dispensing of program drugs by contract pharmacies and the payment of mandatory 340B Program drug discounts by drug manufacturers. To the extent these actions could restrict the scope of the 340B Program or contract pharmacy arrangements, our Company's participation in the program could be significantly impacted. Congressional action with respect to the program might also have an impact.

Environmental, Safety, Hazardous Materials Laws

In connection with the ownership and operations of our stores, distribution centers and other sites, we are subject to laws and regulations at the federal, state, and local levels relating to the protection of the environment, public health, and occupational safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites. Failure to comply with such laws or regulations could result in fines or other government-imposed sanctions.

Pharmacy Network, Audit, and Plan Design Legislation

Medicare Part D and many states have implemented "any willing provider" laws and related legal provisions that regulate the ability of drug benefit plans and PBMs to utilize limited pharmacy networks. In addition, an increasing number of states have imposed conditions restricting or modifying the ability of health plans and PBMs to audit pharmacies and recover overpayments. Finally, CMS and the various states may regulate the design and structure of prescription drug formularies with regard to Medicare Part D and ACA-regulated plans. Some of these regulations may limit the ability of PBMs and health plans to impose formulary conditions or restrictions, such as copayment differentials and drug tiering designs, which may be used to manage drug benefits and promote cost-efficient utilization. These laws can significantly affect the ability of PBMs to develop and enforce pharmacy networks, formularies, and other plan design features to manage costs and to effectively conduct audits aimed at recovering overpayments for our health plan clients.

Medicare November 2020 Rebate Rule

Our Medicare PDP and PBM businesses could be impacted by the HHS final rule issued in November 2020, which would eliminate AKS safe harbor protection for rebates offered by drug manufacturers to PDPs and their contracting PBMs in exchange for formulary placement. The final rule would replace the previous safe harbor with two narrower safe harbors, one of which applies to certain point-of-sale rebates and the other to certain fixed service fees paid by manufacturers to PBMs. The final rule has been the subject of industry legal challenge, and pursuant to a court order, its implementation date has been delayed until at least January 1, 2023. It is currently unclear whether the final rule will survive legal challenge and be implemented as currently drafted, or whether it will be struck down, modified, or rescinded. Moreover, even if implemented in its current form, it is unclear what the final rule's resulting impact could be to the Company and its PBM and PDP businesses.

Pharmacy Pricing Legislation

An increasing number of states are regulating Maximum Allowable Cost reimbursement ("MAC"), which may be employed by PBMs to regulate generic drugs costs. State MAC laws are frequently designed to regulate MAC pricing methodologies, price transparency, the types of drugs subject to MAC pricing, and MAC pricing appeals by pharmacies. In December 2020, the U.S. Supreme Court held that an Arkansas law that regulated PBM activities relating to MAC

pricing and procedures was not preempted under ERISA. This decision affords states greater latitude to enact and enforce MAC laws that could restrict the ability of PBMs to impose and enforce MAC pricing parameters to maximize cost efficiency.

Antitrust and Unfair Competition Laws

The Company falls under the oversight of the U.S. Federal Trade Commission ("FTC") and state regulatory authorities that are charged with investigating and enforcing laws relating to unfair and deceptive trade practices and "unfair methods of competition." Some government investigations and prosecutions have focused on competitive and trade practices employed by PBMs with regard to rebates, drug pricing, and restrictive pharmacy networks, as well as various other business practices of PBMs and retail pharmacies. In addition, the federal government and most states have enacted antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Antitrust enforcement in the healthcare sector is currently a priority of the FTC and the U.S. Department of Justice. Violations of federal or state antitrust and unfair trade practices laws and regulations could result in substantial statutory penalties and other sanctions.

FDA Regulation

The Company's business operations include, among other things, the distribution and dispensing of prescription drugs, the sale of over-the-counter medications and products, the private labeling of certain drug products and medical devices, and the sale of prepared food, all of which are regulated in whole or in part by the FDA. The FDA is authorized to impose various forms of sanction, including financial penalties, for failure to comply with regulations governing matters within its oversight.

ERISA Regulation

Our PBM business provides prescription drug administrative services for various employer and union sponsored health plans, many of which are governed by the Employee Retirement Income Security Act of 1974 ("ERISA"). In some cases, our PBM business may contract with a plan sponsor to assume limited fiduciary responsibilities and may be subject to direct civil and/or criminal liability under ERISA for any illegal remuneration provided to or received from plan sponsors.

ERISA generally preempts state and local laws that relate to employee benefit plans, but there is a lack of clarity as to the scope of ERISA preemption, which has been a frequent subject of litigation. In December 2020, the U.S. Supreme Court upheld an Arkansas law designed to restrict the ability of PBMs to impose certain financial and operational parameters on network pharmacies. To the extent that future cases further limit ERISA's preemptive scope, PBMs could be increasingly subject to state-imposed legal requirements.

PBM Laws and Regulations

Many states have implemented laws and regulations designed to more stringently regulate PBM activities, including by means of PBM licensure and registration requirements, restrictions on pharmacy audits, MAC pricing transparency, and restrictions on PBM pharmacy network designs and dispensing channels. In addition, various quasi-regulatory organizations and credentialing organizations have issued (or may propose) model standards or other requirements concerning PBMs, specialty pharmacies, or health plans. Examples include the National Association of Boards of Pharmacy, the National Association of Insurance Commissioners ("NAIC"), the National Committee for Quality Assurance ("NCQA"), and the Utilization Review Accreditation Commission ("URAC"), among others. Cumulatively, these efforts could restrict PBMs' leeway to manage costs and lead to greater inconsistency among state standards and laws, thereby increasing PBM compliance burdens.

PBMs are also subject to various federal and state fraud, waste, and abuse laws, including the FCA, AKS, and state false claims act and anti-kickback laws. Failure to comply with any of these laws could invite financial penalties and/or civil or criminal sanctions.

Government Agreements and Mandates

The Company may, from time to time, be subject to certain agreements or mandates imposed by federal, state, and local authorities in the form of consent orders, corporate integrity agreements, corrective action plans, and settlements. Currently, our business is subject to consent orders that pertain to information security, tobacco, pricing and product expiration dates.

Among other actions, the Company maintains a comprehensive security program designed to protect the security, confidentiality, and integrity of personal information collected from or about our consumers. Compliance with these consent orders requires regular assessments and reports and our compliance activities may occasionally be subject to audit or inspection. Any failure to abide by the terms of these consent orders could result in civil, criminal, or administrative remedies or penalties.

Consumer Financial Laws

The Company offers various financial products and services at certain of our retail store locations that include money (wire) transfer services, bill payment, money orders, check cashing, prepaid gift cards, and digital payment platforms. Accordingly, our business is subject to certain international, federal, and state anti-money laundering and consumer financial laws. Violations of these laws and regulations can result in civil and criminal penalties as well as reputational harm.

Corporate Governance and Internet Address

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

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

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

Item 1A. Risk Factors

Factors Affecting our Future Prospects

Set forth below is a description of certain risk factors which we believe may be relevant to an understanding of us and our business. Security holders are cautioned that these and other factors may affect future performance and cause actual results to differ from those which may be anticipated. Additionally, the impact of COVID-19 could further exacerbate many of the risk described below or described elsewhere herein. See the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

Summary

The following is a summary of the principal risks we face:

Risks Related to our Financial Condition

- Widespread health developments, including the global COVID-19 pandemic, could materially and adversely affect our business, financial condition and results of operations.
- We are highly leveraged. Our substantial indebtedness could limit cash flow available for our operations and could adversely affect our ability to service debt or obtain additional financing if necessary.
- Borrowings under our senior secured credit facilities are based upon variable rates of interest, which could result in higher expense in the event of increases in interest rates or changes affecting the availability of LIBOR occur.
- The covenants in the instruments that govern our current indebtedness may limit our operating and financial flexibility.

Risks Related to our Operations

- We need to improve our operations in order to improve our financial condition, but our operations will not improve if we cannot effectively implement our business strategy or if our strategy is negatively affected by worsening economic conditions.
- We purchase all of our brand and generic drugs from a single wholesaler. A disruption in this relationship may have a negative effect on us.
- Recent significant changes to our executive leadership team and any future loss of members of such team, and the resulting management transitions could materially adversely affect our financial performance.
- Our ability to attract and motivate talented employees is uncertain and poses financial risks.
- Failure or significant disruption to our information technology systems/infrastructure or a cyber-security breach could adversely affect our operations.
- We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business.
- Any failure to protect the security of personal information about our customers and associates, could result in significant business liability and reputational harm.
- Any inability to keep existing store locations or open new locations in desirable places may have a negative impact on our operations.
- A variety of business continuity hazards and risks could materially and adversely affect our and our vendors' business operations and our quarterly results may fluctuate significantly.

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

- The markets in which we operate are very competitive and further increases in competition could adversely affect us.
- A change in our pharmacy and payor mix could adversely affect our profit margins.

- Consolidation in the healthcare industry could adversely affect our business, financial condition and results of operations.
- There are risks related to the availability, pricing, and safety profiles of the pharmacy drugs and products we purchase and sell.
- Changes in third party reimbursement levels for prescription drugs and changes in industry pricing benchmarks could reduce our margins and have a material adverse effect on our business.
- A substantial portion of our pharmacy revenue is currently generated from a limited number of third party payors, and, if there is a loss of, or significant change to prescription drug reimbursement rates by, a major third party payor, our revenue will decrease and our business and prospects could be adversely impacted.
- A substantial portion of our Pharmacy Services segment revenue is currently generated from a limited number of customers, and, if there is a loss of a major customer, our revenue will decrease and our business and prospects could be adversely impacted.
- We are exposed to risks related to litigation and other legal proceedings.
- We are subject to governmental regulations, procedures and requirements; our noncompliance or a significant legislative, regulatory, or public policy change could adversely affect our business, the results of our operations or our financial condition.
- Government audits, investigations, and reviews could lead to liability and operational changes.
- If our compliance or other systems and processes fail or are deemed inadequate, we may become subject to regulatory actions and/or litigation.
- Certain risks are inherent in providing pharmacy services; our insurance may not be adequate to cover any claims against us.
- We may be subject to significant liability should the consumption of any of our products cause injury, illness or death.
- Risks of declining gross margins in the PBM industry could adversely impact our profitability.
- The possibility of PBM client loss and/or the failure to win new PBM business could impact our ability to secure new business.
- Regulatory or business changes relating to our participation in Medicare Part D, the medical loss ratio for our Medicare Part D eligible members, or our failure to otherwise execute on our strategies related to Medicare Part D, may adversely impact our business and our financial results.
- Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our clients and customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services.
- The impact of extreme events, natural disasters, and climate change could create unpredictability for our business operations.
- The seasonal nature of our business causes fluctuations in operations.

- Changes in laws governing labor, employers, and union organizing may increase our labor costs.

Risks Related to our Financial Condition

Widespread health developments, including the global COVID-19 pandemic, could materially and adversely affect our business, financial condition and results of operations.

We continue to closely monitor the events and impacts relating to COVID-19, which has been declared a pandemic by the World Health Organization, and has spread to, and impacted the economies of, every state in the U.S. and countries around the world. This pandemic, as well as the reality or fear of any other adverse public health developments, has impacted and could further adversely and materially affect, among other things, our workforce, operations, stores, consumer behavior, and supply chain, and the operations of our customers, suppliers and business partners. The local, national and international responses to the virus have continued to evolve and have included voluntary and in some cases, mandatory quarantines as well as shut downs and other restrictions on travel and commercial, social, medical and other activities, and declarations of emergencies. Such measures have contributed to increases in the unemployment rate and changes in customer spending.

The nature and scope of COVID-19's impacts to our business and operations will depend on a series of evolving factors and developments that are difficult to assess, predict, or control, which include, but are not limited to, the following:

- the severity and duration of the pandemic, including whether there are additional outbreaks or spikes in the number of COVID-19 cases, and future mutations or related strains of the virus in areas where we operate;

- the duration, degree, and effectiveness of governmental, business, or other measures implemented in response to the pandemic, including but not limited to quarantine, shelter-in-place, social distancing and face mask measures; restrictions on or changes to our operations up to and including complete or partial closure of our stores, facilities and distribution centers; economic measures; access to unemployment compensation; stimulus payments and other fiscal policy changes; or additional measures that may not yet be effected;

- the timing, availability and supply chain of, and prevalence of access to and utilization of, effective medical treatments and vaccines for COVID-19;

- changes in the timing and extent of restrictions impacting our business and our customers as a result of COVID-19, which may vary materially over time and among the different regions and markets we serve;

- the extent and duration of the effect on consumer confidence, economic well-being, spending, and drug utilization, deferred medical care, the rate of elective procedures and even recommended screening tests, as well as customer demand, consumer behavior, buying patterns and shopping behaviors, including spend on discretionary categories, which often include higher margin products, and increased utilization of online sales channels, both during and after the pandemic;

- the health of our associates, costs to field our team, and our ability to meet staffing needs in our stores, distribution facilities, corporate offices and other critical functions, including if associates are quarantined as a result of exposure;

- the impacts on our distribution channels and supply chain, including manufacturers and suppliers of products we sell, including the supply chain of COVID-19 vaccines and other pharmaceuticals, and logistics and transportation providers, and on our other strategic partners and service providers, including the ability of these third parties to pay amounts owed to us timely or in full or to remain in business;

- consequences on our business performance and strategic initiatives stemming from the substantial investment of time and other resources to the pandemic response;

- high MLR on our Part D business due to stockpiling maintenance medications;

- continued delays in new request for proposals ("RFP") from new or existing PBM customers or RFP decisions during our PBM selling season;
- volatility or disruptions in the credit and financial markets during and/or after the pandemic;
- any impairment in value of our tangible or intangible assets which could be recorded as a result of a weaker economic conditions;
- the potential effects on our internal controls including those over financial reporting as a result of changes in working environments such as shelter-in-place and similar orders that are applicable to our associates and business partners, among others;
- changes to, and modifications of, business practices and internal policies and procedures, including in response to regulatory changes as a result of COVID-19;
- increased cyber security risks, including as a result of our associates, and employees of our business partners, vendors, suppliers and other third parties with which we do business, working remotely;
- the impact of regulatory and judicial changes in liability for workers compensation and potential increases in insurance costs, medical claims costs and workers' compensation claim costs;
- the impact of litigation or claims from customers, employees, suppliers, regulators or other third parties relating to COVID-19 or our actions in response thereto;
- the potential reputational harm to our brands if we fail to appropriately respond, or are perceived to have inadequately responded, to risks relating to COVID-19;
- additional increased costs associated with operating during the global pandemic;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary and inflationary pressures;
- the impact of the pandemic on economic activity and the pace and extent of recovery when the pandemic subsides, which may vary materially over time and among the different regions and markets we serve; and
- the long-term impact of the COVID-19 pandemic on the global economy, trade relations, consumer behavior, our industry, and our business operations.

The above factors and risks, among others, are difficult to predict and could result in material adverse impacts to our business, operations, cash flows, and financial condition. In addition, it is difficult to predict the potentially adverse impacts that COVID-19 could have on our customers, suppliers, vendors, and other business partners, which, in turn could materially and adversely impact our business.

In response to the spread of COVID-19, we have modified certain of our business practices (including store hours and access, employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our associates, customers, suppliers and business partners. We have also modified certain other parts of our operations during the pandemic, including by changing protocols for employee-customer interactions and customer traffic and imposing other restrictions or modifications in operations due to applicable legal or other requirements. These measures have adversely affected, and may continue to adversely affect, the customer experience, sales, and operations, and there can be no assurance that such measures will be sufficient to mitigate the risks posed by the pandemic. Further, the initiatives we have implemented to slow and/or reduce the impact of COVID-

19 and the related support programs we have put in place for our associates and customers have in some instances, increased our operating expenses and reduced the efficiency of our operations. There can be no assurance that a continued effect of COVID-19 will not impact the measures we have taken to reduce costs.

We have incurred additional costs to meet the safety and needs of our associates and customers, including the installation of Plexiglas shields at pharmacy and front-end counters to provide additional protection, providing additional cleaning materials for our stores and other facilities, and focusing on home delivery and digital services. In addition, we have enhanced certain employee benefits and compensation for those on the front-line. We expect to continue to incur additional costs, which may be significant, as we continue to implement operational changes in response to this pandemic. Additionally, a substantial number of our associates have transitioned to remote working environments as a result of the pandemic, which has increased risks for our business, including an increased demand for information technology resources, increased risk of business interruptions, increased risk for cybersecurity attacks, and increased risk of unauthorized dissemination of sensitive, personal, proprietary, or confidential information.

Efforts to mitigate COVID-19, have required and will continue to require, a large investment of time and resources across the company and may delay other value added services. COVID-19 or any other adverse public health developments could inhibit or delay our ability to execute our strategic initiatives, including, without limitation (i) improving our PBM business, (ii) redefining the role of our pharmacists, (iii) updating our retail and digital experience; (iv) the roll-out of our future store concept, merchandising changes and rebranding efforts; and (v) our plan to increase the sales volume and profitability of our existing brands. Additionally, the impact of COVID-19 on our business may be impacted by the costs of treatment of COVID-19, unemployment, and the related effects on customer insurance coverage caused by governmental actions to mitigate the impact of COVID-19 or other adverse public health developments, including reduced demand for acute medication.

While the FDA has authorized certain COVID-19 vaccines for emergency use, and vaccines have become more widely available, the COVID-19 pandemic continues to evolve and the severity and duration of the pandemic, and the nature of the governmental response to it, remain unknown at this time. The extent to which COVID-19 may impact our business depends on numerous factors, which are highly uncertain and cannot be predicted and are outside of our control, including new information concerning the severity of the virus, the scope of the outbreak and the actions to contain the virus or treat its impact and the disruption, the emergence of new, and potentially more infectious or deadly strains of the virus, the disruption of the vaccine supply chain and the reluctance of some to receive the vaccine which could result in prolonging the pandemic, the impact of stimulus legislation, volatility in the global capital markets, which may increase the cost of capital and adversely impact our access to capital and to what extent normal economic and operating conditions can resume, among others. The pandemic has also contributed to adverse conditions in the global economy and reduced expectations for the global economy, which could adversely affect our business as well as the businesses of many of our largest customers and other companies with which we do business. As a result, the impact on our financial and operating results cannot be reasonably estimated at this time, but the impact could be material. Additionally, the impact of COVID-19 could further exacerbate the impact of the other risk factors contained in this and the other reports the Company files with the SEC.

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

We had, as of February 27, 2021, approximately $3.1 billion of outstanding indebtedness and stockholders' equity of $615.2 million. We also had additional borrowing capacity under our $2.7 billion senior secured asset-based revolving credit facility (the "Senior Secured Revolving Credit Facility" or "revolver") of $1,643.1 million, net of outstanding letters of credit of approximately $122.0 million.

Our high level of indebtedness will continue to restrict our operations. Among other things, our indebtedness will:

- limit our flexibility in planning for, or reacting to, changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors with less indebtedness;

- limit our ability to reinvest in our business;
- render us more vulnerable to general adverse economic, regulatory and industry conditions; and
- require us to dedicate a substantial portion of our cash flow to service our debt.

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

We believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal 2022 and have no significant debt maturities prior to December 2023. However, if our operating results, cash flow or capital resources prove inadequate, or if interest rates rise significantly, we could face liquidity constraints. Additionally, we improved our leverage and liquidity position this past year by selling our rights in our calendar 2020 Medicare Part D final reconciliation payment. There can be no assurance that we will enter into a similar transaction for our calendar 2021 payment, or that if we do so, that the terms of such transaction will differ, and such differences could be material. If we are unable to service our debt or experience a significant reduction in our liquidity, we could be forced to reduce or delay planned capital expenditures and other initiatives, sell assets, restructure or refinance our debt or seek additional equity capital, or need to change certain elements of our strategy, and we may be unable to take any of these actions on satisfactory terms or in a timely manner. Any of these actions may not be sufficient to allow us to service our debt obligations or may have an adverse impact on our business. Additionally, the impact of COVID-19 on the financial markets and the economy may make it more difficult to consummate any such transaction, or result in terms that are less favorable to us. Our existing debt agreements limit our ability to take certain of these actions. Our failure to generate sufficient operating cash flow to pay our debts or refinance our indebtedness could have a material adverse effect on us.

Borrowings under our senior secured credit facilities are based upon variable rates of interest, which could result in higher expense in the event of increases in interest rates or changes affecting the availability of LIBOR occur.

Borrowings under our senior secured credit agreement, dated as of December 20, 2018 (as amended by the First Amendment to Credit Agreement, dated as of January 6, 2020, the "Credit Agreement"), consisting of a $2,700.0 million senior secured asset-based revolving credit facility ("Senior Secured Revolving Credit Facility") and a $450.0 million "first-in, last out" senior secured term loan facility ("Senior Secured Term Loan") (collectively, the "Existing Facilities") bear interest at a rate that varies depending on the London Interbank Offered Rate ("LIBOR"). If LIBOR rises, the interest rates on borrowings under our Existing Facilities will increase. Therefore an increase in LIBOR, would increase our interest payment obligations under those borrowings and have a negative effect on our cash flow and financial condition.

Further, in July 2017, the U.K. Financial Conduct Authority (the authority which regulates LIBOR) announced that it intends to stop encouraging or requiring banks to submit LIBOR rates after 2021. In March 2021, ICE Benchmark Administration, the administrator for LIBOR, confirmed its intention to cease publishing one week and two-month USD LIBOR after December 2021 and all remaining USD LIBOR tenors in mid-2023. Concurrently, the U.K. Financial Conduct Authority announced the cessation or loss of representativeness of the USD LIBOR tenors from those dates. The Alternative Reference Rates Committee, a group of market participants convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Financing Rate ("SOFR"), a rate calculated based on repurchase agreements backed by treasury securities, as its recommended alternative benchmark rate to replace USD LIBOR. These reforms may cause LIBOR to perform differently than it has in the past, and it is expected that LIBOR will cease to be available after 2021 or mid-2023, as applicable. At this time, it is not known whether or when SOFR or other alternative reference rates will attain market traction as replacements for LIBOR. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2021 or mid-2023, as applicable. There is uncertainty about how applicable law and the courts will address the replacement of LIBOR with alternative rates on variable rate retail loan contracts. After LIBOR ceases to exist, interest rates on future indebtedness may be adversely affected or we may need to renegotiate the terms of our

Existing Facilities to replace LIBOR with the new standard benchmark rate that is established, if any, or to otherwise agree with the trustees or agents on a new means of calculating interest. In addition, changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows. Uncertainty as to the nature of such potential changes may also adversely affect the trading market for our securities.

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

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

- incur debt and liens;
- pay dividends;
- make redemptions and repurchases of capital stock;
- make loans and investments;
- prepay, redeem or repurchase debt;
- engage in acquisitions, consolidations, asset dispositions, sale-leaseback transactions and affiliate transactions;
- change our business;
- amend some of our debt and other material agreements;
- issue and sell capital stock of subsidiaries;
- restrict distributions from subsidiaries; and
- grant negative pledges to other creditors.

The Credit Agreement has a financial covenant that requires us to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (i) on any date on which availability under the Senior Secured Revolving Credit Facility is less than $200.0 million, or (ii) on the third consecutive business day on which availability under the Senior Secured Revolving Credit Facility is less than $250.0 million and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolver is equal to or greater than $250 million. As of February 27, 2021, we had availability under our revolver of approximately $1,643.1 million, our fixed charge coverage ratio was greater than 1.00 to 1.00, and therefore, we were in compliance with the Credit Agreement's financial covenant. The Credit Agreement also limits our ability to maintain cash, without repaying a portion of our outstanding borrowings under the Senior Secured Revolving Credit Facility, above a specified amount. For additional details, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations—Future Liquidity".

Risks Related to our Operations

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

We have not achieved the sales productivity level of our major competitors. Improving our retail sales, prescription volumes and profitability at our PBM are essential to enable us to cover our fixed staffing costs and to

improve profitability and operating cash flow. If we are not successful in implementing our strategies, including our efforts to increase sales and further reduce costs, or if our strategies are not effective, we may not be able to improve our operations. A prolonged impact of COVID-19 may also make it more difficult to implement our strategies or cause a delay in such implementation. Furthermore, any adverse change or weakness in general economic conditions or major industries can adversely affect drug benefit plans and reduce our pharmacy sales. Adverse changes in general economic conditions, including those resulting from COVID-19, such as increased unemployment, could affect consumer buying practices and consequently reduce our sales of front-end products, and cause a decrease in our profitability. Failure to improve operations or weakness in major industries or general economic conditions would adversely affect our results of operations, financial condition and cash flows and our ability to make principal or interest payments on our debt.

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

We purchase all of our brand drugs and, with limited exceptions, all of our generic drugs from a single wholesaler, McKesson. Because McKesson acts as a wholesaler for drugs purchased from manufacturers worldwide, any disruption in the supply of a given drug, including disruptions related to COVID-19 or to extreme weather or natural disasters, supply shortages of key ingredients, or regulatory actions by domestic or foreign governmental agencies, or specific actions taken by drug manufacturers, could adversely impact McKesson's ability to fulfill our demands, which could adversely affect us. Pharmacy sales represented approximately 66.7% of our total drugstore sales during fiscal 2021. While we believe that alternative sources of supply for most generic and brand name pharmaceuticals are readily available, a significant disruption in our relationship with McKesson could result in disruptions to our business until we execute a replacement wholesaler agreement or develop and implement self-distribution processes. We believe we could obtain qualified alternative sources, including through self-distribution, for substantially all of the prescription drugs we sell on an acceptable basis, and accordingly that the impact of any disruption would be temporary, although the impact of COVID-19 could make it more challenging to find a suitable replacement on our then desired timeline. On February 28, 2019, we and McKesson entered into a contract that will continue our pharmaceutical sourcing and distribution partnership for an additional ten years. Under the terms, McKesson will continue providing us with sourcing and direct-to-store delivery for brand and generic pharmaceutical products through March 2029.

Recent significant changes to our executive leadership team and any future loss of members of such team, and the resulting management transitions could materially adversely affect our financial performance.

Our success depends to a significant degree on the continued contributions of members of our senior management and other key operations, merchandising and administrative personnel, and the loss of any such persons could have a material effect on our business. During the past several years we experienced significant changes to our executive leadership team, including a new President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, among others. These types of management changes have the potential to disrupt our operations due to the operational and administrative inefficiencies, added costs, increased likelihood of turnover, and the loss of personnel with vital institutional knowledge, experience and expertise, which could result in significant disruptions to our operations. In addition, we must successfully integrate the new executive leadership within our organization in order to achieve our operating objectives, and changes in key leadership positions may temporarily affect our financial performance and results of operations as new leadership becomes familiar with our business. We are currently engaging in these activities primarily on a work from home basis as a result of COVID-19.

Our ability to attract and motivate talented employees is uncertain and poses financial risks.

We regularly compete with similar companies for talented employees and our success depends in part on attracting, retaining, and/or replacing key personnel with equally qualified employees. Given the ongoing risk of employee loss, we may occasionally need to increase salaries or experience increases in employment-related costs, which may reduce our revenue. We may also lose employees due to illness or other sudden occurrences, which makes succession planning difficult.

Loss and/or transition of Company personnel, including senior executives, creates uncertainty as there is no guarantee that new personnel or leadership will adequately perform or smoothly transition into their new roles. Moreover, our investors, business partners, and employees prefer stability and any high level of employee turnover

could undermine stakeholder support. Ultimately, the unpredictability regarding employee continuity and potential disruption stemming from employee losses pose a threat to our overall financial condition and operations.

Failure or significant disruption to our information technology systems/infrastructure or a cyber-security breach could adversely affect our operations.

Technology and computer systems are critical to many aspects of our pharmacy business, including, but not limited to, the drug supply chain, our dispensing of drugs, and our reimbursement. For instance, we rely extensively on computer systems used by Rite Aid, Elixir, Bartell Drugs, and Health Dialog, to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes. Our computer systems are at risk for failures, security breaches, and natural disasters, and they have been subject to attack by perpetrators of random or targeted malicious technology-related events, such as cyberattacks, computer viruses, worms, bot attacks or other destructive or disruptive software and attempts to misappropriate customer information, including credit card information. These sorts of attacks could subject our systems to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber security breaches, vandalism, coordinated cyber security attacks, severe weather conditions, catastrophic events and human error, and our disaster recovery planning cannot account for all eventualities. Although we deploy an information security program designed to protect confidential information against data security breaches through a multi-layered approach to address information security threats and vulnerabilities, including ones from a cyber-security standpoint, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position and results of operations. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. We could also be adversely impacted by any significant disruptions in, or security breaches of, the systems and technology of third party suppliers or processors we interact with, including key payors and vendors with whom we share information including PHI. If our systems are damaged, fail to function properly or otherwise become unavailable, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our business and results of operations. Any compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or our data could also result in a violation of applicable privacy, information security, and other laws, significant legal and financial exposure, fines or lawsuits, damage to our reputation, loss or misuse of the information and a loss of confidence in our security measures, which could harm our business. Although we maintain cyber security insurance, we cannot assure you that the coverage limits under our insurance program will be adequate to protect us against future claims.

To effectively compete with our competitors and continue business partner relations, we must constantly invest in and update our technology and computer systems. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs. We must ensure that our security operations are current and that our technology can properly interface with our business partners. These investments are costly, long-term, and unpredictable. There are risks that our technology investments will not be successful, will not provide a return on investment, and/or may fail or never be deployed. Oftentimes, we are implementing multiple updates or technology changes at the same time. We are currently in the process of changing our omni-channel distribution and there can be no assurance that we will be able to implement this technology on its intended timeline or that it will achieve its intended benefits.

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

We accept payments using a variety of methods, including cash, checks, credit and debit cards, gift cards and mobile payment technology, and we may accept new forms of payment over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. For

certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Any failure to protect the security of personal information about our customers and associates, could result in significant business liability and reputational harm.

In the ordinary course of business, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our web site, or otherwise communicate and interact with us, including in connection with our administration of COVID-19 vaccines. We may collect, maintain, and store information about our associates in the normal course of business and contract with third party business associates and vendors to accomplish these tasks. We may share information about such persons with vendors that assist with certain aspects of our business. Despite instituted safeguards for the protection of such information, security could be compromised and confidential customer or business information misappropriated, for which we have paid related penalties in the past. Data breaches or violations of data protection laws may result in liability for the Company, even if caused, in whole or in part, by a business associate, vendor, or other third party. The unlawful handling or disclosure of sensitive personal information could also pose a serious risk to our customers' trust in the Company, including the unlawful handling or disclosure due to security breaches of the systems and technology of third party suppliers or processors that we interact with, including key payors and vendors with whom we share information including PHI, PII and personal credit card information ("PCI"). Ransomware attacks or loss of customer or business information could disrupt our operations, damage our reputation, and expose us to claims from customers, financial institutions, payment card associations and other persons, or result in governmental investigation and enforcement, sanctions, fines, and/or penalties, any of which could have an adverse effect on our business, financial condition and results of operations. In addition, compliance with more rigorous privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes. Our brand, reputation, and customer loyalty may be negatively impacted in the event of any personal information security failures. The occurrence or scope of any future data security failures are unpredictable, and it may prove difficult or impossible to fully mitigate or remediate their negative consequences. If we fail to comply or are alleged to have failed to comply with applicable data protection and privacy laws and regulations, we could be subject to government enforcement actions or private lawsuits.

Any inability to keep existing store locations or open new locations in desirable places may have a negative impact on our operations.

We compete with other retailers and businesses to identify and develop desirable locations for retail store operations. Our ability to find suitable locations and our store construction, renovation, and operating costs can vary based on the specific state and locality and applicable zoning, environmental, and real estate laws. Additionally, construction delays, adverse modifications in lease terms, and changes in community demographics can negatively impact our store operations and revenues, and in some instances may cause us to close or relocate stores.

A variety of business continuity hazards and risks could materially and adversely affect our and our vendors' business operations and our quarterly results may fluctuate significantly.

A variety of potential hazards, risks, and factors could adversely impact our and our vendors' operations and performance, including, but not limited to, health epidemics or pandemics like COVID-19 and the unexpected impact of

mitigation efforts, such as social distancing, mask mandates and the delay of elective medical procedures, could have on the demand for cough, cold and flu products and acute prescriptions, natural disasters, acts of war or terrorism, extended protests or periods of civil unrest, labor disputes, quality control issues, infrastructure failures, trade sanctions, inflation, changing market conditions, the introduction of new prescriptions drugs, the seasonal nature of our business, and changes in payor reimbursement rates and terms. These and other factors could also lead to disruptions in domestic and global supply chains and our ability to source products and find qualified vendors to access appropriate products in a timely and efficient manner. We could also be liable for any resulting personal injury or property damage arising from these risks to the extent our existing insurance coverage is insufficient or unavailable to cover associated losses. Due to these often unavoidable risks, some of which are beyond our management and control, our businesses, operating results, cash flows, and financial condition could be adversely affected.

Historically, our operating results have varied on a quarterly basis, and one or more of the above or other factors or risks could cause our results to fluctuate significantly. Accordingly, quarter-to-quarter comparisons of our operating results are not necessarily meaningful and a single quarter's results may not provide reliable insight into our anticipated future performance.

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

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

In the retail pharmacy business, we face intense competition with local, regional and national companies, including other drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, dollar stores and internet pharmacies. Many of our competitors are larger, better capitalized, have access to greater financial and other resources, are diversified through other industries and have an international presence. Additionally, some of our competitors are vertically integrated, allowing them to leverage healthcare, health plan, and PBM operations together with their retail pharmacy footprint. Increasingly, these competitors are expanding in our existing markets. Greater competition exerts pressure on our pricing and promotional models and may force us to modify or reduce our prices.

Competition from grocers and on-line retailers has significantly increased during the past few years. Some of our competitors have or may merge with or acquire pharmacies, pharmaceutical services companies, PBMs, health insurance companies, specialty or mail order facilities and/or enter into strategic partnership alliances with Group Purchasing Organizations or wholesalers, which may further increase competition. We may not be able to effectively compete against them because our existing or potential competitors have financial and other resources that are superior to ours.

In the PBM business, we also face competition from other PBMs, including large, national PBMs, PBMs owned by national health plans and smaller standalone PBMs. Certain of these competitors entered into the PBM industry before us, and there is no assurance that we will successfully compete with entities with more established PBM businesses and scale. Further, we may be at a competitive disadvantage because we are more highly leveraged than our competitors. The ability of our stores to achieve profitability depends on their ability to achieve a critical mass of loyal, repeat customers.

We cannot assure you that we will be able to continue to effectively compete in our markets or increase our sales volume in response to further increased competition, or that any of our competitors are not in a better position to absorb the impact of COVID-19.

Our market dynamics are subject to fluctuation due to consumer behavior and technology changes, among other factors. We must adjust our operations and business model to meet these evolving market demands. If we fail to make proper adjustments to meet changing market conditions, we may lose customers, which would have a negative impact on our revenue.

Increasingly, a greater volume or proportion of dispensed prescriptions involve specialty drugs, which are often furnished through limited distribution channels. Because these channels are restricted, there is substantial competition among out competitors to be included in these networks. Furthermore, participation in these networks is challenging, as

the higher costs and complexities of specialty drugs may be difficult to manage. If we are unable to effectively compete for specialty drug business and access this market, we face potential harm to our business operations and adverse impacts to our financial condition.

A change in our pharmacy and payor mix could adversely affect our profit margins.

Our Retail Pharmacy segment is subject to changes in pharmacy and payor mix, including shifts in pharmacy prescription volume toward programs offering less favorable reimbursement terms, which could adversely affect the results of our operations. For instance, we anticipate that a growing number of prescription drug sales will involve government subsidized drug benefit programs, 90-day fill programs, and specialty drug sales, under which our business may receive lower margins. As our government-funded businesses grow, our exposure to changes in law and policy under those programs will increase. Also, the government could reduce funding for health care or other programs or cancel, decline to renew, or modify our contracts, which could adversely impact our business, operating results, and cash flows. Moreover, many Medicare Part D plans and commercial payors are adopting preferred pharmacy networks, in which participating pharmacies must accept lower reimbursement in exchange for access to the payors' patient population. We could incur negative financial impacts should the terms and conditions of such preferred networks become less favorable or if we are unable to offset lower reimbursement with additional prescription volume, other business, or improved efficiencies. We could also be negatively impacted by changes in the relative distribution of drugs dispensed at our pharmacies between brands and generics or if we experience an increase in the amounts we pay to procure pharmaceutical products.

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

Many organizations in the healthcare industry, including PBMs, have consolidated to create larger healthcare enterprises with greater market power, which has contributed to continued pricing pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services and/or reduce our access to customers. If these pressures result in reductions in our prices and/or reduce our access to customers, our business will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business, financial condition and results of operations. In addition, our new strategy also includes selective acquisition opportunities and we cannot assure you that we will be able to consummate any such transactions on commercially reasonable terms, if at all.

There are risks related to the availability, pricing, and safety profiles of the pharmacy drugs and products we purchase and sell.

The continued conversion of various prescription drugs, including potential conversions of a number of popular medications, to over-the-counter medications may reduce our pharmacy sales and customers may seek to purchase such medications at non-pharmacy stores. Also, if the rate at which new prescription drugs become available slows or if new prescription drugs that are introduced into the market fail to achieve popularity, our pharmacy sales may be adversely affected. Additionally, we cannot assure you that the historic approval time for new drugs will not be impacted by the FDA's priorities in response to COVID-19. The withdrawal of certain drugs from the market, including COVID-19 vaccines, increased safety risk profiles or regulatory restrictions, concerns about the safety or effectiveness of certain drugs, or negative publicity surrounding certain categories of drugs may also have a negative effect on our pharmacy sales or may cause shifts in our pharmacy or front-end product mix. Additionally, as we offer new products and services, our litigation and regulatory risk profile may change and increase our exposure to new risks that we have not previously encountered or addressed.

The availability of brand versus generic drugs and changes in those markets may also negatively impact our financial condition. Brand name drugs may become subject to inflation. Moreover, as generic drug utilization has increased, and due to consolidation within the generic drug manufacturing industry, our pharmacy business has

experienced decreasing profit margins on generic drug sales. If our businesses are unable to accommodate shrinking profit margins and decreased sales on certain prescription drug products, our costs, revenue and overall profits could be adversely and materially impacted.

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

Sales of prescription drugs reimbursed by third party payors, including the Medicare Part D plans and state sponsored Medicaid and related managed care Medicaid plans, represented substantially all of our pharmacy sales in our Retail Pharmacy segment in fiscal 2021.

The continued efforts of Congress and Federal agencies, health maintenance organizations, managed care organizations, PBM companies, other State and local government entities, and other third-party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation relating to how drugs are priced, may impact our profitability. These efforts may be increased as a result of increased deficits or sudden losses as a result of the impact of COVID-19. The competitive success of our pharmacy business is largely dependent on our ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms as they may adopt narrow or restricted retail or specialty pharmacy networks. Some of these entities may offer pricing terms that we may not be willing to accept or otherwise restrict or exclude our participation in their networks of pharmacy providers. Any significant loss of third-party business could have a material adverse effect on our business and results of operations. In particular, there has been a growth in the number of preferred Medicare Part D networks, many of which we are excluded from participating in. Decreased reimbursement payments to retail and mail order pharmacies for brand and generic drugs has caused a reduction in our profit. Historically, the effect of this trend has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. Additionally, it has resulted in us providing contractual financial performance guarantees to certain of our PBM clients with respect to minimum drug price discounts for our retail pharmacy network and mail order pharmacy. Any inability to achieve guaranteed minimum drug price discounts provided to our PBM clients could have an adverse effect on our results of operations.

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

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

The repeal of all or part of the ACA, significant changes to Medicaid funding or even significant destabilization of the Health Insurance Marketplaces could impact the number of Americans with health insurance and, consequently,

prescription drug coverage. Even if the ACA remains, significant provisions of the ACA have not yet been finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage) and it is uncertain whether or in what form these provisions will be finalized. We cannot predict the effect, if any, a repeal of all or part of the ACA, the implementation or failure to implement the outstanding provisions of the ACA, or the enactment of new health care system legislation to replace current legislation may have on our retail pharmacy and pharmacy services operations.

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

A substantial portion of our pharmacy revenue is currently generated from a limited number of third party payors. While we are not limited in the number of third party payors with which we can do business and results may vary over time, our top five third party payors accounted for 77.9%, 79.9% and 80.4% of our pharmacy revenue during fiscal 2021, 2020 and 2019, respectively. The largest third party payor, Caremark, represented 30.4%, 28.8% and 28.3% of pharmacy sales during fiscal 2021, 2020 and 2019, respectively. We expect that a limited number of third party payors will continue to account for a significant percentage of our pharmacy revenue, and the loss of all or a portion of, or a significant change to customer access or prescription drug reimbursement rates by, a major third party payor could decrease our revenue and harm our business.

A substantial portion of our Pharmacy Services segment revenue is currently generated from a limited number of customers, and, if there is a loss of a major customer, our revenue will decrease and our business and prospects could be adversely impacted.

A substantial portion of our Pharmacy Services segment revenue is currently generated from a limited number of customers. While we are not limited in the number of customers with which we can do business and results may vary over time, our top five customers accounted for 59.7%, 53.2% and 49.3% of our Pharmacy Services segment revenue during fiscal 2021, 2020 and 2019, respectively. The largest payor, CMS, represented 36.6%, 27.4% and 23.0% of Pharmacy Services segment revenue during fiscal 2021, 2020 and 2019, respectively. We expect that a limited number of customers will continue to account for a significant percentage of our Pharmacy Services segment revenue, and the loss of all or a portion of a major customer could decrease our revenue and harm our business.

We are exposed to risks related to litigation and other legal proceedings.

We operate in a highly regulated and litigious environment. We and/ or one or more of our subsidiaries are regularly involved in a variety of legal proceedings arising in the ordinary course of our business, including arbitration, litigation (and related settlement discussions), and other claims, and are subject to regulatory proceedings including audits, inspections, inquiries, investigations, and similar actions by health care, insurance, pharmacy, tax and other governmental authorities. Legal proceedings, in general, and securities, derivative action and class action and multi-district litigation, in particular, can be expensive and disruptive, and may exceed any applicable insurance coverage. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years.

For example, we, along with certain of our chain pharmacy competitors, have been named as a defendant in numerous lawsuits relating to the distribution and dispensing of prescription opioids, including in the consolidated federal multi-district litigation entitled In re National Prescription Opiate Litigation (MDL No. 2804), currently pending in the United States District Court for the Northern District of Ohio. Similar cases that name us as a defendant also have been filed in numerous state court proceedings by any array of plaintiffs, including state Attorneys General, counties, cities, municipalities, Native American tribes, hospitals, third-party payors, and individuals. The Company has also received subpoenas, civil investigative demands, and other requests relating to opioid matters from the Department of Justice and several state Attorneys General.

We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, and the costs incurred in litigation can be substantial, regardless of the outcome. Proceedings that we believe are insignificant may develop into material proceedings and subject us to unforeseen outcomes or expenses. Additionally, the actions of certain participants in our industry may encourage legal proceedings against us or cause us to reconsider our litigation strategies. As a result, we could from time to time incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could harm our reputation and have a material adverse effect on our results of operations, financial condition and business practices.

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

Our business is subject to numerous federal, state and local laws and regulations. Changes in these laws, regulations, or in related public policy may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable regulations could result in the imposition of civil and criminal penalties that could adversely affect the continued operation of our business, including: (i) suspension of payments from government programs; (ii) loss of required government certifications; (iii) loss of authorizations or changes in requirements for participating in, or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; (iv) loss of licenses; or (v) significant fines or monetary penalties. The regulations to which we are subject include, but are not limited to, federal, state and local registration and regulation of pharmacies; dispensing and sale of controlled substances and products containing pseudoephedrine, among others; applicable Medicare and Medicaid Regulations; HIPAA; regulations relating to the protection of the environment and health and safety matters, including those governing exposure to and the management and disposal of hazardous substances; regulations enforced by the U.S. Federal Trade Commission, the U.S. Department of Health and Human Services and the Drug Enforcement Administration as well as state regulatory authorities, governing the sale, advertisement and promotion of products we sell; anti-kickback laws; false claims laws and federal and state laws governing the practice of the profession of pharmacy. We are also governed by federal and state laws of general applicability, including laws regulating matters of wage and hour laws, working conditions, health and safety and equal employment opportunity.

Our dealings with customers face scrutiny from the federal and state government agencies, including the Federal Trade Commission, who are charged with enforcing consumer protection laws and deterring alleged unfair or deceptive trade practices. Under these laws, regulated entities may be subject to legal action and government investigations in regards to a wide array of customer-facing matters, including product pricing and expiration, disability access, and member loyalty and other financial incentive programs. A failure to keep our customers adequately informed of our practices could result in government investigations or regulatory action which may result in potential fines and penalties.

Additionally, Congress passed the ACA in 2010, which resulted in significant structural changes to the health insurance system. However, in December 2017, the individual mandate was repealed. If the individual mandate repeal or a rollback of other aspects of the ACA, such as Medicaid expansion, actually leads to a significant reduction in demand for the healthcare services, the demand for our pharmacy services businesses may decline and could have a material impact on our business. A major legal challenge to the constitutionality of the ACA is currently pending before the U.S. Supreme Court and the U.S. Congress could take action to repeal, modify, or expand the ACA in the future. Therefore, we cannot predict what effect, if any, the repeal of all or part of the ACA or any subsequent replacement legislation may have on our retail pharmacy and pharmacy services businesses.

Government audits, investigations, and reviews could lead to liability and operational changes.

Our pharmacy, PBM, and PDP businesses are subject to periodic audits, investigations, and reviews from state and federal regulators and agencies. Health care laws and regulations, particularly within the pharmacy sector, are complex and subject to frequent change. Moreover, federal and state regulators are highly focused on and engage in vigorous enforcement efforts with regard to fraud, waste and abuse within the health care and pharmacy industry. Accordingly, we invest significant resources in our compliance efforts and must constantly re-evaluate our efforts, as the laws, regulations, and enforcement trends may change.

Because our business is subject to varied audits, investigations, and reviews, we face risks including financial penalties, civil and/or criminal liability, suspension or exclusion from government programs, and possible licensure sanction. For example, because our PDP is governed by CMS' audit authority, it could be subject to financial recoupment, penalties, beneficiary enrollment restrictions, and other forms of sanction. In addition, our PBM's operations could be indirectly and adversely impacted if any of its Medicare plan clients are subjected to adverse government audits or enforcement actions. The outcome of any given audit, investigation, and/or review could require significant changes to our business practices, revenue flow, and overall financial condition, with a resulting adverse impact on the Company as a whole.

If our compliance or other systems and processes fail or are deemed inadequate, we may become subject to regulatory actions and/or litigation.

In addition to Rite Aid being subject to extensive and complex regulations, many contracts that Elixir has with its customers impose compliance obligations on it. These compliance obligations frequently are reviewed and audited by Elixir's customers and regulators. More generally, if the Company's systems and processes designed to maintain compliance with applicable legal and contractual requirements, and to prevent and detect instances of, or the potential for, non-compliance fail or are deemed inadequate, we may be subject to regulatory actions, litigation and other proceedings which may result in damages, fines, suspension or loss of licensure, suspension or exclusion from participation in government programs and/or other penalties, any of which could adversely affect our businesses, operating results, cash flows and/or financial condition.

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

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

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

Products that we sell could become subject to contamination, product tampering, mislabeling or other damage requiring us to recall our products. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability claims may be asserted against us with respect to any of the products or pharmaceuticals we sell and we may be obligated to recall our products. Moreover, while we have insurance to cover potential product liability and some claims may be subject to indemnification from other parties, we cannot guarantee that our insurance limits and/or indemnification will be adequate to cover any and all product related claims. We also may not be able to maintain this insurance on acceptable terms in the future. A product liability judgment against the Company or a product recall could have a material, adverse effect on our business, reputation, financial condition or results of operations.

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

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

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

Legislation exists under Medicare Part D and in the majority of states that affect the ability of our PBM business (and its health plan clients) to limit access to pharmacy provider networks or remove pharmacy network providers. For instance, "any willing provider" laws may mandate that our PBM or its health plan clients admit nonparticipating pharmacies that are willing and able to satisfy the applicable terms and conditions for network participation. Medicare Part D and many states have implemented laws or rules that limit the ability of PBMs and health plans to impose formulary conditions or restrictions, such as copayment differentials, and drug tiering designs, which may be used to manage drug benefits and promote cost-efficient utilization. Together, these laws could affect the ability of our PBM to effectively manage costs for its health plan clients. Additionally, many states now have legislation impacting the ability of our PBM to conduct audits of claims submitted by network pharmacies. These laws could hinder our PBM's ability to recover overpayments identified through audits and negatively affect our PBM's services and its ability to achieve enhanced economic outcomes for its health plan clients.

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

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

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

One of our subsidiaries, Elixir Insurance, is an insurer domiciled in Ohio (with Ohio as its primary insurance regulator) and licensed in all 50 states, and is approved to function as a Medicare Part D Prescription Drug Plan ("PDP") plan sponsor for purposes of individual insurance products offered to Medicare-eligible beneficiaries and for purposes of making employer/union-only group waiver plans available for eligible clients. We also provide other products and services in support of our clients' Medicare Part D plans or the Federal Retiree Drug Subsidy program. We are working to minimize the working capital tied to the business by reducing and/or selling the receivable as we did for calendar 2020, however there are no assurances that we can reduce or sell the receivable for calendar 2021. There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program and we can give no assurance that these risks will not materially adversely impact our business and financial results in future periods.

EI is subject to various contractual and regulatory compliance requirements associated with participating in Medicare Part D. EI is subject to certain aspects of state laws regulating the business of insurance in all jurisdictions in which EI offers its PDP plans. As a PDP sponsor, EI is required to comply with Federal Medicare Part D laws and regulations applicable to PDP sponsors. Additionally, the receipt of Federal funds made available through the Part D program by us, our affiliates, or clients is subject to compliance with the Part D regulations and established laws and regulations governing the Federal government's payment for healthcare goods and services, including the Anti-Kickback Statute and the False Claims Act. Similar to our requirements with other clients, our policies and practices associated with operating our PDP are subject to audit. If material contractual or regulatory non-compliance was to be identified, monetary penalties and/or applicable sanctions, including suspension of enrollment and marketing or debarment from participation in Medicare programs, could be imposed. Further, the adoption or promulgation of new or more complex Medicare Part D regulatory requirements, including those governing pharmacy networks, benefit designs, and product pricing, could require us to incur significant costs which could adversely impact our business and our financial results. Similar negative impacts could result from potential Part D reimbursement reductions, adverse CMS audits, government enforcement actions, or decreases in star ratings. Further, EI's level of margin is limited by minimum Medical Loss Ratio ("MLR") requirements imposed by the ACA. Medicare PDPs are subject to minimum MLR audits and EI could be required to pay MLR rebates for failure to meet minimum MLRs in a given year and repeated MLR failures could lead to CMS termination.

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

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

The success of our business depends in part on customer loyalty, superior customer service and our ability to persuade customers to purchase products in additional categories and our private label brands. Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being

purchased by our clients and customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services.

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

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

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

The impact of extreme events, natural disasters, and climate change could create unpredictability for our business operations.

Extreme weather, natural disasters, and pandemics, such as COVID-19, can have severe negative ramifications for the pharmacy industry, including interfering with revenue flows, reimbursement, and the drug supply chain. More broadly, long-term climate change has unknown and potentially negative impacts on our industry. These sorts of extreme events can lead to unknown cost increases for our business to supply health care services and therefore pose a risk to our business and operating results.

The seasonal nature of our business causes fluctuations in operations.

Our first and fourth fiscal quarter operation results generally fluctuate during the holidays, and cough, cold, and flu season, during which time we typically experience a larger proportion of retail sales and earnings as compared to other fiscal quarters. We increase our merchandise and inventory levels in anticipation of the holiday season, and there is a risk that unpredictable events, such as inclement weather, could impact retail sales and earnings during this time. Furthermore, the unpredictable timing and severity of the cough, cold, and flu season may impact our first and fourth fiscal quarter operation results, including in regards to prescription and non-prescription drug sales. Additionally, the continued impact of COVID-19 and the related mitigation efforts, such as social distancing, mask mandates and the delay of elective medical procedures, could further exacerbate our seasonal trends for the cough, cold and flu season and prescription sales.

Changes in laws governing labor, employers, and union organizing may increase our labor costs.

The Company's business costs are directly impacted by legal and regulatory mandates governing employers and unionizing activities. Federal and state labor laws are subject to ongoing legislative changes, and any new or more stringent mandates imposed on employers, such as minimum wage increases or additional paid leave requirements, will

increase our costs as an employer. Our employee-related operating costs could also increase in response to any union organizing activities among our employees. Overall, these potential labor, wage and union-related changes could increase our operating costs and thereby negatively impact our financial condition.

Item 1B. Unresolved SEC Staff Comments

None

Item 2. Properties

As of February 27, 2021, we operated 2,510 retail drugstores. The average selling square feet of each store in our chain is approximately 10,500 square feet. The average total square feet of each store in our chain is approximately 13,600. The stores in the eastern part of the U.S. average 8,800 selling square feet per store (11,200 average total square feet per store). The stores in the western part of the U.S. average 14,000 selling square feet per store (18,500 average total square feet per store).

The table below identifies the number of stores by state as of February 27, 2021:

State	Store Count
California	534
Connecticut	34
Delaware	38
Idaho	14
Massachusetts	10
Maryland	42
Michigan	260
Nevada	1
New Hampshire	60
New Jersey	129
New York	318
Ohio	206
Oregon	71
Pennsylvania	517
Vermont	6
Virginia	70
Washington	200
Total	2,510

Our stores have the following attributes at February 27, 2021:

Attribute	Number	Percentage
Freestanding	1,468	58.5 %
Drive through pharmacy	1,356	54.0 %
GNC stores within a Rite Aid store	1,652	65.8 %

We lease 2,386 of our operating drugstore facilities under non-cancelable leases, many of which have original terms of 10 to 22 years. In addition to minimum rental payments, which are set at competitive market rates, certain leases require additional payments based on sales volume, as well as reimbursement for taxes, maintenance and insurance. Most of our leases contain renewal options, some of which involve rent increases. The remaining 124 drugstore facilities are owned.

We own our corporate headquarters, which is located in a 213,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease 175,000 square feet of space in various buildings near Harrisburg,

Pennsylvania for document warehousing use and additional administrative personnel. We own additional buildings near Harrisburg, Pennsylvania which total 100,000 square feet and house our model store and additional administrative personnel.

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

Location	Owned or Leased	Approximate Square Footage
Distribution centers, continuing operations		
Perryman, Maryland	Leased	885,000
Perryman, Maryland(1)	Leased	262,000
Pontiac, Michigan	Owned	325,000
Woodland, California	Leased	513,000
Woodland, California(1)	Leased	108,000
Wilsonville, Oregon	Leased	547,000
Lancaster, California	Leased	914,000
Liverpool, New York	Owned	828,000
Des Moines, Washington	Leased	266,000

(1) Satellite distribution locations.

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

We also lease a 55,800 square foot ice cream manufacturing facility and lease a 30,000 square foot storage facility located in El Monte, California.

Our Pharmacy Services segment leases approximately 247,000 square feet of space in various buildings primarily in Twinsburg, Ohio for additional administrative personnel. In addition, we own approximately 52,000 square feet of space in North Canton, Ohio for our mail order and specialty drug facilities.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, underperforming or otherwise deemed unsuitable. We also evaluate strategic dispositions and acquisitions of facilities and prescription files. When we reduce in size, close or relocate a store or close distribution center facilities, we often continue to have leasing obligations or own the property. We attempt to sublease this space. As of February 27, 2021, we had 1,994,067 square feet of excess space, 1,197,174 square feet of which was subleased.

Item 3. Legal Proceedings

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

Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and such proceedings involve potential monetary sanctions that, among other matters, the Company reasonably believes will exceed an applied threshold not to exceed $1 million. Applying this threshold, there are no environmental matters to disclose for this period.

Item 4. Mine Safety Disclosures

Not applicable

Information about our Executive Officers

The following sets forth the name, age and biographical information for each of the Registrant's executive officers as of February 27, 2021. In each case the officer's term of office extends to the date of the meeting of the Board following the next annual meeting of stockholders of Rite Aid Corporation. Previous positions and responsibilities held by each of the executive officers over the past five years or more are indicated below:

Heyward Donigan, 60, Ms. Donigan was appointed Chief Executive Officer in 2019 and President and Chief Executive Officer in February 2020. From 2015 to 2019 Ms. Donigan served as President and Chief Executive Officer of Sapphire Digital, which designs and develops omni-channel platforms that help consumers choose their best fit healthcare providers. Previously, she served as President and Chief Executive Officer of Value Options, then the nation's largest independent behavioral health improvement company, and prior to that she served as Executive Vice President and Chief Marketing Officer at Premara Blue Cross and as Senior Vice President of all operations at Cigna Healthcare. She previously held executive roles at General Electric, Empire BCBS and U.S. Healthcare. She has served on the Board of Directors of Rite Aid since 2019.

James J. Peters, 49, Mr. Peters was appointed Chief Operating Officer in October 2019. From 2016 until 2019 Mr. Peters served as chief executive officer of Skyward Health, a strategic healthcare advisory firm. Prior to joining Skyward Health, Mr. Peters was a 12-year senior executive of Geisinger Health System, helping establish Geisinger's national reputation for healthcare innovation. At Geisinger, Mr. Peters held roles including chief executive officer of Geisinger Medical Management Corporation, managing partner of Geisinger Ventures and senior vice president, chief strategic partnerships officer. Prior to joining Geisinger, Mr. Peters served as principal at Updata Capital, a venture capital firm focused on software, data analytics and health information technology, from 2002 to 2004. Mr. Peters is a member of the American College of Corporate Directors, and from 2016 until its acquisition in 2019 Mr. Peters was an independent director of NxStage Medical, Inc. In 2020, Mr. Peters was elected as a board member of the National Association of Chain Drug Stores and appointed to its executive committee.

Matthew Schroeder, 51, Mr. Schroeder was appointed Chief Financial Officer of Rite Aid Corporation in March 2019 and was named Executive Vice President in September 2019. Prior to his promotion to this position, Mr. Schroeder served as Senior Vice President, Chief Accounting Officer and Treasurer from 2017 until 2019. Mr. Schroeder joined Rite Aid in 2000 as Vice President of Financial Accounting and served as Group Vice President of Strategy, Investor Relations and Treasurer from 2010 to 2017. Prior to joining the Company, Mr. Schroeder worked in public accounting for Arthur Andersen, LLP. Mr. Schroeder serves as a member of the board of directors of The Rite Aid Foundation.

Jessica Kazmaier, 44, Ms. Kazmaier has been the Chief Human Resources Officer at Rite Aid since March 2019 and was named Executive Vice President of Rite Aid in September 2019. Ms. Kazmaier joined Rite Aid in 2001 in the total rewards function and has held various human resources positions of increasing responsibility, including Vice President, Total Rewards; and Group Vice President, Compensation, Benefits and Human Resources Corporate Services. Ms. Kazmaier previously served as retirement benefits manager at Harsco Corporation. Ms. Kazmaier has served as the President of The Rite Aid Foundation since October 2019.

Jocelyn Z. Konrad, 51, Ms. Konrad was appointed Executive Vice President and Chief Pharmacy Officer of Rite Aid in September 2019. Ms. Konrad joined Rite Aid in 2007 as a result of the Eckerd acquisition. Prior positions at Rite Aid include Regional Pharmacy Vice President; Vice President of Healthcare Initiatives; Group Vice President of Pharmacy Initiatives and Clinical Services; Executive Vice President, Pharmacy; and most recently, Executive Vice President, Pharmacy and Retail Operations. Ms. Konrad served as a District Manager for Eckerd Pharmacy from 1997 through 2007. From 1992 to 1997, she served as a pharmacist for Thrift Drug Pharmacy. Ms. Konrad serves as a member of the board of directors of The Rite Aid Foundation.

Brian T. Hoover, 56, Mr. Hoover was appointed Chief Accounting Officer in March 2019. Prior to his promotion to this position, Mr. Hoover served as Group Vice President and Controller of the Company since 2017. Prior to that position, Mr. Hoover served as Vice President, Financial Reporting and Accounting from 2008 to 2017. Prior to that role, Mr. Hoover served in various positions of increasing responsibility at the Company. Mr. Hoover served for six years in public accounting at KPMG.

Justin Mennen, 40, Mr. Mennen was appointed Senior Vice President and Chief Information Officer in January 2019 and was named Executive Vice President in October 2019. Prior to joining Rite Aid, Mr. Mennen served as chief digital officer and chief information officer for CompuCom Systems Inc. from 2016 to December 2018. Before CompuCom, Mr. Mennen led technology organizations across several industries, most recently as the vice president of enterprise architecture and technology innovation for Estée Lauder Companies Inc. from 2014 to 2016 and as the regional chief information officer Asia Pacific and Japan for Dell Technologies from 2012 to 2014.

Andre Persaud, 52, Mr. Persaud was appointed Executive Vice President, Retail for Rite Aid in February 2020. From 2018 to January 2020 Mr. Persaud was an executive consultant with Wakefern Food Corporation, the nation's largest retailer-owned cooperative, where he worked on the company's ongoing strategic transformation. From 2016 to January 2020 Mr. Persaud was the principal of The AVNP Group LLC, which provided management consulting services to drive organization transformations. From 2015 to 2016 Mr. Persaud served as executive vice president, retail, for Shopko Stores Operating Company with direct responsibility for all operating divisions and banners across retail, pharmacy and optical. Mr. Persaud also served as senior vice president, store operations for Burlington Stores and senior vice president, central operations and merchandising for Loblaw Companies Limited, Canada's leading grocery business. Prior to Loblaw, Mr. Persaud served in senior operational leadership roles for Shoppers Drug Mart. He began his career as a pharmacist and served in progressive leadership roles to eventually lead drug store operations for Walmart Canada. Mr. Persaud has served on the National Association of Chain Drug Stores' board of directors and as a board advisor for Profitect, an AI and prescriptive analytics company.

Paul Gilbert, 54, Mr. Gilbert was appointed Executive Vice President, General Counsel and Corporate Secretary in August 2020. Mr. Gilbert was a partner at Epstein Becker & Green, P.C from 2017 to 2020. Before that, he served for 10 years as the executive vice president, chief legal officer and corporate governance officer at LifePoint Health, Inc. While at LifePoint, he also served as Chief Development Officer and Corporate Secretary.

Erik Keptner, 48, Mr. Keptner was appointed Senior Vice President and Chief Marketing and Merchandising Officer in June 2019. Mr. Keptner served as Senior Vice President, Marketing of Wakefern Food Corporation from 2018 to June 2019 and as Senior Vice President, Sales, Marketing & Merchandising at Giant Food Stores (a subsidiary of Ahold Delhaize) from 2014 to 2018. Prior to these roles Mr. Keptner served in various leadership positions at Ahold Delhaize and Giant Food Stores.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On April 10, 2019, our Board of Directors approved a one-for-twenty reverse stock split of our outstanding shares of common stock. The reverse stock split was effected on April 18, 2019 at 5:00 p.m. Eastern time. At the effective time, every twenty issued and outstanding shares of our common stock were converted into one share of common stock. No fractional shares were issued in connection with the reverse stock split, and in lieu thereof, each stockholder holding fractional shares was entitled to receive a cash payment (without interest or deduction) from the Company's transfer agent in an amount equal to such stockholder's respective pro rata shares of the total net proceeds from the Company's transfer agent sale of all fractional shares at the then-prevailing prices on the open market. In connection with the reverse stock split, the number of authorized shares of our common stock was also reduced on a one-for-twenty basis, from 1.5 billion to 75 million. The par value of each share of common stock remained unchanged. A proportionate adjustment was also made to the maximum number of shares issuable under the Company's 2014 Equity Incentive Plan.

Our common stock is listed on the NYSE under the symbol "RAD." On April 15, 2021, we had approximately 9,652 stockholders of record. The following table shows the quarterly high and low sales prices for our common stock, adjusted on a retroactive basis to reflect the reverse stock split:

Fiscal Year	Quarter	High	Low
2022 (through April 15, 2021)	First	$ 28.90	$ 17.17
2021	First	19.93	9.24
	Second	18.64	12.21
	Third	14.08	8.86
	Fourth	32.48	12.87
2020	First	15.00	7.03
	Second	9.96	5.04
	Third	11.58	6.09
	Fourth	23.88	7.49

We have not declared or paid any cash dividends on our common stock since the third quarter of fiscal 2000 and we do not anticipate paying cash dividends on our common stock in the foreseeable future. Our senior secured credit facility and some of the indentures that govern our other outstanding indebtedness restrict our ability to pay dividends.

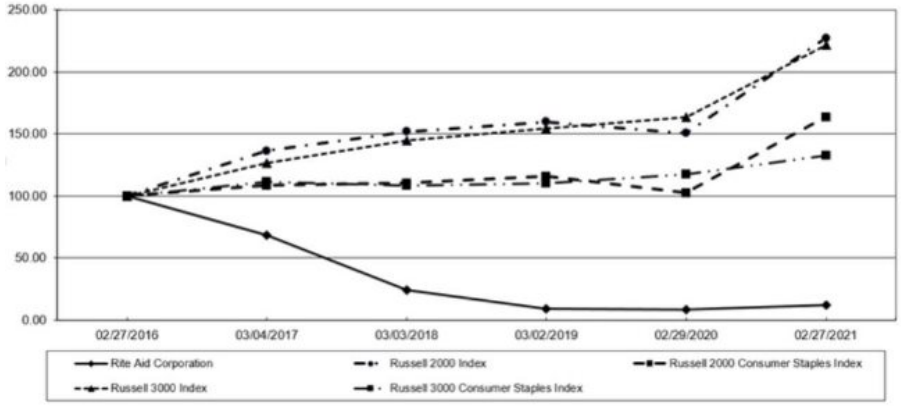
We have not sold any unregistered equity securities during the period covered by this report, nor have we repurchased any of our common stock, during the period covered by this report.

STOCK PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on our common stock for the last five fiscal years with the cumulative total return on (i) the Russell 2000 Consumer Staples Index, (ii) the Russell 3000 Consumer Staples Index, (iii) the Russell 2000 Index, and (iv) the Russell 3000 Index, over the same period (assuming the investment of $100.00 in our common stock and such indexes on February 27, 2016 and reinvestment of dividends).

For comparison of cumulative total return, we have elected to use the Russell 2000 Consumer Staples Index, consisting of 55 companies, and the Russell 2000 Index. The Russell 2000 Consumer Staples Index is a capitalization-weighted index of companies that provide products directly to consumers that are typically considered nondiscretionary items based on consumer purchasing habits. The Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index and represents the universe of small capitalization stocks from which many active money managers typically select.

STOCK PERFORMANCE GRAPH
Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100 on February 27, 2016
February 27, 2021



	2017	2018	2019	2020	2021
RITE AID CORP	68.47	23.99	9.17	8.56	12.30
Russell 2000 Index	136.44	152.03	159.75	150.52	227.28
Russell 2000 Consumer Staples Index	108.60	110.41	115.84	102.60	163.73
Russell 3000 Index	126.38	144.97	154.16	163.66	221.47
Russell 3000 Consumer Staples Index	111.70	108.45	110.18	117.27	132.57

Item 6. Selected Financial Data—Continuing Operations

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations" and the audited consolidated financial statements and related notes.

	Fiscal Year Ended(1)				
	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)	March 3, 2018 (52 weeks)	March 4, 2017 (53 weeks)
	(Dollars in thousands, except per share amounts)				
Summary of Continuing Operations:					
Revenues from continuing operations	$ 24,043,240	$ 21,928,393	$ 21,639,557	$ 21,528,968	$ 22,927,540
Net (loss) income from continuing operations	(100,070)	(469,219)	(666,954)	(349,532)	4,080
Basic and diluted (loss) income per share:					
Basic (loss) income per share from continuing operations	$ (1.87)	$ (8.82)	$ (12.62)	$ (6.66)	$ 0.08
Diluted (loss) income per share from continuing operations	$ (1.87)	$ (8.82)	$ (12.62)	$ (6.66)	$ 0.08
Total assets	9,335,404	9,452,369	7,591,367	8,989,327	11,593,752
Total debt	3,086,207	3,105,434	3,494,760	3,942,292	7,328,693

(1) As noted above, and further detailed in Note 4 to the consolidated financial statements, in connection with the Sale, the Company has applied discontinued operations treatment for the Sale as required by Accounting Standards Codification 210-05—*Discontinued Operations* ("ASC 210-05"). In accordance with ASC 205-20, the Company reclassified the assets and liabilities to be sold, including 1,932 stores (the "Acquired Stores"), three (3) distribution centers, related inventory and other specified assets and liabilities thereto (collectively the "Assets to be Sold" or "Disposal Group") to assets and liabilities held for sale on its consolidated balance sheets, and reclassified the financial results of the Disposal Group in its consolidated statements of operations and consolidated statements of cash flows for all periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations

Overview

We are a healthcare company with a retail footprint, providing our customers and communities with a high level of care and service through various programs we offer through our two reportable business segments, our Retail Pharmacy segment and our Pharmacy Services segment. We accomplish our goal of delivering comprehensive care to our customers through our retail drugstores and our PBM, Elixir. We also offer fully integrated mail-order and specialty pharmacy services through Elixir Pharmacy. Additionally through Elixir Insurance, Elixir also serves one of the fastest-growing demographics in healthcare: seniors enrolled in Medicare Part D. When combined with our retail platform, this comprehensive suite of services allows us to provide value and choice to customers, patients and payors and allows us to compete in today's evolving healthcare marketplace.

Retail Pharmacy Segment

Our Retail Pharmacy segment sells brand and generic prescription drugs and various other pharmacy services, as well as an assortment of front-end products including health and beauty aids, personal care products, seasonal merchandise, and a large private brand product line. Our Retail Pharmacy segment generates the majority of its revenue through the sale of prescription drugs and front-end products at our over 2,500 retail pharmacy locations across 17 states. We replenish our retail stores through a combination of direct store delivery of pharmaceutical products facilitated through our pharmaceutical Purchasing and Delivery Agreement with McKesson, and the majority of our front-end products through our network of distribution centers.

Pharmacy Services Segment

Our Pharmacy Services segment provides a fully integrated suite of PBM offerings including technology solutions, mail delivery services, specialty pharmacy, network and rebate administration, claims adjudication and pharmacy discount programs. Elixir also provides prescription discount programs and Medicare Part D insurance offerings for individuals and groups. Elixir provides services to various clients across its different lines of business, including major health plans, commercial employers, labor groups and state and local governments, representing approximately 3.25 million covered lives, including approximately 1 million covered lives through our Medicare Part D insurance offerings. Elixir continues to focus its efforts and offerings to its target market of small to mid-market employers, labor unions and regional health plans, including provider-led health plans and government sponsored Medicaid and Medicare plans.

Restructuring

Beginning in Fiscal 2019, we initiated a series of restructuring plans designed to reorganize our executive management team, reduce managerial layers, and consolidate roles. In March 2020, we announced the details of our RxEvolution strategy, which includes building tools to work with regional health plans to improve patient health outcomes, rationalizing SKU's in our front-end offering to free up working capital and update our merchandise assortment, assessing our pricing and promotional strategy, rebranding our retail pharmacy and pharmacy services business, launching our Store of the Future format and further reducing SG&A and headcount, including integrating certain back office functions in the Pharmacy Services segment both within the segment and across Rite Aid.

As a result of the restructuring that we announced in March 2019, we achieved annual cost savings of approximately $55.0 million. These savings offset the reduction in TSA fees that we experienced in fiscal 2020. We have implemented further restructuring activities in support of our RxEvolution and other initiatives, which resulted in additional restructuring charges due to further reductions in corporate staffing levels, charges associated with rationalizing SKU's in our front-end offering and other operational changes. These and future restructuring activities are expected to provide future growth and expense efficiency benefits. There can be no assurance that our current and future restructuring charges will achieve the cost savings and remerchandising benefits in the amounts or time anticipated.

Asset Sale to WBA

On September 18, 2017, we entered into the Amended and Restated Asset Purchase Agreement with WBA and Buyer, which amended and restated in its entirety the previously disclosed Original Asset Purchase Agreement. Pursuant to the terms and subject to the conditions set forth in the Amended and Restated Asset Purchase Agreement, Buyer purchased from Rite Aid 1,932 Acquired Stores, three distribution centers, related inventory and other specified assets and liabilities related thereto for a purchase price of approximately $4.375 billion, on a cash-free, debt-free basis, in the Sale. We completed the store transfer process in March of 2018, which resulted in the transfer of all 1,932 stores and related assets to WBA and received cash proceeds of $4.157 billion.

During fiscal 2019, we completed the sale of one of our distribution centers and related assets to WBA for proceeds of $61.2 million. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $14.2 million, which has been included in the results of operations and cash flows of discontinued operations during the fifty-two week period ended March 2, 2019. During fiscal 2020, we completed the sale of the second distribution center and related assets to WBA for proceeds of $62.8 million. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $19.3 million, which has been included in the results of operations and cash flows of discontinued operations during the fifty-two week period ended February 29, 2020. During the first quarter of fiscal 2021, we completed the sale of the final distribution center and related assets to WBA for proceeds of $94.3 million. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $12.7 million, which has been included in the results of operations and cash flows of discontinued operations during the thirteen week period ended May 30, 2020. The transfer of the final distribution center and related assets constitutes the final closing under the Amended and Restated Asset Purchase Agreement.

We had agreed to provide transition services to Buyer for up to three years after the initial closing of the Sale. Under the terms of the TSA, we provided various services on behalf of WBA, including but not limited to the purchase and distribution of inventory and virtually all selling, general and administrative activities. The term of the TSA had been extended to October 17, 2020, unless earlier terminated. In connection with these services, we purchased the related inventory and incurred cash payments for the selling, general and administrative activities, which, we billed on a cash neutral basis to WBA in accordance with terms as outlined in the TSA. Total billings for these items during the fifty-two week periods ended February 27, 2021 and February 29, 2020 were $35.2 million and $3.0 billion, respectively, of which $0.0 million and $38.7 million is included in Accounts receivable, net. We charged WBA TSA fees of $1.5 million, $37.9 million and $80.2 million during the fifty-two week periods ended February 27, 2021, February 29, 2020 and March 2, 2019, which are reflected as a reduction to selling, general and administrative expenses. In conjunction with the transfer of the final distribution center during the quarter ended May 30, 2020, we have substantially completed our obligations under the TSA. On July 14, 2020, we entered into a letter agreement with WBA to terminate the services under the TSA, other than certain specified services relating to real estate, accounting, tax, and accounts receivable systems that continued until October 17, 2020 and certain specified services relating to human resources to be performed after October 17, 2020.

Based on its magnitude and because we exited certain markets, the Sale represented a significant strategic shift that had a material effect on our operations and financial results. Accordingly, we have applied discontinued operations treatment for the Sale as required by GAAP.

Impact of COVID-19

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. The COVID-19 pandemic has severely impacted the economies of the United States and other countries around the world.

Since the onset of the COVID-19 pandemic, Rite Aid has been on the front lines of providing communities with essential care, services and products, including the administration of COVID-19 testing and vaccines. We have taken numerous steps to ensure that Rite Aid can continue providing these vital services during this time of great need, including hiring additional full and part-time associates to support our stores and distribution center teams, providing our front line associates with our Hero Pay and Hero Bonus programs and instituted a Pandemic Pay policy that ensures

associates are compensated if diagnosed with the virus or quarantined due to exposure. We also implemented safety protocols to keep our associates and customers safe, and transitioned our office-based associates to a remote work environment. Our strong local presence and scale in communities in our markets enables us to play a central role in the response to COVID-19, as well as provide seamless support for our customers wherever they need it; at our stores and at their homes through our delivery services.

The COVID-19 pandemic had a significant impact on our operating results for the fiscal year ended February 27, 2021, and will continue to have an impact on several factors underlying our operating results in fiscal 2022. Those factors include the number of individuals that receive a COVID-19 vaccine; the availability, rollout and supply of COVID-19 vaccines; demand for COVID-19 testing; the timing and extent to which elective procedures return to pre-pandemic levels; the demand for flu and other immunizations and the length and severity of the upcoming cough, cold flu season.

Overview of Financial Results from Continuing Operations

The following information summarizes our financial results from continuing operations for fiscal 2021 compared to fiscal 2020. For discussion of our financial results from continuing operations for fiscal 2020 to fiscal 2019, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations" included in our Annual Report on Form 10-K for the fiscal year ended February 29, 2020, which we filed with the SEC on April 27, 2020.

Net Loss: Our net loss from continuing operations for fiscal 2021 was $100.1 million or $1.87 per basic and diluted share compared to net loss from continuing operations for fiscal 2020 of $469.2 million or $8.82 per basic and diluted share. The reduction in net loss is due to lower income tax expense, a gain on sale of assets compared to a loss on sale of assets in the prior year, and a gain on the acquisition of Bartell Drugs. These items were partially offset by incremental SG&A expenses associated with the COVID-19 pandemic and a reduction in gross profit resulting from a restructuring charge relating our rebranding initiatives and a lower LIFO credit, a lower gain on debt modifications and retirements and higher intangible asset impairment charges.

Adjusted EBITDA: Our Adjusted EBITDA from continuing operations for fiscal 2021 was $437.7 million or 1.8 percent of revenues, compared to $538.2 million or 2.5 percent of revenues for fiscal year 2020. The decrease in Adjusted EBITDA from continuing operations was due primarily to a decrease of $90.5 million in the Retail Pharmacy segment and a decrease of $10.0 million in the Pharmacy Services segment. The decrease in the Retail Pharmacy Segment Adjusted EBITDA was driven by higher SG&A expenses partially offset by increased Adjusted EBITDA gross profit. SG&A expenses were negatively impacted by incremental costs associated with the COVID-19 pandemic and the completion of services provided under the Transition Services Agreement with Walgreens. The improvement in Adjusted EBITDA gross profit relates to improvements in both pharmacy and front-end. Pharmacy gross profit benefited from an increase in maintenance prescription counts, partially offset by lower acute prescriptions resulting from the pandemic and continued reimbursement rate pressures. Front-end gross profit benefited from increased sales volume during the first quarter relating to the COVID-19 pandemic, partially offset by a nearly 37% decline in cough, cold and flu related categories during the fourth quarter. The decrease in the Pharmacy Services Segment Adjusted EBITDA was due to increased drug costs within Medicare Part D, a decrease in gross profit within the segment's small group business and SG&A spend related to an increase in Medicare Part D members. Please see the sections entitled "Segment Analysis" and Adjusted EBITDA, Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" below for additional details.

Consolidated Results of Operations—Continuing Operations

Revenue and Other Operating Data

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
	(Dollars in thousands except per share amounts)		
Revenues(a)	$ 24,043,240	$ 21,928,393	$ 21,639,557
Revenue growth	9.6 %	1.3 %	0.5 %
Net loss	$ (100,070)	$ (469,219)	$ (666,954)
Net loss per diluted share	$ (1.87)	$ (8.82)	$ (12.62)
Adjusted EBITDA(b)	$ 437,665	$ 538,211	$ 563,444
Adjusted Net (Loss) Income (b)	$ (8,052)	$ 8,013	$ (3,051)
Adjusted Net (Loss) Income per Diluted Share(b)	$ (0.15)	$ 0.15	$ (0.06)

(a) Revenues for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 exclude $292,157, $247,353 and $211,283, respectively, of inter-segment activity that is eliminated in consolidation.

(b) See "Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" for additional details.

Revenues

Fiscal 2021 compared to Fiscal 2020: The 9.6% increase in revenues was due primarily to a $1,410.6 million increase in Pharmacy Services segment revenues and a $749.1 million increase in Retail Pharmacy segment revenues. Same store sales trends for fiscal 2021 and fiscal 2020 are described in the "Segment Analysis" section below.

Please see the section entitled "Segment Analysis" below for additional details regarding revenues.

Costs and Expenses

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
		(Dollars in thousands)	
Cost of revenues(a)	$ 19,338,918	$ 17,201,635	$ 16,963,205
Gross profit	4,704,322	4,726,758	4,676,352
Gross margin	19.6 %	21.6 %	21.6 %
Selling, general and administrative expenses	$ 4,657,185	$ 4,587,336	$ 4,592,375
Selling, general and administrative expenses as a percentage of revenues	19.4 %	20.9 %	21.2 %
Lease termination and impairment charges	58,403	42,843	107,994
Goodwill and intangible asset impairment charges	29,852	—	375,190
Interest expense	201,388	229,657	227,728
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
(Gain) loss on sale of assets, net	(69,300)	4,226	(38,012)
Gain on Bartell acquisition	(47,705)	—	—

(a) Cost of revenues for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 exclude $292,157, $247,353 and $211,283, respectively, of inter-segment activity that is eliminated in consolidation.

Gross Profit and Cost of Revenues

Gross profit decreased by $22.4 million in fiscal 2021 compared to fiscal 2020. Gross profit for fiscal 2021 includes a decrease of $19.0 million in our Retail Pharmacy segment and a decrease in gross profit of $3.4 million relating to our Pharmacy Services segment. Gross margin was 19.6% for fiscal 2021 compared to 21.6% in fiscal 2020. Please see the section entitled "Segment Analysis" for a more detailed description of gross profit and gross margin results by segment.

Selling, General and Administrative Expenses

SG&A increased by $69.8 million in fiscal 2021 compared to fiscal 2020. The increase in SG&A includes an increase of $78.3 million relating to our Retail Pharmacy segment, partially offset by a decrease of $8.5 million relating to our Pharmacy Services segment. Please see the section entitled "Segment Analysis" below for additional details regarding SG&A.

Lease Termination and Impairment Charges

Impairment Charges:

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, we evaluate individual stores for recoverability of assets. To determine if a store needs to be tested for recoverability, we consider items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

We monitor new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, we perform a recoverability analysis if they have experienced current-period and historical cash flow losses.

In performing the recoverability test, we compare the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to our future cash flow projections include expected sales, gross profit and distribution expenses; expected costs such as payroll, occupancy costs and advertising expenses; and estimates for other significant selling, and general and administrative expenses. Additionally, we take into consideration that certain operating stores are executing specific improvement plans which are monitored quarterly to recoup recent capital investments, such as an acquisition of an independent pharmacy, which we have made to respond to specific competitive or local market conditions, or have specific programs tailored towards a specific geography or market.

We recorded impairment charges of $46.3 million in fiscal 2021, $39.9 million in fiscal 2020 and $63.5 million in fiscal 2019. Our methodology for recording impairment charges has been consistently applied in the periods presented.

At February 27, 2021, approximately $850.5 million of our long-lived assets, including intangible assets, were associated with 2,510 active operating stores. Additionally, in connection with the adoption of ASU 2016-02*, Leases (Topic 842)*, we have approximately $2.8 billion of operating lease right-of-use assets associated with the active stores.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value based on its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset. Beginning in fiscal year 2020, operating lease right-of-use assets are included within the stores' asset groups. We obtain fair values of these right-of-use assets based on real estate market data.

An impairment charge is recorded in the period that the store does not meet its original return on investment and/or has an operating loss for the last two years and its projected cash flows do not exceed its current asset carrying value. The amount of the impairment charge is the entire difference between the current carrying asset value and the estimated fair value of the assets using discounted future cash flows.

We recorded impairment charges for active stores of $29.8 million in fiscal 2021, $34.8 million in fiscal 2020 and $46.4 million in fiscal 2019.

We review key performance results for active stores on a quarterly basis and approve certain stores for closure. Impairment for closed stores, if any (many stores are closed on lease expiration), are recorded in the quarter the closure decision is approved. Closure decisions are made on an individual store or regional basis considering all of the macro-economic, industry and other factors, in addition to, the operating store's individual operating results. We recorded impairment charges for closed facilities of $16.5 million in fiscal 2021, $5.1 million in fiscal 2020 and $2.8 million in fiscal 2019.

The following table summarizes the impairment charges and number of locations, segregated by closed facilities and active stores that have been recorded in fiscal 2021, 2020 and 2019:

	February 27, 2021		February 29, 2020		March 2, 2019	
(in thousands, except number of stores)	**Number**	**Charge**	**Number**	**Charge**	**Number**	**Charge**
Active stores:						
Stores previously impaired(1)	174	$ 21,372	274	$ 11,449	288	$ 17,939
New, relocated and remodeled stores(2)	2	1,519	8	11,228	22	10,595
Remaining stores not meeting the recoverability test(3)	19	6,854	38	12,148	74	17,885
Total impairment charges—active stores	195	29,745	320	34,825	384	46,419
Total impairment charges—closed facilities	33	16,542	30	5,050	62	2,788
Total impairment charges—other(4)	—	—	—	—	—	14,285
Total impairment charges—all locations	228	$ 46,287	350	$ 39,875	446	$ 63,492

(1) These charges are related to stores that were impaired for the first time in prior periods. In an effort to improve the operating results or to meet geographical competition, we will often make additional capital additions in stores that were impaired in prior periods. These additions will be impaired in future periods if they are deemed to be unrecoverable. In connection with our March 3, 2019 adoption of ASU 2016-02, *Leases (Topic 842)*, under the alternative transition method, and the recording of our corresponding right-of-use asset ("ROU"), we include the ROU in our recoverability assessment. Our fiscal 2021 impairment charge includes $15,459 of impairment relating to our ROU and $5,913 of capital additions. Our fiscal 2020 impairment charge includes $6,594 of impairment relating to our ROU and $4,855 of capital additions.

(2) These charges are related to new stores (open at least three years) and relocated stores (relocated in the last two years) and significant strategic remodels (remodeled in the last year) that did not meet their recoverability test during the current period. These stores have not met our original return on investment projections and have a historical loss of at least two years. Their future cash flow projections do not recover their current carrying value. Our fiscal 2021 impairment charge includes $347 of impairment relating to our ROU and $1,172 of capital assets. Our fiscal 2020 impairment charge includes $5,625 of impairment relating to our ROU and $5,603 of capital assets.

(3) These charges are related to the remaining active stores that did not meet the recoverability test during the current period. These stores have a historical loss of at least two years. Their future cash flow projections do not recover their current carrying value. Our fiscal 2021 impairment charge includes $3,177 of impairment relating to our ROU and $3,677 of capital assets. Our fiscal 2020 impairment charge includes $2,228 of impairment relating to our ROU and $9,920 of capital assets.

(4) These fiscal 2019 charges were due to the impairment of assets related to the termination of a project to replace the point of sale software used in our stores.

The primary drivers of our impairment charges are each store's current and historical operating performance and the assumptions that we make about each store's operating performance in future periods. Projected cash flows are updated based on the next year's operating budget which includes the qualitative factors noted above. We are unable to predict with any degree of certainty which individual stores will fall short or exceed future operating plans. Accordingly, we are unable to describe future trends that would affect our impairment charges, including the likely stores and their related asset values that may fail their recoverability test in future periods.

To the extent that actual future cash flows may differ from our projections materially certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods. A 50 and 100 basis point decrease in our future sales assumptions as of February 27, 2021 would have resulted in 17 and 36, respectively, additional stores being subjected to our impairment analysis.

Lease Termination Charges: Upon adoption of ASU 2016-02*, Leases (Topic 842),* we recorded a future lease liability for every real estate lease and therefore, we no longer record a lease termination charge. Post adoption, we record ancillary costs in connection with store closings. Prior to the adoption of ASU 2016-02, charges to close a store, which principally consist of continuing lease obligations associated with ancillary 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." We calculate our liability for closed stores on a store-by-store basis. The calculation for stores where remaining lease term exceeds one year includes the ancillary costs from the date of closure to the end of the remaining lease term. We evaluate these assumptions each quarter and adjust the liability accordingly. As part of our ongoing business activities, we assess stores and distribution centers for potential closure and relocation. Decisions to close or relocate stores or distribution centers in future periods would result in lease exit costs and inventory liquidation charges, as well as impairment of assets at these locations.

In fiscal 2021, 2020 and 2019, we recorded lease termination charges of $12.1 million, $2.9 million, and $44.5 million, respectively.

Goodwill and intangible asset impairment charges

In connection with the RxEvolution initiatives previously announced on March 16, 2020, the Company rebranded its EnvisionRxOptions and MedTrak subsidiaries to its new brand name, Elixir. These trademarks qualify as Level 3 within the fair value hierarchy. Upon the implementation of the rebranding initiatives during the first quarter of fiscal 2021, the Company has determined that the carrying value exceeded the fair value and consequently the Company incurred an impairment charge of $29,852 for these trademarks, which is included within goodwill and intangible asset impairment charges within the condensed consolidated statement of operations.

In the fiscal fourth quarter of fiscal 2021 and fiscal 2020, we completed a quantitative goodwill impairment assessment and determined after evaluating the results, events and circumstances, that sufficient evidence existed to assert that it is more likely than not that the fair values of the reporting units exceeded their carrying values. Therefore, no goodwill impairment charge was assessed for the fiscal years ended February 27, 2021 and February 29, 2020.

In the fiscal second quarter of fiscal 2019 we completed a qualitative goodwill impairment assessment, at which time it was determined after evaluating results, events and circumstances that a quantitative assessment was necessary for the Pharmacy Services segment. The quantitative assessment concluded that the carrying amount of the Pharmacy Services segment exceeded its fair value principally due to a decrease in Adjusted EBITDA that was driven by commercial business compression and an increase in SG&A expenses. This resulted in a goodwill impairment charge of $313.0 million ($235.7 million net of the related income tax benefit) for the fiscal year ended March 2, 2019.

In the fiscal second quarter of fiscal 2019, due to the loss of access to a fertility drug for a direct to consumer program that the Pharmacy Services segment administered, we recorded an impairment charge to reduce the book value of customer relationships by $48.2 million (gross carrying amount of $77.0 million less accumulated amortization of $28.8 million), and indefinite lived trademarks by $14.0 million both of which charges are included within Goodwill and intangible asset impairment charges within the consolidated statement of operations.

Interest Expense

In fiscal 2021, 2020 and 2019, interest expense was $201.4 million, $229.7 million and $227.7 million, respectively.

The annual weighted average interest rates on our indebtedness in fiscal 2021, 2020 and 2019 were 5.4%, 5.7% and 5.6%, respectively.

Income Taxes—Continuing Operations

Income tax benefit of $20.2 million and income tax expense of $387.6 million and $77.5 million, has been recorded for fiscal 2021, 2020 and 2019, respectively. Net loss for fiscal 2021 included a provision for income tax based on an overall tax rate of 16.8%, which was net of adjustments to maintain a full valuation allowance for federal deferred tax assets as well as the majority of our state deferred tax assets. These assets may not be realized based on our most recent assessment that it is more likely than not that sufficient taxable income may not be generated to realize the tax benefits of our net deferred tax assets. Additionally, the overall tax rate includes a permanent tax benefit related to our bargain purchase gain on the Bartell acquisition resulting in an impact of 8.3%.

Net loss for fiscal 2020 included a provision for income tax based on an overall tax rate of (476.2)% which included a (427.0)% impact for an increase related to establishing a full valuation allowance for federal deferred tax assets and an increase to the valuation allowance for state net deferred tax assets that may not be realized based on our most recent assessment that it is more likely than not that sufficient taxable income may not be generated to realize the tax benefits of the majority of our net deferred tax assets.

We recognized tax expense of $4.3 million, $7.0 million and $91.1 million within Net income from discontinued operations, net of tax, in the Statement of Operations in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Our effective income tax rate from discontinued operations included adjustments to the valuation allowance of $0.0 million, $0.0 million and $(2.4) million for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

ASC 740, “Income Taxes” requires a company to evaluate its deferred tax assets on a regular basis to determine if a valuation allowance against the net deferred tax assets is required. We take into account all available positive and negative evidence with regard to the recognition of a deferred tax asset including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect recognition of a deferred tax asset, carryback and carryforward periods and tax planning strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income generated in the carryforward periods. Accordingly, changes in the valuation allowance from period to period are included in the tax provision in the period of change.

We maintained a valuation allowance of $1,657.6 million, $1,673.1 million and $1,091.4 million against remaining net deferred tax assets at fiscal year-end 2021, 2020 and 2019, respectively.

Our ability to utilize the losses and credits to offset future taxable income may be deferred or limited significantly if we were to experience an “ownership change” as defined in section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). In general, an ownership change will occur if there is a cumulative change in ownership of the Company’s stock by “5-percent shareholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. The Company determined that no ownership change has occurred for purposes of Section 382 for the period ended February 27, 2021. It is important to note, that the limitation that would be created upon an ownership change would only apply to income earned after the event that caused the ownership change.

The CARES Act, enacted on March 27, 2020, includes changes to certain tax law related to net operating losses, the deductibility of interest expense, and the acceleration of refunds for certain federal tax credits. ASC 740, “Income Taxes,” requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted. The provisions enacted under the CARES Act related to net operating losses and deductibility of interest expense had a favorable $0.4 million and $2.6 million impact on our fiscal 2021 and fiscal 2020 current state income tax, respectively, and no net impact to our deferred income tax provisions. Additionally, we

recorded a current income tax benefit of $6.7 million for fiscal 2021 related to refundable alternative minimum tax credits that were accelerated under the CARES Act.

Dilutive Equity Issuances

On February 27, 2021, 55.1 million shares of common stock, which includes unvested restricted shares, were outstanding and an additional 0.8 million shares of common stock were issuable related to outstanding stock options.

On February 27, 2021, our 0.8 million shares of potentially issuable common stock consisted of the following (shares in thousands):

Strike price	Outstanding Stock Options(a)
$0.00 - $19.99	612
$20.00 to $39.99	104
$40.00 to $59.99	27
$60.00 to $79.99	—
$80.00 to $99.99	—
$100.00 to $119.99	—
$120.00 to $139.99	—
$140.00 to $159.99	16
$160.00 and over	21
Total issuable shares	780

(a) The exercise of these options would provide cash of $14.5 million.

Segment Analysis

We evaluate the Retail Pharmacy and Pharmacy Services segments' performance based on revenue, gross profit, and Adjusted EBITDA. The following is a reconciliation of our segments to the consolidated financial statements:

	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations(1)	Consolidated
February 27, 2021:				
Revenues	$ 16,365,260	$ 7,970,137	$ (292,157)	$ 24,043,240
Gross Profit	4,255,791	448,531	—	4,704,322
Adjusted EBITDA(*)	279,896	157,769	—	437,665
February 29, 2020:				
Revenues	$ 15,616,186	$ 6,559,560	$ (247,353)	$ 21,928,393
Gross Profit	4,274,836	451,922	—	4,726,758
Adjusted EBITDA(*)	370,435	167,776	—	538,211
March 2, 2019:				
Revenues	$ 15,757,152	$ 6,093,688	$ (211,283)	$ 21,639,557
Gross Profit	4,258,716	417,636	—	4,676,352
Adjusted EBITDA(*)	405,206	158,238	—	563,444

(1) Intersegment eliminations include intersegment revenues and corresponding cost of revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Retail Pharmacy and Pharmacy Services segments record the revenue on a stand-alone basis.

(*) See the section entitled "Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" below for additional details.

Retail Pharmacy Segment Results of Continuing Operations

Revenues and Other Operating Data

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
	(Dollars in thousands)		
Revenues	$ 16,365,260	$ 15,616,186	$ 15,757,152
Revenue growth (decline)	4.8 %	(0.9)%	(0.5)%
Same store sales growth	3.5 %	1.1 %	0.6 %
Pharmacy sales growth (decline)	4.8 %	(0.4)%	0.6 %
Same store prescription count growth, adjusted to 30-day equivalents	1.3 %	3.5 %	0.7 %
Same store pharmacy sales growth	3.2 %	1.4 %	1.7 %
Pharmacy sales as a % of total retail sales	66.7 %	67.0 %	66.6 %
Front-end sales growth (decline)	3.3 %	(1.9)%	(2.5)%
Same store front-end sales growth (decline)	3.1 %	(0.6)%	(1.4)%
Front-end sales as a % of total retail sales	33.3 %	33.0 %	33.4 %
Adjusted EBITDA(*)	$ 279,896	$ 370,435	$ 405,206
Store data:			
Total stores (beginning of period)	2,461	2,469	2,550
New stores	—	2	1
Store acquisitions	67	—	—
Closed stores	(18)	(10)	(82)
Total stores (end of period)	2,510	2,461	2,469
Relocated stores	3	5	1
Remodeled and expanded stores	7	76	134

(*) See the section entitled "Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" below for additional details.

Revenues

Fiscal 2021 compared to Fiscal 2020: The 4.8% increase in revenue was primarily the result of an increase in same store sales. Same store sales trends for fiscal 2021 and fiscal 2020 are described in the following paragraphs. We include in same store sales all stores that have been open at least one year except stores in liquidation, which are not included. Relocation stores are not included in same store sales until they have been open for one year.

Pharmacy same store sales increased 3.2%. Pharmacy same store sales were positively impacted by an increase of 1.3% in same store prescription count compared to the prior year driven by increases in maintenance prescriptions, supported by personalized Medication Therapy Management interventions and home deliveries, partially offset by a pandemic influenced reduction in acute prescriptions of 9.0%.

Front-end same store sales increased 3.1%. Front-end same stores sales, excluding cigarettes and tobacco products, increased 4.2% driven by increases in immunity, first aid and paper products, offset by decreases in over-the-counter products related to cough, cold and flu.

Costs and Expenses

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
	(Dollars in thousands)		
Cost of revenues	$ 12,109,469	$ 11,341,350	$ 11,498,436
Gross profit	4,255,791	4,274,836	4,258,716
Gross margin	26.0 %	27.4 %	27.0 %
FIFO gross profit(*)	4,204,099	4,210,032	4,282,070
FIFO gross margin(*)	25.7 %	27.0 %	27.2 %
Selling, general and administrative expenses	$ 4,299,152	$ 4,220,851	$ 4,251,378
Selling, general and administrative expenses as a percentage of revenues	26.3 %	27.0 %	27.0 %

(*) See the section entitled "Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" below for additional details.

Gross Profit and Cost of Revenues

Gross profit decreased by $19.0 million in fiscal 2021 compared to fiscal 2020. Gross profit was negatively impacted by a restructuring charge of $20.9 million relating to product lines that we exited and no longer carry as part of our rebranding initiative and a lower LIFO credit in the current year, partially offset by an increase in both pharmacy and front-end gross profit. Pharmacy gross profit benefited from an increase in maintenance prescription counts, partially offset by lower acute prescriptions resulting from the pandemic and continued reimbursement rate pressures. Front-end gross profit benefited from increased sales volume during the first quarter relating to the COVID-19 pandemic, partially offset by a nearly 37% decline in cough, cold and flu related categories during the fourth quarter.

Overall gross margin was 26.0% for fiscal 2021 compared to 27.4% in fiscal 2020. The decline in gross margin is due to the $20.9 million restructuring charge as noted above and reductions in both pharmacy and front-end gross margin. The decline in pharmacy gross margin was driven primarily by continued reimbursement rate pressures. The decline in front-end gross margin was driven by higher markdowns and associate discounts related to the COVID-19 pandemic sales increases and the fourth quarter decline in cough, cold and flu sales as these categories are generally comprised of higher margin products.

We use the 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. The LIFO credit for fiscal 2021 was $51.7 million compared to a LIFO credit of $64.8 million in fiscal 2020. The LIFO credit for fiscal 2021 is due to the reduction in front-end inventory resulting from our rebranding initiative and lower pharmacy inflation.

Selling, General and Administrative Expenses

SG&A increased $78.3 million. Increased costs for hero pay and bonus, pandemic paid time off and costs for cleaning supplies due to the impact of the COVID-19 pandemic and the inclusion of $37.9 million in income related to services provided under the Walgreens TSA in prior year's SG&A were partially offset by a one-time benefit of $40 million due to a change in the paid time off ("PTO") plan, reductions in medical expense and the impact of cost control initiatives. SG&A as a percentage of revenue was 26.3% in fiscal 2021 compared to 27.0% in fiscal 2020 due to the associate PTO plan change and the impact of cost control initiatives, partially offset by higher COVID-19 related expenses.

Pharmacy Services Segment Results of Operations

Revenues and Other Operating Data

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
	(Dollars in thousands)		
Revenues	$ 7,970,137	$ 6,559,560	$ 6,093,688
Revenue growth	21.5 %	7.6 %	3.3 %
Adjusted EBITDA(*)	$ 157,769	$ 167,776	$ 158,238

(*) See the section entitled "Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" below for additional details.

Revenues

Pharmacy Services segment revenue was $7,970.1 million and $6,559.6 million, respectively, for fiscal 2021 and 2020. The increase in the fiscal 2021 revenue for the segment is due to the increase in Medicare Part D membership.

Costs and Expenses

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
	(Dollars in thousands)		
Cost of revenues	$ 7,521,606	$ 6,107,638	$ 5,676,052
Gross profit	448,531	451,922	417,636
Gross margin	5.6 %	6.9 %	6.9 %
Selling, general and administrative expenses	$ 358,033	$ 366,485	$ 340,997
Selling, general and administrative expenses as a percentage of revenues	4.5 %	5.6 %	5.6 %

Gross Profit and Cost of Revenues

Gross profit decreased by $3.4 million in fiscal 2021 compared to fiscal 2020. The decrease in gross profit was due to an increase in Medicare Part D drug costs, costs associated with contract renewals on our small group business and a charge related to a change in a rebate aggregation contract, offset by improvements in network management.

Gross margin was 5.6% in fiscal 2021 compared to 6.9% in fiscal 2020. The decline in gross margin is due primarily to an increase in Medicare Part D membership at EI and the factors noted above.

Selling, General and Administrative Expenses

Pharmacy Services segment selling, general and administrative expenses for fiscal 2021 was $358.0 million or 4.5% of revenues as compared to $366.5 million or 5.6% of revenues for fiscal 2020. The decrease in SG&A is primarily the result of reductions in payroll and indirect spend cost reduction initiatives, partially offset by higher costs associated with supporting the increased Medicare Part D membership.

Liquidity and Capital Resources

General

We have disclosed debt and interest expense on a continuing operations and discontinued operations basis on our consolidated balance sheets and consolidated statements of operations. However, the following discussion regarding liquidity and capital resources is at the total enterprise level, as we are contractually obligated for the payment of all outstanding debt instruments and related interest under our various indentures, including borrowings under the Existing Facilities.

We have two primary sources of liquidity: (i) cash provided by operating activities and (ii) borrowings under our Existing Facilities. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt and to fund capital expenditures. Total liquidity as of February 27, 2021 was $1,706.0 million, which consisted of revolver borrowing capacity of $1,643.1 million and invested cash of $62.9 million.

Credit Facilities

On December 20, 2018, we entered into a senior secured credit agreement (as amended by the First Amendment to Credit Agreement, dated as of January 6, 2020, the "Credit Agreement"), consisting of a $2.7 billion senior secured asset-based revolving credit facility ("Senior Secured Revolving Credit Facility") and a $450.0 million "first-in, last out" senior secured term loan facility ("Senior Secured Term Loan," and together with the Senior Secured Revolving Credit Facility, collectively, the "Existing Facilities"). We used proceeds from the Existing Facilities to refinance our prior $2.7 billion existing credit agreement (the "Old Facility"). The Existing Facilities extend our debt maturity profile and provide additional liquidity. Borrowings under the Senior Secured Revolving Credit Facility bear interest at a rate per annum between LIBOR plus 1.25% and LIBOR plus 1.75% based upon the Average ABL Availability (as defined in the Credit Agreement). Borrowings under the Senior Secured Term Loan bear interest at a rate per annum of LIBOR plus 3.00%. We are required to pay fees between 0.250% and 0.375% per annum on the daily unused amount of the commitments under the Senior Secured Revolving Credit Facility, depending on Average ABL Availability. The Existing Facilities mature on December 20, 2023, subject to an earlier maturity on December 31, 2022 if we have not repaid or refinanced our existing 6.125% Notes due 2023 prior to such date. We intend to repay the remaining balance due under the 6.125% Notes due 2023 prior to the early maturity becoming effective.

Our borrowing capacity under the Senior Secured Revolving Credit Facility is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At February 27, 2021, we had approximately $1,300.0 million of borrowings outstanding under the Existing Facilities and had letters of credit outstanding against the Senior Secured Revolving Credit Facility of approximately $122.0 million, which resulted in additional borrowing capacity under the Senior Secured Revolving Credit Facility of $1,643.1 million. If at any time the total credit exposure outstanding under the Existing Facilities and the principal amount of our other senior obligations exceed the borrowing base, we will be required to make certain other mandatory prepayments to eliminate such shortfall.

The Credit Agreement restricts us and all of our subsidiaries, including the subsidiaries that guarantee our obligations under the Existing Facilities, the secured guaranteed notes and unsecured guaranteed notes (collectively, the "Subsidiary Guarantors") from accumulating cash on hand in excess of $200.0 million at any time when revolving loans are outstanding (not including cash located in our store and lockbox deposit accounts and cash necessary to cover our current liabilities). The Credit Agreement also states that if at any time (other than following the exercise of remedies or acceleration of any senior obligations or second priority debt and receipt of a triggering notice by the senior collateral agent from a representative of the senior obligations or the second priority debt) either (i) an event of default exists under the Existing Facilities or (ii) the sum of our borrowing capacity under our Senior Secured Revolving Credit Facility and certain amounts held on deposit with the senior collateral agent in a concentration account is less than $275.0 million for three consecutive business days or less than or equal to $200.0 million on any day (a "cash sweep period"), the funds in our deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the Existing Facilities, and then held as collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of the Existing Facilities.

Our obligations under the Existing Facilities and the Subsidiary Guarantors' obligations under the related guarantees are secured by (i) a first-priority lien on all of the Subsidiary Guarantors' cash and cash equivalents, accounts receivable, inventory, prescription files (including eligible script lists), intellectual property (prior to the repayment of the Senior Secured Term Loan) and certain other assets arising therefrom or related thereto (including substantially all of their deposit accounts, collectively, the "ABL priority collateral") and (ii) a second-priority lien on all of the Subsidiary Guarantors' equipment, fixtures, investment property (other than equity interests in subsidiaries), intellectual property (following the repayment of the Senior Secured Term Loan) and all other assets that do not constitute ABL priority collateral, in each case, subject to customary exceptions and limitations.

The Credit Agreement allows us to have outstanding, at any time, up to an aggregate principal amount of $1.5 billion in secured second priority debt, split-priority debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Existing Facilities and other existing indebtedness, provided that not in excess of $750.0 million of such secured second priority debt, split-priority debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (i) the fifth anniversary of the effectiveness of the Existing Facilities and (ii) the latest maturity date of any Term Loan or Other Revolving Commitment (each as defined in the Credit Agreement) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date). Subject to the limitations described in clauses (i) and (ii) of the immediately preceding sentence, the Credit Agreement additionally allows us to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Credit Agreement) is not in effect; provided, however, that certain of our other outstanding indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Credit Agreement also contains certain restrictions on the amount of secured first priority debt we are able to incur. The Credit Agreement also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Existing Facilities are not in default and we maintain availability under our revolver of more than $365.0 million.

The Credit Agreement has a financial covenant that requires us to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (i) on any date on which availability under the Senior Secured Revolving Credit Facility is less than $200.0 million, or (ii) on the third consecutive business day on which availability under the Senior Secured Revolving Credit Facility is less than $250.0 million and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolver is equal to or greater than $250.0 million. As of February 27, 2021, our fixed charge coverage ratio was greater than 1.00 to 1.00 and we were in compliance with the Credit Agreement's financial covenant. The Credit Agreement also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, the making of investments, sale of assets, mergers and acquisitions and the granting of liens.

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

The indentures that govern our guaranteed unsecured notes and our guaranteed secured notes contain restrictions on the amount of additional secured and unsecured debt that we may incur. As of February 27, 2021, we had the ability to (i) draw the full amount under our revolving credit facility, or (ii) incur additional secured debt. In addition, we have the ability to enter into certain sale and leaseback transactions. The ability to issue additional unsecured debt under the indenture is generally governed by an interest coverage ratio test. As of February 27, 2021, we had the ability to issue additional secured and unsecured debt under the indentures governing our unguaranteed unsecured notes.

Fiscal 2019, 2020 and 2021 Transactions

On March 13, 2018, we issued a notice of redemption for all of the 9.25% Notes that were outstanding on April 12, 2018, pursuant to the terms of the indenture of the 9.25% Notes. On April 12, 2018, we redeemed 100% of the remaining outstanding 9.25% Notes. In connection therewith, we recorded a loss on debt retirement of $3.4 million

which included unamortized debt issuance costs, partially offset by unamortized discount. The debt repayment and related loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On April 19, 2018, we announced that we had commenced an offer to purchase up to $700.0 million of the outstanding 6.75% Notes and the 6.125% Notes pursuant to the asset sale provisions of such indentures. On May 21, 2018, we accepted for payment, pursuant to the offer to purchase, $1.4 million aggregate principal amount of the 6.75% Notes and $4.8 million aggregate principal amount of the 6.125% Notes. The debt repayment and related loss on debt retirement of $0.01 million for the 6.75% Notes is included in the results of operations and cash flows of discontinued operations. The debt repayment and related loss on debt retirement of $0.06 million for the 6.125% Notes is included in the results of operations and cash flows of continuing operations.

On April 29, 2018, we further reduced the borrowing capacity on our Old Facility from $3.0 billion to $2.7 billion. In connection therewith, we recorded a loss on debt retirement of $1.1 million, which included unamortized debt issuance costs. The loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On June 25, 2018, we redeemed the remaining $805.2 million of the 6.75% Notes, which resulted in a loss on debt retirement of $18.1 million. The loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On October 11, 2019, we completed a privately negotiated purchase from a noteholder and its affiliated funds of $84.1 million aggregate principal amount of the 7.70% Notes and 6.875% Notes for $51.3 million. In connection therewith, we recorded a gain on debt retirement of $32.4 million, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

On October 15, 2019, we commenced an offer to purchase up to $100.0 million of the outstanding 7.70% Notes and the 6.875% Notes. In November 2019, we accepted for payment $18.1 million aggregate principal amount of the 7.70% Notes and $39.4 million aggregate principal amount of the 6.875% Notes for $38.4 million. In connection therewith, we recorded a gain on debt retirement of $18.5 million, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

During November 2019, we made additional purchases of $15.0 million aggregate principal amount of the 7.70% Notes for $10.0 million. In connection therewith, we recorded a gain on debt retirement of $4.8 million, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

On January 6, 2020, we commenced an offer to exchange up to $600.0 million aggregate principal amount of the outstanding 6.125% Senior Notes due 2023 for newly issued 7.500% Senior Secured Notes due 2025. On February 5, 2020, we announced that the exchange offer was oversubscribed and accepted for payment $600.0 million aggregate principal amount of the 6.125% Senior Notes due 2023 in exchange for newly issued 7.500% Senior Secured Notes due 2025. We accounted for the exchange as a debt modification and accordingly did not record a loss on debt retirement.

The 7.500% Senior Secured Notes due 2025 mature on July 1, 2025, and are guaranteed on a senior secured basis by the same Subsidiary Guarantors that guarantee the Existing Facilities and the 6.125% Senior Notes due 2023. The 7.500% Senior Secured Notes due 2025 and the obligations under the related guarantees are secured by (i) a first-priority lien on all of the Subsidiary Guarantors' equipment, fixtures, investment property (other than equity interests in subsidiaries), intellectual property (following the repayment of the Senior Secured Term Loan) and other collateral to the extent it does not constitute ABL priority collateral (as defined below), and (ii) a second-priority lien on all of the Subsidiary Guarantors' cash and cash equivalents, accounts receivables, payment intangibles, inventory, prescription files (including eligible script lists) and, intellectual property (prior to the repayment of the Senior Secured Term Loan) (collectively, the "ABL priority collateral"), which, in each case, also secure the Existing Facilities.

On June 25, 2020, we commenced an offer to exchange (the “June 25, 2020 Exchange Offer”) up to $750.0 million aggregate principal amount of the outstanding 6.125% Notes for a combination of $600.0 million newly issued 8.0% Senior Secured Notes due 2026 (the “8.0% Notes”) and $145.5 million cash. On July 10, 2020, we increased the maximum amount of 6.125% Notes that may be accepted for exchange from $750.0 million to $1,125.0 million and, on July 24, 2020, we announced that we accepted for payment $1,062.7 million aggregate principal amount of the 6.125% Notes in exchange for $849.9 million aggregate principal amount of newly issued 8.0% Notes and $206.4 million in cash. In connection therewith, we recorded a gain on debt modification of $5.3 million which is included in the results of operations and cash flows of continuing operations. The 8.0% Notes are secured on an equal and ratable basis by the same assets that secure the 7.500% Notes. The 8.0% Notes are guaranteed on a senior secured basis by the same subsidiaries that guarantee the 7.500% Notes. In conjunction with the June 25, 2020 Exchange Offer, we also commenced a solicitation of consents from the holders of outstanding 6.125% Notes to certain proposed amendments to the indenture governing the 6.125% Notes. On July 9, 2020, following the receipt of the requisite number of consents, we entered into a supplemental indenture, which modified certain limitations in the debt covenant to allow for the creation of the 8.0% Notes.

Guarantor Summarized Financial Information

Certain of our subsidiaries, which are listed on Exhibit 22 to this Annual Report on Form 10-K, have guaranteed our obligations under the 6.125% Notes and the 7.500% Notes (collectively, the "Guaranteed Notes"). As discussed in Note 16 to the consolidated financial statements, the Guaranteed Notes were issued by us, as the parent company, and are guaranteed by substantially all of the parent company’s consolidated subsidiaries (the “guarantors” or “Subsidiary Guarantors”) except for EI (the “non-guarantor”). The parent company and guarantors are referred to as the “obligor group”. The Subsidiary Guarantors fully and unconditionally and jointly and severally guarantee the Guaranteed Notes. The 6.125% Notes and the obligations under the related guarantees are unsecured. The 7.500% Notes and the obligations under the related guarantees are secured by (i) a first-priority lien on all of the Subsidiary Guarantors’ equipment, fixtures, investment property (other than equity interests in subsidiaries), intellectual property (following the repayment of the Senior Secured Term Loan) and other collateral to the extent it does not constitute ABL priority collateral (as defined below), and (ii) a second-priority lien on all of the Subsidiary Guarantors’ cash and cash equivalents, accounts receivables, payment intangibles, inventory, prescription files (including eligible script lists) and, intellectual property (prior to the repayment of the Senior Secured Term Loan) (collectively, the “ABL priority collateral”), which, in each case, also secure the Existing Facilities.

Under certain circumstances, subsidiaries may be released from their guarantees without consent of the note holders. Our subsidiaries conduct substantially all of our operations and have significant liabilities, including trade payables. If the subsidiary guarantees are invalid or unenforceable or are limited by fraudulent conveyance or other laws, the registered debt will be structurally subordinated to the substantial liabilities of our subsidiaries.

Condensed Combined Financial Information

The following tables include summarized financial information of the obligor group. Investments in and the equity in the earnings of EI, which is not a member of the obligor group, have been excluded. The summarized financial information of the obligor group is presented on a combined basis with intercompany balances and transactions between entities in the obligor group eliminated. The obligor group’s amounts due to/from and transactions with EI have been presented in separate line items, if material.

In millions	February 27, 2021	February 29, 2020
Due from EI	$ 96.1	$ —
Other current assets	3,431.8	3,657.0
Total current assets	$ 3,527.9	$ 3,657.0
Operating lease right-of-use assets	$ 3,064.1	$ 2,903.3
Goodwill	1,108.1	1,108.1
Other noncurrent assets	1,604.2	1,753.9
Total noncurrent assets	$ 5,776.4	$ 5,765.3
Due to EI	$ —	$ 13.3
Other current liabilities	2,579.9	2,731.1
Total current liabilities	$ 2,579.9	$ 2,744.4
Long-term debt less current maturities	$ 3,063.1	$ 3,077.3
Long-term operating lease liabilities	2,829.3	2,710.3
Other noncurrent liabilities	216.9	215.8
Total noncurrent liabilities	$ 6,109.3	$ 6,003.4

In millions	Year Ended February 27, 2021 (52 Weeks)
Revenues (a)	$ 23,455.0
Cost of revenues (b)	18,763.9
Gross profit	4,691.1
Net income (loss) from continuing operations	(77.9)
Net income from discontinued operations	9.2
Net income (loss)	$ (68.7)
Net income (loss) attributable to Rite Aid	$ (90.9)

(a) Includes $45.6 million of revenues generated from the non-guarantor for the fifty-two week period ended February 27, 2021.
(b) Includes $45.2 million of cost of revenues incurred in transactions with the non-guarantor for the fifty-two week period ended February 27, 2021.

Off-Balance Sheet Arrangements

As of February 27, 2021, we had no material off balance sheet arrangements.

Contractual Obligations and Commitments

The following table details the maturities of our indebtedness and lease financing obligations as of February 27, 2021, as well as other contractual cash obligations and commitments.

	Payment due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
			(Dollars in thousands)		
Contractual Cash Obligations					
Long term debt(1)	$ 167,148	$ 1,713,389	$ 844,032	$ 1,174,562	$ 3,899,131
Lease financing obligations(2)	8,595	7,000	5,893	13,990	35,478
Operating leases	694,268	1,238,737	887,784	1,391,732	4,212,521
Open purchase orders	161,435	—	—	—	161,435
Other, primarily self insurance and retirement plan obligations(3)	50,822	44,226	10,483	34,488	140,019
Minimum purchase commitments(4)	50,110	43,932	—	—	94,042
Total contractual cash obligations	$ 1,132,378	$ 3,047,284	$ 1,748,192	$ 2,614,772	$ 8,542,626

	Payment due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
Commitments					
Lease guarantees(5)	$ 1,753	$ 1,873	$ 494	$ 703	$ 4,823
Lease guarantees(6)	238,847	365,137	260,591	315,289	1,179,864
Outstanding letters of credit	65,267	56,768	—	—	122,035
Total contractual cash obligations and commitments	$ 1,438,245	$ 3,471,062	$ 2,009,277	$ 2,930,764	$ 9,849,348

(1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of February 27, 2021.

(2) Represents the minimum lease payments on non-cancelable leases, including interest, net of sublease income on a continuing operations basis as the minimum lease payments on non-cancelable leases, including interest, net of sublease income is being assumed by WBA as part of the Sale.

(3) Includes the undiscounted payments for self-insured medical coverage, actuarially determined undiscounted payments for self-insured workers' compensation and general liability, and actuarially determined obligations for defined benefit pension and nonqualified executive retirement plans.

(4) Represents commitments to purchase products and licensing fees from certain vendors.

(5) Represents lease guarantee obligations for 6 former stores related to certain business dispositions. The respective purchasers assume the obligations and are, therefore, primarily liable for these obligations.

(6) Represents lease guarantee obligations for 1,125 former stores related to the Asset Sale. WBA assumed the obligations and are, therefore, primarily liable for these obligations.

Obligations for income tax uncertainties pursuant to ASC 740, "Income Taxes" of approximately $20.9 million are not included in the table above as we are uncertain as to if or when such amounts may be settled.

Net Cash Provided By (Used In) Operating, Investing and Financing Activities from Continuing Operations

Cash flow provided by operating activities was $105.2 million in fiscal 2021. Operating cash flow was positively impacted by the sale of our calendar 2020 Medicare Part D receivable from CMS, management initiatives to reduce inventory levels and benefit from the employer payroll tax payment deferral under the CARES act of $102.0

million. These amounts were partially offset by the timing of Medicare Part D capitation payments from CMS, increases in manufacturer rebates receivable and reductions in payroll related accruals and revenue deferrals resulting from the changes made to our wellness+ loyalty program.

Cash flow provided by operating activities was $510.9 million in fiscal 2020. Operating cash flow was positively impacted by the sale of our calendar 2019 Medicare Part D receivable from CMS, lower WBA TSA receivables due to fewer stores being serviced and a reduction in customer receivables at our Pharmacy Services segment. These amounts were partially offset by a reduction in accounts payable correlating to the reduced WBA TSA stores being serviced and a reduction in payroll related accruals.

Cash used in investing activities was $109.3 million in fiscal 2021. Cash used for the purchase of property, plant and equipment was higher than in the prior year resulting from investments in our stores in connection with our RxEvolution strategy. Cash used in investing activities also includes the net outlay of $86.2 million for the acquisition of Bartell during the fourth quarter. These amounts are partially offset by proceeds from sale leaseback transactions, including the sale leaseback of our Woodland and Lancaster CA distribution centers in the fourth quarter fiscal 2021, and our Perryman MD distribution center in the third quarter fiscal 2021.

Cash used in investing activities was $149.8 million in fiscal 2020. Cash used for the purchase of property, plant and equipment was lower than in the prior year due primarily to a slowdown in our store remodeling program while we developed our RxEvolution strategy. Proceeds from the disposition of assets and investments includes cash proceeds associated with the monetization of company-owned life insurance.

Cash used in financing activities was $65.2 million in fiscal 2021. Cash used by financing activities reflects net revolver borrowings offset by principal payments to facilitate the June 25, 2020 Exchange Offer.

Cash used by financing activities was $326.7 million in fiscal 2020, which reflects net revolver repayments and the repayment of a portion of our 6.875% notes and 7.7% notes.

Capital Expenditures

During the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 capital expenditures were as follows:

	Year Ended		
	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)
	(Dollars in thousands)		
New store construction, store relocation and store remodel projects	$ 97,662	$ 62,379	$ 94,334
Technology enhancements, improvements to distribution centers and other corporate requirements	97,479	109,326	102,444
Purchase of prescription files from other retail pharmacies	29,800	42,681	47,911
Total capital expenditures	$ 224,941	$ 214,386	$ 244,689

Future Liquidity

We are highly leveraged. Our high level of indebtedness could: (i) limit our ability to obtain additional financing; (ii) limit our flexibility in planning for, or reacting to, changes in our business and the industry; (iii) place us at a competitive disadvantage relative to our competitors with less debt; (iv) render us more vulnerable to general adverse economic and industry conditions, including those resulting from COVID-19; and (v) require us to dedicate a substantial portion of our cash flow to service our debt. Based upon our current levels of operations, we believe that cash flow from operations together with available borrowings under the revolver and other sources of liquidity will be adequate to meet our requirements for working capital, debt service, capital expenditures and other strategic investments at least for the next twelve months. Based on our liquidity position, which we expect to remain strong, we do not expect to be subject to the minimum fixed charge covenant in the Existing Facilities in the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating

performance, and other relevant circumstances, and we may evaluate alternative sources of liquidity, including further opportunities related to any receivable due to us from CMS, sale and leaseback transactions, and other transactions to optimize our asset base. From time to time, we may seek additional deleveraging or refinancing transactions, including entering into transactions to exchange debt for shares of common stock or other debt securities (including additional secured debt), issuance of equity (including preferred stock and convertible securities), repurchase or redemption of outstanding indebtedness, or seek to refinance our outstanding debt (including the Existing Facilities) or may otherwise seek transactions to reduce interest expense and extend debt maturities. We may also look to make additional investments in our business to further our strategic objectives, including targeted acquisitions. Any of these transactions could impact our financial results.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventory shrink, goodwill impairment, impairment of long-lived assets, revenue recognition, vendor discounts and purchase discounts, self-insurance liabilities, lease termination charges, income taxes and litigation. Additionally, we have critical accounting policies regarding revenue recognition and vendor allowances and purchase discounts for our Pharmacy Services segment. We base our estimates on historical experience, current and anticipated business conditions, the condition of the financial markets and various other assumptions that are believed to be reasonable under existing conditions. Variability reflected in the sensitivity analyses presented below is based on our recent historical experience. Actual results may differ materially from these estimates and sensitivity analyses.

The following critical accounting policies require the use of significant judgments and estimates by management:

Inventory shrink: The carrying value of our inventory is reduced by a reserve for estimated shrink losses that occur between physical inventory dates. When estimating these losses, we consider historical loss results at specific locations. Shrink expense is recognized by applying the estimated shrink rate to sales since the last physical inventory. Although possible, we do not expect a significant change to our shrink rate in future periods. A 10 basis point difference in our estimated shrink rate for the year ended February 27, 2021, would have affected pre-tax income by approximately $4.0 million.

Goodwill Impairment: Our policy is to perform an impairment test of goodwill at least annually, and more frequently if events or circumstances occurred that would indicate a reduced fair value in our reporting units could exist. In our quantitative impairment test, fair value estimates are calculated using an average of the income and market approaches. The income approach is based on the present value of future cash flows of each reporting unit, while the market approach is based on certain multiples of selected guideline public companies or selected guideline transactions. The approaches incorporate a number of market participant assumptions including future growth rates, discount rates, income tax rates and market activity in assessing fair value and are reporting unit specific. If the carrying amount exceeds the reporting unit's fair value, we recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. In addition, we consider the income tax effect of any tax deductible goodwill when measuring a goodwill impairment loss. Our Pharmacy Services reporting unit has goodwill of $1.06 billion at February 27, 2021 and the fair value of the reporting unit is approximately 25% higher than the carrying value.

Impairment of long-lived assets: We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, we evaluate individual stores for recoverability. To determine if a store needs to be tested for recoverability, we consider items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss

combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

We monitor new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, we perform a recoverability analysis if they have experienced current-period and historical cash flow losses.

In performing the recoverability test, we compare the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to our future cash flow projections include: expected sales and gross profit, pharmacy reimbursement rates, expected costs such as payroll, and estimates for other significant selling, general and administrative expenses.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value which is its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset. Beginning in fiscal year 2020, operating lease right-of-use assets are included within the stores' asset groups. We obtain fair values of these right-of-use assets based on real estate market data.

We regularly approve certain stores for closure. Impairment charges for closed stores, if any, are evaluated and recorded in the quarter the closure decision is approved.

We also evaluate assets to be disposed of on a quarterly basis to determine if an additional impairment charge is required. Fair value estimates are provided by independent brokers who operate in the local markets where the assets are located.

If our actual future cash flows differ from our projections materially, certain stores that are either not impaired or partially impaired in the current period may be further impaired in future periods. A 50 and 100 basis point decrease in our future sales assumptions as of February 27, 2021 would have resulted in 17 and 36, respectively, additional stores being subjected to our impairment analysis.

Revenue recognition for our loyalty program: We offer a chain-wide customer loyalty program, "wellness+ Rewards". Members participating in our wellness+ Rewards loyalty card program earned points on a calendar year basis for eligible front-end merchandise purchases and qualifying prescriptions. The existing wellness+ program was terminated as of July 1, 2020, with benefits earned as of that date available to be used through the end of calendar 2020. In December 2020, the Company granted a temporary extension of benefits to previous members that were eligible for a discount as of December 31, 2020 such that those prior members will be eligible to continue to receive that discount on purchases made through June 30, 2021 with no additional purchase requirement. New and existing customers who were not already eligible for "Gold" benefits will still have the opportunity to earn additional discounts on purchases made through June 30, 2021.

Prior to the wellness+ program termination, effective January 1, 2020, members reached specific wellness+ tiers based on points accumulated during the six calendar month periods between January 1st and June 30th, and July 1st through December 31st, which entitled such customers to certain future discounts and other benefits upon reaching that tier. For example, any customer that reaches 500 points during the six calendar month period between January 1st and June 30th achieves the "Gold" tier, enabling him or her to receive a 20% discount on qualifying purchases of front-end merchandise for the remaining portion of that six calendar month period and for the following six calendar months. There is also a similar "Silver" level with a lower threshold and benefit level. Prior to January 1, 2020, the wellness+ tiers were based on points accumulated for a full calendar year, and entitled such customers to wellness+ benefits for the remainder of that calendar year and also the next calendar year.

Points earned pursuant to the wellness+ program represent a performance obligation and we allocate revenue between the merchandise purchased and the wellness+ points based on the relative stand-alone selling price of each performance obligation. The relative value of the wellness+ points is initially deferred as a contract liability (included in

other current and noncurrent liabilities). As members receive discounted front-end merchandise or when the benefit period expires, the Retail Pharmacy segment recognizes an allocable portion of the deferred contract liability into revenue.

Self-insurance liabilities: We expense claims for self-insured workers' compensation and general liability insurance coverage as incurred including an estimate for claims incurred but not paid. The expense for self-insured workers' compensation and general liability claims incurred but not paid is determined using several factors, including historical claims experience and development, severity of claims, medical costs and the time needed to settle claims. We discount the estimated expense for workers' compensation to present value as the time period from incurrence of the claim to final settlement can be several years. We base our estimates for such timing on previous settlement activity. The discount rate is based on the current market rates for Treasury bills that approximate the average time to settle the workers' compensation claims. These assumptions are updated on an annual basis. A 30 basis point difference in the discount rate for the year ended February 27, 2021, would have affected pretax income by approximately $1.8 million.

Income taxes: We currently have net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate significant deferred tax assets. Realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards.

Our ability to utilize the losses and credits to offset future taxable income may be deferred or limited significantly if the Company were to experience an "ownership change" as defined in section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in ownership of the Company's stock by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. The Company determined that no ownership change has occurred for purposes of Section 382 for the period ended February 27, 2021. It is important to note that the limitation that would be created upon an ownership change would only apply to income earned after the event that caused the ownership change.

We regularly review the deferred tax assets for recoverability considering the relative impact of negative and positive evidence including our historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The weight given to the potential effect of the negative and positive evidence is commensurate with the extent to which it can be objectively verified. In evaluating the objective evidence that historical results provide, we consider three years of cumulative pretax book income (loss).

We establish a valuation allowance against deferred tax assets when we determine that it is more likely than not that some portion of our deferred tax assets will not be realized. Valuation allowances are based on evidence of our ability to generate sufficient taxable income by jurisdiction. On a quarterly basis, management evaluates the likelihood that we will realize the deferred tax assets and adjusts the valuation allowances, if appropriate. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would impact the provision for income taxes.

We recognize tax liabilities in accordance with ASC 740, "Income Taxes" and we adjust these liabilities when our judgment changes 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 our current estimate of the tax liabilities.

Litigation reserves: We are involved in litigation on an on-going basis. We accrue our best estimate of the probable loss related to legal claims. Such estimates are based upon a combination of litigation and settlement strategies. These estimates are updated as the facts and circumstances of the cases develop and/or change. To the extent additional information arises or our strategies change, it is possible that our best estimate of the probable liability may also change. Changes to these reserves during the last three fiscal years were not material.

Revenue recognition for our Pharmacy Services segment:

The Pharmacy Services segment sells prescription drugs indirectly through its retail pharmacy network and directly through its mail service dispensing pharmacy. The Pharmacy Services segment recognizes revenue from prescription drugs sold by (i) its mail service dispensing pharmacy and (ii) under retail pharmacy network contracts where it is the principal at the contract prices negotiated with its clients, primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States. Revenues include: (i) the portion of the price the client pays directly to the Pharmacy Services segment, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the Pharmacy Services segment by client plan members for mail order prescriptions ("Mail Co-Payments"), (iii) client plan member copayments made directly to the retail pharmacy network and (iv) administrative fees. Revenue is recognized when the Pharmacy Services segment meets its performance obligations relative to each transaction type. The following revenue recognition policies have been established for the Pharmacy Services segment:

- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services segment's online claims processing system. At this point, we have performed across all of our performance obligations.

- Revenues generated from prescription drugs sold by the Pharmacy Services segment's mail service dispensing pharmacy are recognized when the prescription is shipped. At the time of shipment, the Pharmacy Services segment has performed all of its performance obligations under its client contracts, as control of and title to the product has passed to the client plan members. The Pharmacy Services segment does not experience a significant level of returns or reshipments.

- Revenues generated from administrative fees based on membership or claims volume are recognized monthly based on the terms within the individual contracts, either a monthly member based fee, or a claims volume based fee.

In the majority of its contracts, the Pharmacy Services segment is the principal because its client contracts give clients the right to obtain access to its pharmacy contracts under which the Pharmacy Services segment directs its pharmacy network to provide the services (drug dispensing, consultation, etc.) and goods (prescription drugs) to the clients' members at its negotiated pricing. The Pharmacy Services segment's obligations under its client contracts are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. In the majority of these contracts, the Pharmacy Services segment is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold after payment is received from its clients. The Pharmacy Services segment has control over these transactions until the prescription is transferred to the member and, thus, that it is acting as a principal. As such, the Pharmacy Services segment records the total prescription price contracted with clients in revenues.

Amounts paid to pharmacies and amounts charged to clients are exclusive of the applicable co-payment under Pharmacy Services segment contracts. Retail pharmacy co-payments, which we instruct retail pharmacies to collect from members, are included in our revenues and our cost of revenues.

For contracts under which the Pharmacy Services segment acts as an agent or does not control the prescription drugs prior to transfer to the client, no revenue is recognized.

We deduct from our revenues that are generated from prescription drugs sold by third party pharmacies the manufacturers' rebates that are earned by our clients based on their members' utilization of brand-name formulary drugs. For the majority of our clients, we pass these rebates to clients at point-of-sale based on actual claims data and our estimates of the manufacturers' rebates earned by our clients. We base our estimates on the best available data and recent history for the various factors that can affect the amount of rebates earned by the client. We also deduct from our

revenues pricing guarantees and guarantees regarding the level of service we will provide to the client or member as well as other payments made to our clients. Because the inputs to most of these estimates are not subject to a high degree of subjectivity or volatility, the effect of adjustments between estimated and actual amounts have not been material to our results of operations or financial condition.

We participate in the federal government's Medicare Part D program as a Prescription Drug Plan ("PDP") through our EI subsidiary. Our net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS. The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially deferred as accrued expenses and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor (iii) estimates for claims that have been reported and are in the process of being paid or contested and (iv) our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

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

Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures

In addition to net income (loss) determined in accordance with GAAP, we use certain non-GAAP measures, such as "Adjusted EBITDA", in assessing our operating performance. We believe the non-GAAP measures serve as an appropriate measure in evaluating the performance of our business. We define Adjusted EBITDA as net income (loss) excluding the impact of income taxes, interest expense, depreciation and amortization, LIFO adjustments (which removes the entire impact of LIFO, and effectively reflects the results as if we were on a FIFO inventory basis), charges or credits for facility closing and impairment, goodwill and intangible asset impairment charges, inventory write-downs related to store closings, gains or losses on debt modifications and retirements, the WBA merger termination fee, and other items (including stock-based compensation expense, merger and acquisition-related costs, a non-recurring litigation settlement (as further discussed below), severance, restructuring-related costs and costs related to facility closures, gain on Bartell Drugs acquisition and gain or loss on sale of assets). We reference this particular non-GAAP financial measure frequently in our decision-making because it provides supplemental information that facilitates internal comparisons to the historical periods and external comparisons to competitors. In addition, incentive compensation is primarily based on Adjusted EBITDA and we base certain of our forward-looking estimates on Adjusted EBITDA to facilitate quantification of planned business activities and enhance subsequent follow-up with comparisons of actual to planned Adjusted EBITDA.

The following is a reconciliation of our net loss to Adjusted EBITDA for fiscal 2021, 2020 and 2019:

	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)
	(Dollars in thousands)		
Net loss from continuing operations	$ (100,070)	$ (469,219)	$ (666,954)
Interest expense	201,388	229,657	227,728
Income tax (benefit) expense	(20,157)	387,607	77,477
Depreciation and amortization	327,124	328,277	357,882
LIFO (credit) charge	(51,692)	(64,804)	23,354
Lease termination and impairment charges	58,403	42,843	107,994
Goodwill and intangible asset impairment charges	29,852	—	375,190
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
Merger and Acquisition-related costs	10,549	3,599	37,821
Stock-based compensation expense	13,003	16,087	12,115
Restructuring-related costs	84,552	105,642	4,704
Inventory write-downs related to store closings	3,709	4,652	13,487
Litigation settlement	—	—	18,000
(Gain) loss on sale of assets, net	(69,300)	4,226	(38,012)
Gain on Bartell acquisition	(47,705)	—	—
Other	3,283	5,336	12,104
Adjusted EBITDA from continuing operations	$ 437,665	$ 538,211	$ 563,444

The following is a reconciliation of our net loss from continuing operations to Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Diluted Share for fiscal 2021, 2020 and 2019. Adjusted Net Income (Loss) is defined as net income (loss) excluding the impact of amortization expense, merger and acquisition-related costs, a non-recurring litigation settlement (as further discussed below), gains or losses on debt modifications and retirements, LIFO adjustments (which removes the entire impact of LIFO, and effectively reflects the results as if we were on a FIFO inventory basis), goodwill and intangible asset impairment charges, restructuring-related costs, gain on Bartell Drugs acquisition and the WBA merger termination fee. We calculate Adjusted Net Income (Loss) per Diluted Share using our above-referenced definition of Adjusted Net Income (Loss). We believe Adjusted Net Income (Loss) and Adjusted Net

Income (Loss) per Diluted Share are useful indicators of our operating performance over multiple periods. Adjusted Net Income (Loss) per Diluted Share is calculated using our above-referenced definition of Adjusted Net Income (Loss):

	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)
	(Dollars in thousands)		
Net loss	$ (100,070)	$ (469,219)	$ (666,954)
Add back - Income tax (benefit) expense	(20,157)	387,607	77,477
Loss before income taxes	(120,227)	(81,612)	(589,477)
Adjustments:			
Amortization expense	89,020	103,941	125,640
LIFO (credit) charge	(51,692)	(64,804)	23,354
Goodwill and intangible asset impairment charges	29,852	—	375,190
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
Merger and Acquisition-related costs	10,549	3,599	37,821
Restructuring-related costs	84,552	105,642	4,704
Gain on Bartell acquisition	(47,705)	—	—
Litigation settlement	—	—	18,000
Adjusted (loss) income before income taxes	(10,925)	11,074	(4,214)
Adjusted income tax (benefit) expense (a)	(2,873)	3,061	(1,163)
Adjusted net (loss) income	(8,052)	$ 8,013	$ (3,051)
Net loss per diluted share	$ (1.87)	$ (8.82)	$ (12.62)
Adjusted net (loss) income per diluted share	$ (0.15)	$ 0.15	$ (0.06)

(a) The fiscal year 2021, 2020 and 2019 annual effective tax rates, calculated using a federal rate plus a net state rate that excluded the impact of state NOLs, state credits and valuation allowance, was used for the fifty-two weeks ended February 27, 2021, the fifty-two weeks ended February 29, 2020 and the fifty-two weeks ended March 2, 2019, respectively.

We have in the past and may in the future be involved in litigation, claims and proceedings that result in legal settlements or similar payments. We have historically not made adjustments for amounts related to these matters when calculating Adjusted EBITDA and Adjusted Net Income (Loss). Given the nature of a material legal settlement incurred in the second quarter of fiscal 2019, for comparability purposes we have added the amount of this settlement back to net income when calculating Adjusted EBITDA and Adjusted Net Income (Loss) for the fifty-two week period ended March 2, 2019 to help investors better compare our operating performance over multiple periods. For additional information regarding the settlement see Note 22 to the consolidated financial statements.

In addition to Adjusted EBITDA, Adjusted Net (Loss) Income and Adjusted Net (Loss) Income per Diluted Share, we occasionally refer to several other Non-GAAP measures, on a less frequent basis, in order to describe certain components of our business and how we utilize them to describe our results. These measures include but are not limited to Adjusted EBITDA Gross Margin and Gross Profit (gross margin/gross profit excluding non-Adjusted EBITDA items), Adjusted EBITDA SG&A (SG&A expenses excluding non-Adjusted EBITDA items), FIFO Gross Margin and FIFO Gross Profit (gross margin/gross profit before LIFO charges), and Free Cash Flow (Adjusted EBITDA less cash paid for interest, rent on closed stores, capital expenditures, restructuring-related costs and the change in working capital).

We include these non-GAAP financial measures in our earnings announcements in order to provide transparency to our investors and enable investors to better compare our operating performance with the operating performance of our competitors including with those of our competitors having different capital structures. Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share or other non-GAAP measures should not be considered in isolation from, and are not intended to represent an alternative measure of, operating results

or of cash flows from operating activities, as determined in accordance with GAAP. Our definition of these non-GAAP measures may not be comparable to similarly titled measurements reported by other companies.

Item 7A. 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.

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 February 27, 2021 and assumes that we have repaid or refinanced our existing 6.125% Senior Notes due 2023 prior to December 31, 2022.

	2022	2023	2024	2025	2026	Thereafter	Total	Fair Value at February 27, 2021
	(Dollars in thousands)							
Long-term debt, including current portion, excluding financing lease obligations								
Fixed Rate	$ —	$ —	$ 90,808	$ —	$ 600,000	$ 1,116,305	$ 1,807,113	$ 1,876,322
Average Interest Rate	0.00 %	0.00 %	6.13 %	0.00 %	7.50 %	7.91 %	7.68 %	
Variable Rate	$ —	$ —	$ 1,300,000	$ —	$ —	$ —	$ 1,300,000	$ 1,300,000
Average Interest Rate	0.00 %	0.00 %	2.18 %	0.00 %	0.00 %	0.00 %	2.18 %	

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 could be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed.

The interest rate on our variable rate borrowings, which include our revolving credit facility and our term loan facility, are based on LIBOR. If the market rates of interest for LIBOR changed by 100 basis points as of February 27, 2021, our annual interest expense would change by approximately $13.0 million.

A change in interest rates does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures. Increases in interest rates would also impact our ability to refinance existing maturities on favorable terms.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto are included elsewhere in this report and are incorporated by reference herein. See Item 15 of Part IV.

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

Not applicable

Item 9A. 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) Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control—Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have excluded from our assessment the internal control over financial reporting the operations of the Bartell Drug Company, which we acquired on December 18, 2020, which has not been converted to the legacy Rite Aid systems as of February 27, 2021. The Bartell Drug Company accounted for 3.4% of our total assets and 0.4% of our total revenues as of and for the year ended February 27, 2021. Based on this evaluation, our management has concluded that, as of February 27, 2021, we did not have any material weaknesses in our internal control over financial reporting and our internal control over financial reporting was effective.

Attestation Report of the Independent Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm, Deloitte & Touche LLP, on our internal control over financial reporting is included after the next paragraph.

(c) 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 our fourth fiscal quarter ended February 27, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Rite Aid Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Rite Aid Corporation and subsidiaries (the "Company") as of February 27, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 27, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended February 27, 2021, of the Company and our report dated April 27, 2021, expressed an unqualified opinion on those consolidated financial statements.

As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Bartell Drug Company, which was acquired on December 18, 2020, and whose financial statements constitute 3.4% of total assets and .4% of total revenues of the consolidated financial statement amounts as of and for the year ended February 27, 2021. Accordingly, our audit did not include the internal control over financial reporting at Bartell Drug Company.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 27, 2021

Item 9B. Other Information

None

PART III

We intend to file with the SEC a definitive proxy statement for our 2021 Annual Meeting of Stockholders pursuant to Regulation 14A not later than 120 days after February 27, 2021. The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference from that proxy statement. Our 2021 Annual Meeting of Stockholders is scheduled to be held on July 7, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) The consolidated financial statements of the Company and report of the independent registered public accounting firm identified in the following index are included in this report from the individual pages filed as a part of this report:

1. Financial Statements

The following financial statements, report of the independent registered public accounting firm and supplementary data are included herein:

2. Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable, not required or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Amended and Restated Asset Purchase Agreement, dated September 18, 2017, among Rite Aid Corporation, Walgreens Boots Alliance, Inc. and Walgreen Co.**	Exhibit 2.1 to Form 8-K, filed on September 19, 2017
2.2	Agreement and Plan of Merger, dated February 18, 2018, among Rite Aid Corporation, Albertsons Companies, Inc., Ranch Acquisition II LLC and Ranch Acquisition Corp.**	Exhibit 2.1 to Form 8-K, filed on February 20, 2018
2.3	Termination Agreement, dated as of August 8, 2018, among Rite Aid Corporation, Albertsons Companies, Inc., Ranch Acquisition II LLC and Ranch Acquisition Corp.	Exhibit 2.1 to Form 8-K, filed on August 8, 2018
2.4	Receivable Purchase Agreement, dated as of February 19, 2020, by and between Envision Insurance Company and Part D Receivable Trust 2020-1 (Series A)	Exhibit 2.1 to Form 8-K, filed on February 21, 2020
2.5	Indemnity Agreement, dated as of February 19, 2020 by and between Rite Aid Corporation and Part D Receivable Trust 2020-1 (Series A)	Exhibit 2.2 to Form 8-K, filed on February 21, 2020
3.1	Amended and Restated Certificate of Incorporation	Exhibit 3.1 to Form 8-K, filed on April 18, 2019

Exhibit Numbers	Description	Incorporation By Reference To
3.2	Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K, filed on April 17, 2020
4.1	Indenture, dated as of August 1, 1993, 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	Exhibit 4A to Registration Statement on Form S-3, File No. 033-63794, filed on June 3, 1993
4.2	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and U.S. Bank Trust National Association (as successor trustee to Morgan Guaranty Trust Company of New York) to the Indenture dated as of August 1, 1993, between Rite Aid Corporation and Morgan Guaranty Trust Company of New York, relating to the Company's 7.70% Notes due 2027	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 6.875% 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 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K, filed on February 7, 2000
4.5	Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023	Exhibit 4.1 to Form 8-K, filed on April 2, 2015
4.6	Supplemental Indenture, dated as of August 23, 2018, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., to the Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023	Exhibit 4.1 to Form 8-K filed on August 23, 2018
4.7	Supplemental Indenture, dated as of February 8, 2019, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., to the Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023	Exhibit 4.9 to Form 10-K filed on April 25, 2019
4.8	Indenture, dated as of February 5, 2020, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 7.500% Senior Secured Notes due 2025	Exhibit 4.1 to Form 8-K filed on February 5, 2020
4.9	Description of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934	Exhibit 4.9 to Form 10-K filed on April 27, 2020
4.10	Indenture, dated as of July 27, 2020, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 8.000% Senior Secured Notes due 2026	Exhibit 4.1 to Form 8-K filed on July 27, 2020

Exhibit Numbers	Description	Incorporation By Reference To
4.11	Supplemental Indenture, dated as of July 9, 2020, among Rite Aid Corporation, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., to the Indenture, dated as of April 2, 2015, among Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Mellon Trust Company, N.A., related to the Company's 6.125% Senior Notes due 2023	Exhibit 4.3 to Form 8-K filed on July 27, 2020
10.1	2010 Omnibus Equity Plan	Exhibit 10.1 to Form 8-K, filed on June 25, 2010
10.2	Amendment No. 1, dated September 21, 2010, to the 2010 Omnibus Equity Plan	Exhibit 10.7 to Form 10-Q, filed on October 7, 2010
10.3	Amendment No. 2, dated January 16, 2013, to the 2010 Omnibus Equity Plan	Exhibit 10.8 to Form 10-K, filed on April 23, 2013
10.4	2012 Omnibus Equity Plan	Exhibit 10.1 to Form 8-K, filed on June 25, 2012
10.5	Amendment No. 1, dated January 16, 2013, to the 2012 Omnibus Equity Plan	Exhibit 10.10 to Form 10-K, filed on April 23, 2013
10.6	2014 Omnibus Equity Plan	Exhibit 10.1 to Form 8-K, filed on June 23, 2014
10.7	Form of Award Agreement	Exhibit 10.2 to Form 8-K, filed on May 15, 2012
10.8	Executive Incentive Plan for Officers of Rite Aid Corporation	Exhibit 10.1 to Form 8-K, filed on February 24, 2012
10.9	Employment Agreement by and between Rite Aid Corporation and Jocelyn Konrad dated as of August 18, 2015	Exhibit 10.1 to Form 10-Q, filed on January 6, 2016
10.10	Credit Agreement, dated as of December 20, 2018, among Rite Aid Corporation, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent and collateral agent.	Exhibit 10.1 to Form 8-K, filed on December 20, 2018
10.11	Amended and Restated Collateral Trust and Intercreditor Agreement, including the related definitions annex, dated as of June 5, 2009, among Rite Aid Corporation, each subsidiary named therein or which becomes a party thereto, Wilmington Trust Company, as collateral trustee, Citicorp North America, Inc., as senior collateral processing agent, The Bank of New York Trust Company, N.A., as trustee under the 2017 7.5% Note Indenture (as defined therein) and The Bank of New York Mellon Trust Company, N.A., as trustee under the 2016 10.375% Note Indenture (as defined therein), and each other Second Priority Representative and Senior Representative which becomes a party thereto	Exhibit 10.3 to Form 8-K, filed on June 11, 2009
10.12	Amendment to Employment Agreement by and between Rite Aid Corporation and Jocelyn Z. Konrad, dated as of March 12, 2019	Exhibit 10.32 to Form 10-Q, filed on July 11, 2019
10.13	Amendment to Employment Agreement by and between Rite Aid Corporation and Matthew C. Schroeder, dated as of March 12, 2019	Exhibit 10.33 to Form 10-Q, filed on July 11, 2019
10.14	Amendment to Employment Agreement by and between Rite Aid Corporation and Brian Hoover, dated as of March 12, 2019	Exhibit 10.34 to Form 10-Q, filed on July 11, 2019
10.15	Amendment to Employment Agreement by and between Rite Aid Corporation and Brian Hoover, dated as of December 5, 2017	Exhibit 10.35 to Form 10-Q, filed on July 11, 2019

Exhibit Numbers	Description	Incorporation By Reference To
10.16	Amendment to Employment Agreement by and between Rite Aid Corporation and Brian Hoover, dated as of August 10, 2016	Exhibit 10.36 to Form 10-Q, filed on July 11, 2019
10.17	Employment Agreement by and between Rite Aid Corporation and Brian Hoover, dated as of January 1, 2001	Exhibit 10.37 to Form 10-Q, filed on July 11, 2019
10.18	Eleventh Amendment to Supply Agreement by and between Rite Aid Corporation and McKesson Corporation, dated as of February 28, 2019*	Exhibit 10.38 to Form 10-Q, filed on July 11, 2019
10.19	Employment Agreement by and between Rite Aid Corporation and Heyward Donigan, dated August 8, 2019*	Exhibit 10.1 to Form 8-K, filed on August 12, 2019
10.20	Employment Inducement Award Agreement by and between Rite Aid Corporation and Heyward Donigan, dated August 12, 2019	Exhibit 10.2 to Form 8-K, filed on August 12, 2019
10.21	Employment Agreement dated October 2, 2019 by and between Rite Aid Corporation and James Peters	Exhibit 10.1 to Form 8-K, filed on October 2, 2019
10.22	Employment Agreement by and between Rite Aid Corporation and James J. Comitale, dated as of October 26, 2015	Exhibit 10.41 to Form 10-K filed on April 27, 2020
10.23	Amendment to Employment Agreement by and between James J. Comitale, dated November 6, 2019	Exhibit 10.42 to Form 10-K filed on April 27, 2020
10.24	Employment Agreement by and between Rite Aid Corporation and Jessica Kazmaier, dated as of March 12, 2019	Exhibit 10.43 to Form 10-K filed on April 27, 2020
10.25	Amendment to Employment Agreement by and between Jessica Kazmaier, dated November 6, 2019	Exhibit 10.44 to Form 10-K filed on April 27, 2020
10.26	Employment Agreement by and between Justin Mennen, dated as of December 7, 2018	Exhibit 10.45 to Form 10-K filed on April 27, 2020
10.27	Amendment to Employment Agreement by and between Justin Mennen, dated November 6, 2019	Exhibit 10.46 to Form 10-K filed on April 27, 2020
10.28	Employment Agreement by and between Rite Aid Corporation and Andre Persaud, dated as of January 28, 2020	Exhibit 10.47 to Form 10-K filed on April 27, 2020
10.29	Employment Agreement by and between RxOptions, LLC and Dan Robson, dated as of December 12, 2019	Exhibit 10.48 to Form 10-K filed on April 27, 2020
10.30	Separation Agreement by and between Rite Aid Corporation and James C. Comitale, as of May 21, 2020	Exhibit 10.45 to Form 10-Q filed on July 2, 2020
10.31	Employment Agreement by and between Rite Aid Corporation and Paul D. Gilbert, as of July 29, 2020	Exhibit 10.46 to Form 10-Q filed on October 6, 2020
10.32	Separation Agreement by and between Rite Aid Corporation and Dan Robson, as of January 27, 2021*	Filed herewith
10.33	Rite Aid Corporation 2020 Omnibus Equity Plan	Appendix B to Schedule 14A (Definitive Proxy Statement) filed on May 26, 2020
10.34	Form Award Agreement (Executive) under the Rite Aid Corporation 2020 Omnibus Equity Plan	Exhibit 10.2 to Form 8-K filed on July 8, 2020
10.35	Form Award Agreement (Non-employee Director) under the Rite Aid Corporation 2020 Omnibus Equity Plan	Exhibit 10.3 to Form 8-K filed on July 8, 2020
21	Subsidiaries of the Registrant	Filed herewith
22	List of Subsidiary Guarantors	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	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

Exhibit Numbers	Description	Incorporation By Reference To
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
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith

* Confidential portions of this Exhibit were redacted pursuant to Item 601(b)(10) of Regulation S-K and Rite Aid Corporation agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

** Certain schedules and/or exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Rite Aid Corporation agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Rite Aid Corporation, its subsidiaries or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Rite Aid Corporation may be found elsewhere in this report and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

Item 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

RITE AID CORPORATION

By: /s/ BRUCE G. BODAKEN
Bruce G. Bodaken
Chairman

Dated: April 27, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their respective capacities on April 27, 2021.

Signature	**Title**
/s/ HEYWARD DONIGAN Heyward Donigan	President and Chief Executive Officer (principal executive officer)
/s/ MATTHEW C. SCHROEDER Matthew C. Schroeder	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ BRIAN T. HOOVER Brian T. Hoover	Senior Vice President and Chief Accounting Officer (principal accounting officer)
/s/ BRUCE G. BODAKEN Bruce G. Bodaken	Director
/s/ ELIZABETH BURR Elizabeth Burr	Director
/s/ BARI HARLAM Bari Harlam	Director
/s/ ROBERT E. KNOWLING, JR Robert E. Knowling, Jr	Director
/s/ KEVIN E. LOFTON Kevin E. Lofton	Director
/s/ LOUIS P. MIRAMONTES	Director

Signature	Title
Louis P. Miramontes	
/s/ ARUN NAYAR Arun Nayar	Director
/s/ KATHERINE QUINN Katherine Quinn	Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Rite Aid Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rite Aid Corporation and subsidiaries (the "Company") as of February 27, 2021 and February 29, 2020, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended February 27, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 27, 2021 and February 29, 2020, and the results of its operations and its cash flows for each of the three years in the period ended February 27, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 27, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 27, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective March 3, 2019, the Company adopted FASB Accounting Standards Update 2016-02, *Leases (Topic 842)*, using the alternative transition method which does not require prior periods to be recast.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill – Pharmacy Services Reporting Unit — Refer to Note 14 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to the carrying value of each reporting unit. The Company uses either a qualitative assessment approach or a quantitative assessment approach. For the quantitative approach, the Company estimates fair value using an average based on an income approach and a market approach. The income approach is based on the present value of future cash flows of the reporting unit, while the market approach is based on certain multiples of selected guideline public companies or selected guideline transactions. The approaches incorporate a number of market participant assumptions including future growth rates, discount rates, income tax rates, and market activity. Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both. The goodwill balance was $1.108 billion as of February 27, 2021, of which $1.065 billion is allocated to the Pharmacy Services reporting unit.

Given the significant estimates and assumptions by management to estimate the fair value of the Pharmacy Services reporting unit, including future growth rates, discount rates, and market activity, our audit procedures included a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the determination of the fair value of the Pharmacy Services reporting unit, such as controls related to management's selection of future growth rates, discount rate, and market multiples.
- We evaluated the reasonableness of management's future growth rates by comparing the forecasts of revenues and EBITDA to:
    - Historical revenues and EBITDA margins.
    - Internal communications to management and the Board of Directors.
    - Forecasted information included in Company press releases as well as in analyst and industry reports for the Company and certain of its peer companies.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology, (2) discount rate, and (3) market activity by:
    - Testing the source information underlying the determination of the discount rate and market multiples and the mathematical accuracy of the calculations.
    - Developing a range of independent estimates and comparing those to the discount rate and market multiples selected by management.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 27, 2021

We have served as the Company's auditor since 1999.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	February 27, 2021	February 29, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 160,902	$ 218,180
Accounts receivable, net	1,462,441	1,286,785
Inventories, net	1,864,890	1,921,604
Prepaid expenses and other current assets	106,941	181,794
Current assets held for sale	—	92,278
Total current assets	3,595,174	3,700,641
Property, plant and equipment, net	1,080,499	1,215,838
Operating lease right-of-use assets	3,064,077	2,903,256
Goodwill	1,108,136	1,108,136
Other intangibles, net	340,519	359,491
Deferred tax assets	14,964	16,680
Other assets	132,035	148,327
Total assets	$ 9,335,404	$ 9,452,369
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	$ 6,409	$ 8,840
Accounts payable	1,437,421	1,484,081
Accrued salaries, wages and other current liabilities	642,364	746,318
Current portion of operating lease liabilities	516,752	490,161
Current liabilities held for sale	—	37,063
Total current liabilities	2,602,946	2,766,463
Long-term debt, less current maturities	3,063,087	3,077,268
Long-term operating lease liabilities	2,829,293	2,710,347
Lease financing obligations, less current maturities	16,711	19,326
Other noncurrent liabilities	208,213	204,438
Total liabilities	8,720,250	8,777,842
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, par value $1 per share; 75,000 shares authorized; shares issued and outstanding 55,143 and 54,716	55,143	54,716
Additional paid-in capital	5,897,168	5,890,903
Accumulated deficit	(5,313,103)	(5,222,194)
Accumulated other comprehensive loss	(24,054)	(48,898)
Total stockholders' equity	615,154	674,527
Total liabilities and stockholders' equity	$ 9,335,404	$ 9,452,369

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Revenues	$ 24,043,240	$ 21,928,393	$ 21,639,557
Costs and expenses:			
Cost of revenues	19,338,918	17,201,635	16,963,205
Selling, general and administrative expenses	4,657,185	4,587,336	4,592,375
Lease termination and impairment charges	58,403	42,843	107,994
Goodwill and intangible asset impairment charges	29,852	—	375,190
Interest expense	201,388	229,657	227,728
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
(Gain) loss on sale of assets, net	(69,300)	4,226	(38,012)
Gain on Bartell acquisition	(47,705)	—	—
	24,163,467	22,010,005	22,229,034
Loss from continuing operations before income taxes	(120,227)	(81,612)	(589,477)
Income tax (benefit) expense	(20,157)	387,607	77,477
Net loss from continuing operations	(100,070)	(469,219)	(666,954)
Net income from discontinued operations, net of tax	9,161	17,045	244,741
Net loss	$ (90,909)	$ (452,174)	$ (422,213)
Computation of (loss) income attributable to common stockholders:			
Loss from continuing operations attributable to common stockholders—basic and diluted	$ (100,070)	$ (469,219)	$ (666,954)
Income from discontinued operations attributable to common stockholders—basic and diluted	9,161	17,045	244,741
Loss attributable to common stockholders—basic and diluted	$ (90,909)	$ (452,174)	$ (422,213)
Basic and diluted (loss) income per share:			
Continuing operations	$ (1.87)	$ (8.82)	$ (12.62)
Discontinued operations	$ 0.18	$ 0.32	$ 4.63
Net basic and diluted loss per share	$ (1.69)	$ (8.50)	$ (7.99)

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Net loss	$ (90,909)	$ (452,174)	$ (422,213)
Other comprehensive income (loss):			
Defined benefit pension plans:			
Amortization of net actuarial losses included in net periodic pension cost, net of $0, $0 and $1,765 income tax expense	24,382	(17,351)	3,490
Change in fair value of interest rate cap	462	(488)	—
Total other comprehensive income (loss)	24,844	(17,839)	3,490
Comprehensive loss	$ (66,065)	$ (470,013)	$ (418,723)

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
BALANCE MARCH 3, 2018	53,366	$ 53,366	$ 5,864,664	$ (4,282,471)	$ (34,549)	$ 1,601,010
Net loss				(422,213)		(422,213)
Other comprehensive income:						
Changes in Defined Benefit Plans, net of $1,765 tax expense					3,490	3,490
Comprehensive loss						(418,723)
Adoption of ASU 2014-09				(8,560)		(8,560)
Exchange of restricted shares for taxes	(70)	(70)	(2,349)			(2,419)
Issuance of restricted stock	709	709	(709)			—
Cancellation of restricted stock	(88)	(88)	88			—
Amortization of restricted stock balance			14,628			14,628
Stock-based compensation expense			(1,539)			(1,539)
Stock options exercised	99	99	2,194			2,293
BALANCE MARCH 2, 2019	54,016	$ 54,016	$ 5,876,977	$ (4,713,244)	$ (31,059)	$ 1,186,690
Net loss				(452,174)		(452,174)
Other comprehensive loss:						
Changes in Defined Benefit Plans, net of $0 tax expense					(17,351)	(17,351)
Change in fair value of interest rate cap					(488)	(488)
Comprehensive loss						(470,013)
Adoption of ASU 2016-02				(56,776)		(56,776)
Exchange of restricted shares for taxes	(240)	(240)	(1,680)			(1,920)
Issuance of restricted stock	1,402	1,402	(1,402)			—
Cancellation of restricted stock	(462)	(462)	462			—
Amortization of restricted stock balance			15,840			15,840
Stock-based compensation expense			706			706
BALANCE FEBRUARY 29, 2020	54,716	$ 54,716	$ 5,890,903	$ (5,222,194)	$ (48,898)	$ 674,527
Net loss				(90,909)		(90,909)
Other comprehensive loss:						
Changes in Defined Benefit Plans, net of $0 tax expense					24,382	24,382
Change in fair value of interest rate cap					462	462
Comprehensive loss						(66,065)
Exchange of restricted shares for taxes	(189)	(189)	(2,897)			(3,086)
Issuance of restricted stock	780	780	(780)			—
Cancellation of restricted stock	(166)	(166)	166			—
Amortization of restricted stock balance			9,126			9,126
Stock-based compensation expense			599			599
Stock options exercised	2	2	51			53
BALANCE FEBRUARY 27, 2021	55,143	$ 55,143	$ 5,897,168	$ (5,313,103)	$ (24,054)	$ 615,154

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Operating activities:			
Net loss	$ (90,909)	$ (452,174)	$ (422,213)
Net income from discontinued operations, net of tax	9,161	17,045	244,741
Net loss from continuing operations	$ (100,070)	$ (469,219)	$ (666,954)
Adjustments to reconcile to net cash provided by (used in) operating activities of continuing operations:			
Depreciation and amortization	327,124	328,277	357,882
Lease termination and impairment charges	58,403	42,843	107,994
Goodwill and intangible asset impairment charges	29,852	—	375,190
LIFO (credit) charge	(51,692)	(64,804)	23,354
(Gain) loss on sale of assets, net	(69,300)	4,226	(38,012)
Gain on Bartell acquisition	(47,705)	—	—
Stock-based compensation expense	13,003	16,087	12,115
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
Changes in deferred taxes	(10,633)	385,904	95,638
Changes in operating assets and liabilities:			
Accounts receivable	(182,404)	486,563	(75,844)
Inventories	177,263	15,141	(44,645)
Accounts payable	(35,372)	(92,062)	125,925
Operating lease right-of-use assets and operating lease liabilities	(28,044)	14,112	—
Other assets	80,975	(38,351)	1,000
Other liabilities	(50,947)	(62,168)	(439,906)
Net cash provided by (used in) operating activities of continuing operations	105,179	510,857	(165,709)
Investing activities:			
Payments for property, plant and equipment	(195,141)	(171,705)	(196,778)
Intangible assets acquired	(29,800)	(42,681)	(47,911)
Acquisition of business, net of cash acquired	(86,230)	—	—
Proceeds from insured loss	12,500	—	—
Proceeds from dispositions of assets and investments	11,444	59,658	43,550
Proceeds from sale-leaseback transactions	177,892	4,879	2,587
Net cash used in investing activities of continuing operations	(109,335)	(149,849)	(198,552)
Financing activities:			
Proceeds from issuance of long-term debt	849,918	600,000	450,000
Net proceeds from (payments to) revolver	200,000	(225,000)	875,000
Principal payments on long-term debt	(1,058,537)	(706,103)	(440,370)
Change in zero balance cash accounts	(36,463)	12,671	(59,481)
Net proceeds from issuance of common stock	53	—	2,294
Payments for taxes related to net share settlement of equity awards	(3,086)	(1,921)	(2,419)
Financing fees paid for early debt redemption	(2,399)	(518)	(171)
Deferred financing costs paid	(14,729)	(5,781)	(21,564)
Net cash (used in) provided by financing activities of continuing operations	(65,243)	(326,652)	803,289
Cash flows from discontinued operations:			
Operating activities of discontinued operations	(82,189)	(23,836)	(62,956)
Investing activities of discontinued operations	94,310	63,307	664,740
Financing activities of discontinued operations	—	—	(1,343,793)
Net cash provided by (used in) discontinued operations	12,121	39,471	(742,009)
(Decrease) increase in cash and cash equivalents	(57,278)	73,827	(302,981)
Cash and cash equivalents, beginning of period	218,180	144,353	447,334
Cash and cash equivalents, end of period	$ 160,902	$ 218,180	$ 144,353

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

1. Summary of Significant Accounting Policies

Description of Business

The Company is a Delaware corporation and through its 100% owned subsidiaries, operates a pharmacy retail healthcare company in the United States of America. The Company operates through its two reportable segments: the Retail Pharmacy segment and the Pharmacy Services segment. The Retail Pharmacy segment operates one of the largest retail drugstore chains in the United States, with 2,510 stores in operation as of February 27, 2021. The Retail Pharmacy segment's drugstores' primary business is the sale of brand and generic prescription drugs. The Retail Pharmacy segment also sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private brand product line. The Pharmacy Services segment provides a fully integrated suite of PBM offerings including technology solutions, mail delivery services, specialty pharmacy, network and rebate administration, claims adjudication and pharmacy discount programs, through Elixir Pharmacy and Laker Software. Elixir also offers a national Medicare Part D prescription drug plan through Elixir Insurance ("EI"). See Note 21 for additional details on the Company's reportable segments.

The discussion and presentation of the operating and financial results of our business segments have been impacted by the following event.

Pursuant to the terms and subject to the conditions set forth in the Amended and Restated Asset Purchase Agreement (the "Amended and Restated Asset Purchase Agreement"), dated as of September 18, 2017, by and among Rite Aid, WBA and Walgreen Co., an Illinois corporation and 100% owned subsidiary of WBA ("Buyer"), Buyer agreed to purchase from Rite Aid 1,932 stores (the "Acquired Stores"), three distribution centers, related inventory and other specified assets and liabilities related thereto for a purchase price of approximately $4,375,000, on a cash free, debt free basis (the "Asset Sale" or the "Sale"). As of February 27, 2021, the Company has sold all 1,932 Acquired Stores, three distribution centers and related assets to WBA in exchange for proceeds of $4,375,000, which were used to repay outstanding debt. Based on its magnitude and because the Company has exited certain markets, the Sale represented a significant strategic shift that has a material effect on the Company's operations and financial results. Accordingly, the Company has applied discontinued operations treatment for the Asset Sale as required by Accounting Standards Codification 210-05—Discontinued Operations (ASC 205-20). In accordance with ASC 205-20, the Company reclassified the assets and liabilities to be sold, including the 1,932 Acquired Stores, three distribution centers, related inventory and other specified assets and liabilities related thereto (collectively the "Assets to be Sold" or "Disposal Group") to assets and liabilities held for sale on its consolidated balance sheets as of the periods ended February 27, 2021 and February 29, 2020, and reclassified the financial results of the Disposal Group in its consolidated statements of operations and consolidated statements of cash flows for all periods presented. Additionally, corporate support activities related to the Disposal Group were not reclassified to discontinued operations. See additional information as provided in Note 4 Asset Sale to WBA.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

Revenues for the Company are as follows:

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Retail Pharmacy segment:			
Pharmacy sales	$ 10,915,442	$ 10,354,293	$ 10,391,539
Front-end sales	5,322,943	5,114,976	5,215,152
Other revenue	126,875	146,917	150,461
Total Retail Pharmacy segment	16,365,260	15,616,186	15,757,152
Pharmacy Services segment revenue	7,970,137	6,559,560	6,093,688
Intersegment elimination	(292,157)	(247,353)	(211,283)
Total revenue	$ 24,043,240	$ 21,928,393	$ 21,639,557

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 66.7%, 67.0% and 66.6% of the Company's total drugstore sales in fiscal years 2021, 2020 and 2019, respectively. The Retail Pharmacy segment's principal classes of products in fiscal 2021 were the following:

Product Class	Percentage of Sales
Prescription drugs	66.7 %
Over-the-counter medications and personal care	10.8 %
Health and beauty aids	4.8 %
General merchandise and other	17.7 %

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 included 52 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its 100% owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments, which are readily convertible to known amounts of cash and which have original maturities of three months or less when purchased.

Allowance for Uncollectible Receivables

In our Retail Pharmacy segment, substantially all prescription sales are made to customers who are covered by third-party payors, such as insurance companies, government agencies and employers. The Company recognizes receivables that represent the amount owed to the Company for sales made to customers or employees of those payors that have not yet been paid. In our Pharmacy Services segment, receivables are recorded for claims for prescriptions

issued for customers, customer administrative fees, amounts due from CMS for Medicare Part D, and amounts due from certain drug manufacturers for rebates. The Company maintains a reserve for the expected credit losses associated with these receivables. This reserve is calculated based upon historical collection activity adjusted for current conditions.

Inventories

Inventories are stated at the lower of cost or market. Inventory balances include the capitalization of certain costs related to purchasing, freight and handling costs associated with placing inventory in its location and condition for sale. The Company uses the last-in, first-out ("LIFO") cost flow assumption for substantially all of its inventories. The Company calculates its inflation index based on internal product mix and utilizes the link-chain LIFO method.

Impairment of Long-Lived Assets

Asset impairments are recorded when the carrying value of assets are not recoverable. For purposes of recognizing and measuring impairment of long-lived assets, the Company categorizes assets of operating stores as "Assets to Be Held and Used" and "Assets to Be Disposed Of." The Company evaluates assets at the store level because this is the lowest level of identifiable cash flows ascertainable to evaluate impairment. Assets being tested for recoverability at the store level include tangible long-lived assets, right-of-use assets for leased stores, and identifiable, finite-lived intangibles that arose in purchase business combinations. Corporate assets to be held and used are evaluated for impairment based on excess cash flows from the stores that support those assets.

The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. The Company provides for depreciation using the straight-line method over the following useful lives: buildings—30 to 45 years; equipment—3 to 15 years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. When determining the amortization period of a leasehold improvement, the Company considers whether discretionary exercise of a lease renewal option is reasonably assured. If it is determined that the exercise of such option is reasonably assured, the Company will amortize the leasehold improvement asset over the minimum lease term, plus the option period. This determination depends on the remaining life of the minimum lease term and any economic penalties that would be incurred if the lease option is not exercised.

Capitalized lease assets are recorded at the lesser of the present value of minimum lease payments or fair market value and amortized over the estimated useful life of the related property or term of the lease.

The Company capitalizes direct internal and external development costs associated with internal-use software. Neither preliminary evaluation costs nor costs associated with the software after implementation are capitalized. For

fiscal years 2021, 2020 and 2019, the Company capitalized costs of approximately $12,669, $15,240 and $13,716, respectively.

Goodwill

The Company recognizes goodwill as the excess of the purchase price over the fair value of the assets acquired and liabilities assumed during business combinations. The Company accounts for goodwill under ASC Topic 350, "Intangibles—Goodwill and Other", which does not permit amortization, but instead requires the Company to perform an annual impairment review, or more frequently if events or circumstances indicate that impairment may be more likely. See Note 14 for additional information on goodwill.

Intangible Assets

The Company has certain finite-lived intangible assets that are amortized over their useful lives. Prescription files acquired in business combinations are amortized over an estimated useful life of ten years on an accelerated basis, which approximates the anticipated prescription file retention and related cash flows. Purchased prescription files acquired in other than business combinations are amortized over their estimated useful lives of five years on a straight-line basis. The value of finite-lived trade names are amortized over 10 years on a straight-line basis. The value of customer relationships, acquired in connection with the Company's acquisition of EnvisionRx, are amortized over a period between 10 and 20 years on a descending percentage method which matches the pattern of expected discounted cash flows. The Pharmacy Services segment's contract with Centers for Medicare and Medicaid Services ("CMS") for Medicare Part D ("Part D"), which is required in order to act as a national provider of the Part D benefit, is amortized over 25 years on a straight line basis.

Indefinite lived assets

The Company has a single indefinite-lived intangible asset consisting of a trade name. Intangible assets that are determined to have an indefinite life are not amortized, but are required to be evaluated at least annually for impairment. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is impaired by the amount of the excess.

Deferred Financing Costs

Costs incurred to issue debt are deferred and amortized as a component of interest expense over the terms of the related debt agreements. Amortization expense of deferred financing costs was $11,201, $10,187 and $10,761 for fiscal 2021, 2020 and 2019, respectively.

Revenue Recognition

Retail Pharmacy Segment

For front-end sales, the Retail Pharmacy segment recognizes revenues upon the transfer of control of the goods to the customer. The Company satisfies its performance obligation at the point of sale for front-end transactions. The Retail Pharmacy segment front-end revenue is measured based on the amount of fixed consideration that it expects to receive, net of an allowance for estimated future returns. Return activity is immaterial to revenues and results of operations in all periods presented.

RITE AID CORPORATION AND SUBSIDIARIES

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(In thousands, except per share amounts)

For pharmacy sales, the Retail Pharmacy segment recognizes revenue upon the transfer of control of the goods to the customer. The Company satisfies its performance obligation, upon pickup by the customer, which is when the customer takes title to the product. Each prescription claim represents an individual arrangement with the customer and is a performance obligation, separate and distinct from other prescription claims. The Company's revenue is measured based on the amount of fixed consideration that we expect to receive, reduced by refunds owed to the third party payor for pricing guarantees and performance against defined value-based service and performance metrics. The inputs to these estimates are not highly subjective or volatile. The effect of adjustments between estimated and actual amounts have not been material to the Company's results of operations or financial position. Prescriptions are generally not returnable.

The Retail Pharmacy segment offers a chain-wide loyalty card program titled wellness+. Individual customers were able to become members of the wellness+ program. Members participating in the wellness+ loyalty card program earned points on a calendar year basis for eligible front-end merchandise purchases and qualifying prescription purchases. The existing wellness+ program was terminated as of July 1, 2020, with benefits earned as of that date available to be used through the end of calendar 2020. In December 2020, the Company granted a temporary extension of benefits to previous members that were eligible for a discount as of December 31, 2020 such that those prior members will be eligible to continue to receive that discount on purchases made through June 30, 2021 with no additional purchase requirement. New and existing customers who were not already eligible for “Gold” benefits will still have the opportunity to earn additional discounts on purchases made through June 30, 2021

Prior to its termination, effective January 1, 2020, members reached specific wellness+ tiers based on points accumulated during the six calendar month periods between January 1st and June 30th, and July 1st through December 31st, which entitled such customers to certain future discounts and other benefits upon reaching that tier. For example, any customer that reaches 500 points during the six calendar month period between January 1st and June 30th achieves the “Gold” tier, enabling him or her to receive a 20% discount on qualifying purchases of front-end merchandise for the remaining portion of that six calendar month period and for the following six calendar months. There is also a similar “Silver” level with a lower threshold and benefit level. Prior to January 1, 2020, the wellness+ tiers were based on points accumulated for a full calendar year, and entitled such customers to wellness+ benefits for the remainder of that calendar year and also the next calendar year.

Points earned pursuant to the wellness+ program represent a performance obligation and the Company allocates revenue between the merchandise purchased and the wellness+ points based on the relative stand-alone selling price of each performance obligation. The relative value of the wellness+ points is initially deferred as a contract liability (included in other current and noncurrent liabilities). As members receive discounted front-end merchandise or when the benefit period expires, the Retail Pharmacy segment recognizes an allocable portion of the deferred contract liability into revenue. For the fifty-two week period ended February 27, 2021, the Company recognized $48,914 of deferred contract liability into revenue. The Retail Pharmacy segment had accrued contract liabilities of $3,754 as of February 27, 2021, which is included in other current liabilities. The Retail Pharmacy segment had accrued contract liabilities of $52,668 as of February 29, 2020, which is included in other current liabilities.

Pharmacy Services Segment

The Pharmacy Services segment sells prescription drugs indirectly through its retail pharmacy network and directly through its mail service dispensing pharmacy. The Pharmacy Services segment recognizes revenue from prescription drugs sold by (i) its mail service dispensing pharmacy and (ii) under retail pharmacy network contracts where it is the principal at the contract prices negotiated with its clients, primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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health benefit plans, and individuals throughout the United States. Revenues include: (i) the portion of the price the client pays directly to the Pharmacy Services segment, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the Pharmacy Services segment by client plan members for mail order prescriptions ("Mail Co-Payments"), (iii) client plan member copayments made directly to the retail pharmacy network and (iv) administrative fees. Revenue is recognized when the Pharmacy Services segment meets its performance obligations relative to each transaction type. The following revenue recognition policies have been established for the Pharmacy Services segment:

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

- Revenues generated from prescription drugs sold by the Pharmacy Services segment's mail service dispensing pharmacy are recognized when the prescription is shipped. At the time of shipment, the Pharmacy Services segment has performed all of its performance obligations under its client contracts, as control of and title to the product has passed to the client plan members. The Pharmacy Services segment does not experience a significant level of returns or reshipments.

- Revenues generated from administrative fees based on membership or claims volume are recognized monthly based on the terms within the individual contracts, either a monthly member based fee, or a claims volume based fee.

In the majority of its contracts, the Pharmacy Services segment is the principal because its client contracts give clients the right to obtain access to its pharmacy contracts under which the Pharmacy Services segment directs its pharmacy network to provide the services (drug dispensing, consultation, etc.) and goods (prescription drugs) to the clients' members at its negotiated pricing. The Pharmacy Services segment's obligations under its client contracts are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. In the majority of these contracts, the Pharmacy Services segment is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold after payment is received from its clients. The Pharmacy Services segment has control over these transactions until the prescription is transferred to the member and, thus, that it is acting as a principal. As such, the Pharmacy Services segment records the total prescription price contracted with clients in revenues.

Amounts paid to pharmacies and amounts charged to clients are exclusive of the applicable co-payment under Pharmacy Services segment contracts. Retail pharmacy co-payments, which we instruct retail pharmacies to collect from members, are included in our revenues and our cost of revenues.

For contracts under which the Pharmacy Services segment acts as an agent or does not control the prescription drugs prior to transfer to the client, no revenue is recognized, except the administrative fee.

Drug Discounts—The Pharmacy Services segment deducts from its revenues that are generated from prescription drugs sold by third party pharmacies any rebates, inclusive of discounts and fees, earned by its clients based on utilization levels and other factors as negotiated with the prescription drug manufacturers or suppliers. Rebates are paid to clients in accordance with the terms of client contracts.

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Medicare Part D—The Pharmacy Services segment, through its EI subsidiary, participates in the federal government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Please refer to Note 10, Medicare Part D.

Disaggregation of Revenue

The following tables disaggregate the Company's revenue by major source in each segment for the fiscal year ended February 27, 2021:

In thousands	February 27, 2021 (52 Weeks)
Retail Pharmacy segment:	
Pharmacy sales	$ 10,915,442
Front-end sales	5,322,943
Other revenue	126,875
Total Retail Pharmacy segment	16,365,260
Pharmacy Services segment	7,970,137
Intersegment elimination	(292,157)
Total revenue	$ 24,043,240

See Note 21 for additional information about the revenues of the Company's business segments.

Cost of Revenues

Retail Pharmacy Segment

Cost of revenues for the Retail Pharmacy segment includes the following: the cost of inventory sold during the period, including related vendor rebates and allowances, LIFO credit or charges, costs incurred to return merchandise to vendors, inventory shrink, purchasing costs and warehousing costs, which include inbound freight costs from the vendor, distribution payroll and benefit costs, distribution center occupancy costs and depreciation expense and delivery expenses to the stores.

Pharmacy Services Segment

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

See Note 21 for additional information about the cost of revenues of the Company's business segments.

Vendor Rebates and Allowances and Purchase Discounts

Retail Pharmacy Segment

The Retail Pharmacy segment rebates and allowances received from vendors relate to either buying and merchandising or promoting the product. Buying and merchandising related rebates and allowances are recorded as a reduction of cost of revenue as product is sold. Buying and merchandising rebates and allowances include all types of vendor programs such as cash discounts from timely payment of invoices, purchase discounts or rebates, volume purchase allowances, price reduction allowances and slotting allowances. Certain product promotion related rebates and allowances, primarily related to advertising, are recorded as a reduction in selling, general and administrative expenses when the advertising commitment has been satisfied.

Pharmacy Services Segment

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

Rebates payable to clients for the Pharmacy Services segment

The Pharmacy Services segment has contractual arrangements with clients, including health plans, commercial employers, labor groups, and state and local governments, which entitles such clients to a portion of certain rebates received by Pharmacy Services segment. Estimated rebates payable to clients are recognized when prescriptions are dispensed and are generally paid to clients up to eight months in arrears. Historically, the effect of adjustments resulting from the reconciliation of estimated rebates payable to clients recognized and the amount actually paid has not been material to the Pharmacy Services segment's results of operations. The Pharmacy Services segment accounts for the effect of any such difference as a change in accounting estimate in the period the reconciliation is completed. Estimated rebates payable to clients are recorded as a reduction of revenues.

Leases

The Company determines if an arrangement contains a lease at the inception of a contract. Operating lease right-of-use assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and operating lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments. As the interest rate implicit in the Company's leases is not readily

determinable, the Company utilizes its incremental borrowing rate, determined by class of underlying asset, to discount the lease payments. The incremental borrowing rate is determined using a portfolio approach based on the rate of interest that we would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The Company uses quoted interest rates obtained from financial institutions in an input to derive its incremental borrowing rate as the discount rate for the lease. The ROU asset is equal to the operating lease liability plus lease payments made before commencement, less lease incentives received from the landlord.

The Company's real estate leases typically contain options that permit lease extensions for additional periods of up to five years each. For real estate leases, generally, the renewal periods are not included within the lease term and the associated payments are not included in the measurement of the ROU asset and operating lease liability as the options to extend are not considered reasonably certain to occur at lease commencement. The Company reevaluates each lease on a regular basis to consider the economic and strategic incentives of exercising the renewal options and will include all reasonably certain options in the measurement of its lease term. Generally, the renewal option periods are not included within the lease term and the associated payments are not included in the measurement of the operating lease right-of-use asset and the operating lease liability until the renewals are i) evaluated and ii) determined to be exercised. The Company has an insignificant amount of non-real estate leases however, renewal options are not included in the lease term for non-real estate leases because they are not considered reasonably certain of being exercised at lease commencement. The Company rarely executes leases less than 12 months.

For real estate leases, the Company accounts for lease components and non-lease components as a single lease component. Certain real estate leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed as incurred as variable lease costs. Other real estate leases contain one fixed lease payment that includes real estate taxes, common area maintenance and insurance. These fixed payments are considered part of the lease payment and included in the operating lease right-of-use assets and operating lease liabilities.

The Company records rent expense on operating leases on a straight-line basis over the reasonably certain lease term. The Company begins to record rent expense at the time that the Company has the right to use the property.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include store and corporate administrative payroll and benefit costs, occupancy costs which include retail store and corporate rent costs, facility and leasehold improvement depreciation and utility costs, advertising, repair and maintenance, insurance, equipment depreciation and professional fees.

Repairs and Maintenance

Routine repairs and maintenance are charged to operations as incurred. Improvements and major repairs, which extend the useful life of an asset, are capitalized and depreciated.

Advertising

Advertising costs, net of specific vendor advertising allowances, are expensed in the period the advertisement first takes place. Advertising expenses, net of vendor advertising allowances, for fiscal 2021, 2020 and 2019 were $122,725, $142,079 and $147,519, respectively.

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Insurance

The Company is self-insured for certain general liability and workers' compensation claims. For claims that are self-insured, stop-loss insurance coverage is maintained for workers' compensation occurrences exceeding $1,000 and general liability occurrences exceeding $3,000. The Company utilizes actuarial studies as the basis for developing reported claims and estimating claims incurred but not reported relating to the Company's self-insurance. Workers' compensation claims are discounted to present value using a risk-free interest rate.

The Company is also self-insured for certain employee health and welfare plans. We record the related self-insurance liabilities based on claims incurred and an estimate of claims incurred but not yet reported.

Benefit Plan Accruals

The Company has several defined benefit plans, under which participants earn a retirement benefit based upon a formula set forth in the plan. The Company records expense related to these plans using actuarially determined amounts that are calculated under the provisions of ASC 715, "Compensation—Retirement Benefits." Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and the rate of increase in future compensation levels.

Stock-Based Compensation

The Company has several stock award plans, which are described in detail in Note 18. The Company accounts for stock-based compensation under ASC 718, "Compensation—Stock Compensation." The Company recognizes expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures.

Store Pre-opening Expenses

Costs incurred prior to the opening of a new or relocated store, associated with a remodeled store or related to the opening of a distribution facility are charged to operations as incurred.

Litigation Reserves

The Company is involved in litigation on an ongoing basis. The Company accrues its best estimate of the probable loss related to legal claims. Such estimates are developed in consultation with in-house counsel, and are based upon a combination of litigation and settlement strategies.

Income Taxes

Deferred income taxes are determined based on the difference between the financial reporting and tax basis of assets and liabilities. Deferred income tax expense (benefit) represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change.

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The Company has net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate a significant deferred tax asset. The Company regularly reviews the deferred tax assets for recoverability considering historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies.

The Company recognizes tax liabilities in accordance with ASC 740, "Income Taxes" and the Company 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.

Sales Tax Collected

Sales taxes collected from customers and remitted to various governmental agencies are presented on a net basis (excluded from revenues) in the Company's statement of operations.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Concentrations

Retail Pharmacy Segment

The Company's pharmacy sales were primarily to customers covered by health plan contracts, which typically contract with a third party payor that agrees to pay for all or a portion of a customer's eligible prescription purchases. During fiscal 2021, the top five third party payors accounted for approximately 77.9% of the Company's pharmacy sales. The largest third party payor, Caremark, represented 30.4%, 28.8% and 28.3% of pharmacy sales during fiscal 2021, 2020 and 2019, respectively. Third party payors are entities such as an insurance company, governmental agency, health maintenance organization or other managed care provider, and typically represent several health care contracts and customers.

During fiscal 2021, state sponsored Medicaid agencies and related managed care Medicaid payors accounted for approximately 17.9% of the Company's pharmacy sales, the largest of which was approximately 1.3% of the Company's pharmacy sales. During fiscal 2021, approximately 39.6% of the Company's pharmacy sales were to customers covered by Medicare Part D. Any significant loss of third- party payor business could have a material adverse effect on the Company's business and results of operations.

During fiscal 2021, the Company purchased brand and generic pharmaceuticals, which amounted to approximately 99.1% of the dollar volume of its prescription drugs from McKesson Corporation ("McKesson") under its expanded agreement executed on February 17, 2014 and amended in fiscal 2019 for its pharmaceutical purchasing and distribution whereby McKesson assumed responsibility for purchasing essentially all of the brand and generic medications the Company dispenses as well as providing a new direct store delivery model to all of the Company's stores. If the Company's relationship with McKesson was disrupted, it could temporarily have difficulty filling

prescriptions for brand-named and generic drugs until it executed a replacement wholesaler agreement or developed and implemented self-distribution processes.

Pharmacy Services Segment

The Company's Pharmacy Services segment revenue is currently generated from a limited number of customers. During fiscal 2021, its top five customers accounted for 59.7% of its Pharmacy Services segment revenue. The largest payor, CMS, represented 36.6%, 27.4% and 23.0% of Pharmacy Services segment revenue during fiscal 2021, 2020 and 2019, respectively. Pharmacy Services segment customers are entities such as employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, Medicare plans, and other sponsors of health benefit plans, and individuals throughout the United States.

The Pharmacy Services segment, through its EI subsidiary, participates in the federal government's Medicare Part D program as a PDP. During fiscal 2021, fiscal 2020 and fiscal 2019, net revenues of $630,104 (2.6% of consolidated revenues), $436,435 (2.0% of consolidated revenues) and $391,024 (1.8% of consolidated revenues), respectively, include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS.

Derivatives

The Company may enter into interest rate swap agreements to hedge the exposure to increasing rates with respect to its variable rate debt, when the Company deems it prudent to do so. Upon inception of interest rate swap or cap agreements, or modifications thereto, the Company performs a comprehensive review of the interest rate swap agreements based on the criteria as provided by ASC 815, "Derivatives and Hedging." On March 15, 2019, the Company entered into an interest rate cap ("Cap"), which has been assigned to the variable interest rate payments on the first $650.0 million notional amount of variable rate indebtedness. The Cap has an effective date of March 21, 2019 and expired on March 21, 2021. The Cap provides the Company with interest rate protection in the event that LIBOR increases above 2.75%.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement benefits (Topic 715-20)*. This ASU amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The ASU also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. This ASU is effective for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*, which is intended to provide entities with additional guidance to determine which software implementation costs to capitalize and which costs to expense. The ASU will allow entities to capitalize costs for implementation activities during the application development stage. ASU No. 2018-15 is effective for fiscal years and interim periods within those years beginning after December 15, 2019 (fiscal 2021). Early adoption of ASU 2018-15 is

permitted. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which adds to U.S. GAAP an impairment model (known as the current expected credit loss ("CECL") model), that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity will recognize, as an allowance, its estimate of lifetime expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 impacts non-banks as most non-banks have financial instruments or other assets (e.g., trade, contract and lease receivables, financial guarantees, loans and loan commitments and held-to-maturity debt securities). The adoption of this ASU did not have a material impact on the Company's financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02*, Leases, (Topic 842)* ("ASU-2016-02" or the "Lease Standard"), which is intended to improve financial reporting around leasing transactions. The ASU affects all companies and other organizations that engage in lease transactions (both lessee and lessor). This ASU requires organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet a right of use asset ("ROU asset") and a lease liability for the obligations created by those leases. ASU No. 2016-02 is effective for fiscal years and interim periods within those years beginning January 1, 2019.

During July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842):* Targeted Improvements. The ASU provides administrative relief by allowing entities to implement the Lease Standard using an alternative transition method. Effectively, the alternative transition method permits adoption of the Lease Standard through an adjustment to its opening balance sheet for the period of adoption, with the cumulative effect accounted for as an adjustment to retained earnings, without restating prior periods.

The Company adopted the Lease Standard on March 3, 2019 under the alternative transition method as permissible under ASU 2018-11, and applied the Lease Standard to all leases through a cumulative-effect adjustment to beginning accumulated deficit. As a result, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company elected the package of practical expedients permitted under the transition guidance within the Lease Standard, which includes, among other things, the ability to carry forward the existing lease classification. On March 3, 2019, the Company recorded a liability for operating leases of $3,295,327, a ROU asset for such leases of $3,026,976 and recorded an after-tax transition adjustment to increase accumulated deficit by $56,776.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes (Topic 740)*. This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 related to the approach for intraperiod tax allocation, the recognition of deferred tax liabilities and the methodology for calculating income taxes in the interim period. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2020 (fiscal 2022). The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial position.

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2. Acquisition

On December 18, 2020, pursuant to that certain stock purchase agreement, dated as of October 7, 2020, by and between the Company and Bartell Drug Company ("Bartell"), the Company acquired Bartell (the "Acquisition"), a Washington corporation, for approximately $89,724 in cash, subject to certain customary post-closing working capital adjustments. Bartell operates 67 retail drug stores and one distribution center in the greater Seattle Washington area. Bartell will operate as a 100 percent owned subsidiary of the Company within its Retail Pharmacy segment.

The Company financed the Acquisition with borrowings under its Senior Secured Revolving Credit Facility together with cash on hand. The closing balance sheet has not yet been finalized as the Company is still in process of finalizing the valuation and the working capital adjustment, and therefore, the final purchase price and related purchase price allocation of the Acquisition is subject to change.

The Company's consolidated financial statements for fiscal 2021 include Bartell's results of operations from the Acquisition date of December 18, 2020 through February 27, 2021, including revenues of $101,083. The Company's financial statements reflect preliminary purchase accounting adjustments in accordance with ASC 805 "Business Combinations", whereby the purchase price was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the Acquisition date.

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

Preliminary purchase price		
Cash consideration	$	89,724
Total		89,724
Preliminary purchase price allocation		
Cash and cash equivalents	$	3,494
Accounts receivable		24,188
Inventories		69,046
Prepaid expenses and other current assets		1,857
Total current assets		98,585
Property and equipment		28,229
Operating lease right-of-use assets		143,651
Intangible assets(1)		68,700
Other assets		1,805
Total assets acquired		340,970
Accounts payable		24,166
Accrued salaries, wages and other current liabilities		18,386
Current portion of operating lease liabilities		24,617
Total current liabilities		67,169
Long-term operating lease liabilities		124,023
Other long-term liabilities		—
Total liabilities assumed		191,192
Deferred tax liabilities recorded on purchase		12,349
Net assets acquired		137,429
Bargain purchase gain		(47,705)
Total purchase price	$	89,724

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

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	Estimated Fair Value	Estimated Useful Life (In Years)
Prescription files	$ 54,300	10
Tradename	14,400	Indefinite
Total	$ 68,700	

The Acquisition resulted in a bargain purchase gain of $47,705 primarily due to fair value adjustments related to prescription files and the tradename compared to book values. The Company believes that the bargain purchase gain was primarily the result of the decision by the Bartell stockholders to sell their interests as Bartell had been experiencing increasing borrowings under its credit agreements to meet its operating needs and increasing net losses. The agreed upon purchase price reflected the fact the seller would have needed to incur further significant debt to cover the operating costs of Bartell, which would have required amendments to its credit arrangements. With the Company's existing infrastructure, scale and expertise, the Company believe that it has access to the necessary synergies to allow necessary operational improvements to be implemented more efficiently than the seller was capable of.

During fiscal 2021, acquisition costs of $10,549 were expensed as incurred. The following unaudited pro forma combined financial data gives effect to the Acquisition as if it had occurred as of March 1, 2019.

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

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

	Year Ended	
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)
	Pro forma	Pro forma
Net revenues as reported	$ 24,043,240	$ 21,928,393
Supplemental Pro forma revenues	$ 24,468,777	$ 22,487,418
Net loss as reported	$ (90,909)	$ (452,174)
Supplemental Pro forma net loss	$ (116,729)	$ (462,332)

3. Restructuring

Beginning in fiscal 2019, the Company initiated a series of restructuring plans designed to reorganize its executive management team, reduce managerial layers, and consolidate roles. In March 2020, the Company announced the details of its RxEvolution strategy, which includes building tools to work with regional health plans to improve

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patient health outcomes, rationalizing SKU's in its front-end offering to free up working capital and update its merchandise assortment, assessing its pricing and promotional strategy, rebranding its retail pharmacy and pharmacy services business, launching its Store of the Future format and further reducing SG&A and headcount, including integrating certain back office functions in the Pharmacy Services segment both within the segment and across Rite Aid.

For the year ended February 27, 2021, the Company incurred total restructuring-related costs of $84,552, of which $63,613 is included as a component of SG&A and $20,939 is included as a component of cost of revenues. These costs are as follows:

	Retail Pharmacy segment	Pharmacy Services segment	Total
Restructuring-related costs			
Severance and related costs associated with ongoing reorganization efforts (a)	$ 13,443	$ 4,353	$ 17,796
Non-executive retention costs associated with the March 2019 reorganization (b)	1,136	(124)	1,012
Professional and other fees relating to restructuring activities (c)	40,053	4,752	44,805
SKU optimization charges (d)	20,939	—	20,939
Total restructuring-related costs	$ 75,571	$ 8,981	$ 84,552

In addition, during the fiscal year ended February 27, 2021, the Company incurred intangible asset impairment charges of $29,852 in connection with its rebranding initiatives as described in Note 14, *Goodwill and Other Intangibles*.

For the year ended February 29, 2020, the Company incurred total restructuring-related costs of $105,642, which are included as a component of SG&A. These costs are as follows:

	Retail Pharmacy segment	Pharmacy Services segment	Total
Restructuring-related costs			
Severance and related costs associated with ongoing reorganization efforts (a)	$ 47,154	$ 11,339	$ 58,493
Non-executive retention costs associated with the March 2019 reorganization (b)	8,927	4,243	13,170
Professional and other fees relating to restructuring activities (c)	31,657	2,322	33,979
Total restructuring-related costs	$ 87,738	$ 17,904	$ 105,642

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For the year ended March 2, 2019, the Company incurred total restructuring-related costs of $4,704, which are included as a component of SG&A. These costs are as follows:

	Retail Pharmacy segment	Pharmacy Services segment	Total
Restructuring-related costs			
Severance and related costs associated with ongoing reorganization efforts (a)	$ —	$ —	$ —
Non-executive retention costs associated with the March 2019 reorganization (b)	3,224	1,480	4,704
Professional and other fees relating to restructuring activities (c)	—	—	—
Total restructuring-related costs	$ 3,224	$ 1,480	$ 4,704

A summary of activity for the year ended February 27, 2021 in the restructuring-related liabilities associated with the programs noted above, which is included in accrued salaries, wages and other current liabilities, is as follows:

	Severance and related costs (a)	Retention costs (b)	Professional and other fees (c)	Total
Balance at February 29, 2020	$ 36,228	$ 6,432	$ 2,394	$ 45,054
Additions charged to expense	4,811	629	4,532	9,972
Cash payments	(13,055)	—	(5,046)	(18,101)
Balance at May 30, 2020	$ 27,984	$ 7,061	$ 1,880	$ 36,925
Additions charged to expense	10,588	383	12,215	23,186
Cash payments	(9,077)	(7,444)	(12,554)	(29,075)
Balance at August 29, 2020	$ 29,495	$ —	$ 1,541	$ 31,036
Additions charged to expense	1,159	—	11,016	12,175
Cash payments	(11,770)	—	(7,473)	(19,243)
Balance at November 28, 2020	$ 18,884	$ —	$ 5,084	$ 23,968
Additions charged to expense	1,238	—	17,042	18,280
Cash payments	(7,465)	—	(19,293)	(26,758)
Balance at February 27, 2021	$ 12,657	$ —	$ 2,833	$ 15,490

(a) – Severance and related costs reflect severance accruals, executive search fees, outplacement services and other similar charges associated with ongoing reorganization efforts.
(b) – As part of its March 2019 reorganization, the Company incurred costs with the implementation of a retention plan for certain of its key associates.
(c) – Professional and other fees include costs incurred in connection with the identification and implementation of initiatives associated with restructuring activities.
(d) – Inventory reserve on product lines the Company is exiting and will no longer carry as part of its rebranding initiative.

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4. Asset Sale to WBA

On September 18, 2017, the Company entered into the Amended and Restated Asset Purchase Agreement with WBA and Buyer, which amended and restated in its entirety the previously disclosed Asset Purchase Agreement, dated as of June 28, 2017, by and among the Company, WBA and Buyer. Pursuant to the terms and subject to the conditions set forth in the Amended and Restated Asset Purchase Agreement, Buyer purchased from the Company 1,932 Acquired Stores, three distribution centers, related inventory and other specified assets and liabilities related thereto for a purchase price of $4,375,000, on a cash-free, debt-free basis in the Sale. The Company completed the store transfer process in March of 2018, which resulted in the transfer of all 1,932 stores and related assets to WBA, and received cash proceeds of $4,156,686.

During fiscal 2019, the Company completed the sale of one of its distribution centers and related assets to WBA for proceeds of $61,251. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $14,151, which has been included in the results of operations and cash flows of discontinued operations during the fifty-two week period ended March 2, 2019. During fiscal 2020, the Company completed the sale of the second distribution center and related assets to WBA for proceeds of $62,774. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $19,268, which has been included in the results of operations and cash flows of discontinued operations during the fifty-two week period ended February 29, 2020. During the first quarter of fiscal 2021, the Company completed the sale of the final distribution center and related assets to WBA for proceeds of $94,289. The impact of the sale of the distribution center and related assets resulted in a pre-tax gain of $12,690, which was included in the results of operations and cash flows of discontinued operations during the thirteen week period ended May 30, 2020. The transfer of the final distribution center and related assets constitutes the final closing under the Amended and Restated Asset Purchase Agreement.

The Company had agreed to provide transition services to Buyer for up to three years after the initial closing of the Sale. Under the terms of the TSA, the Company provided various services on behalf of WBA, including but not limited to the purchase and distribution of inventory and virtually all selling, general and administrative activities. The term of the TSA had been extended to October 17, 2020, unless earlier terminated. In connection with these services, the Company purchased the related inventory and incurred cash payments for the selling, general and administrative activities, which, the Company billed on a cash neutral basis to WBA in accordance with terms as outlined in the TSA. Total billings for these items during the fifty-two week periods ended February 27, 2021 and February 29, 2020 were $35,167 and $3,030,967, respectively, of which $0 and $38,737 is included in Accounts receivable, net. The Company charged WBA TSA fees of $1,467, $37,922 and $80,277 during the fifty-two week periods ended February 27, 2021, February 29, 2020, and March 2, 2019 which are reflected as a reduction to selling, general and administrative expenses. In conjunction with the transfer of the final distribution center during the quarter ended May 30, 2020, the Company has substantially completed its obligations under the TSA. On July 14, 2020, the Company entered into a letter agreement with WBA to terminate the services under the TSA, other than certain specified services relating to real estate, accounting, tax, and accounts receivable systems that continued until October 17, 2020 and certain specified services relating to human resources to be performed after October 17, 2020.

Based on its magnitude and because the Company exited certain markets, the Sale represented a significant strategic shift that has a material effect on the Company's operations and financial results. Accordingly, the Company has applied discontinued operations treatment for the Sale as required by Accounting Standards Codification 210-05—*Discontinued Operations* (ASC 205-20). In accordance with ASC 205-20, the Company reclassified the Disposal Group to assets and liabilities held for sale on its consolidated balance sheets as of the periods ended February 27, 2021 and February 29, 2020, and reclassified the financial results of the Disposal Group in its consolidated statements of

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operations and consolidated statements of cash flows for all periods presented. The Company also revised its discussion and presentation of operating and financial results to be reflective of its continuing operations as required by ASC 205-20.

The carrying amount of the Assets to be Sold, which were included in the Retail Pharmacy segment, have been reclassified from their historical balance sheet presentation to current assets and liabilities held for sale as follows:

	February 27, 2021	February 29, 2020
Inventories	$ —	$ 13,719
Property and equipment	—	43,576
Operating lease right-of-use asset	—	34,983
Current assets held for sale	$ —	$ 92,278
Current portion of operating lease liabilities	$ —	$ 2,002
Long-term operating lease liabilities	—	35,061
Current liabilities held for sale	$ —	$ 37,063

The operating results of the discontinued operations that are reflected on the consolidated statements of operations within net income from discontinued operations are as follows:

	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)
Revenues	$ 174	$ (21)	$ 34,889
Costs and expenses:			
Cost of revenues(a)	8	(5,639)	24,271
Selling, general and administrative expenses(a)	871	1,498	20,681
Loss on debt retirements, net	—	—	22,646
Interest expense(b)	—	1	4,616
Gain on stores sold to Walgreens Boots Alliance	—	—	(374,619)
(Gain) loss on sale of assets, net	(14,149)	(19,937)	1,486
	(13,270)	(24,077)	(300,919)
Income from discontinued operations before income taxes	13,444	24,056	335,808
Income tax expense	4,283	7,011	91,067
Net income from discontinued operations, net of tax	$ 9,161	$ 17,045	$ 244,741

(a) Cost of revenues and selling, general and administrative expenses for the discontinued operations excludes corporate overhead. These charges are reflected in continuing operations.

(b) In accordance with ASC 205-20, the operating results for the fifty-two week period ended February 27, 2021, the fifty-two week period ended February 29, 2020 and the fifty-two week period ended March 2, 2019, respectively, for the discontinued operations include interest expense relating to the outstanding indebtedness repaid with the estimated excess proceeds from the Sale.

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The operating results reflected above do not fully represent the Disposal Group's historical operating results, as the results reported within net income from discontinued operations only include expenses that are directly attributable to the Disposal Group.

5. (Loss) Income Per Share

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

	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Basic and diluted (loss) income per share:			
Numerator:			
Net loss from continuing operations	$ (100,070)	$ (469,219)	$ (666,954)
Net income from discontinued operations	9,161	17,045	244,741
Loss attributable to common stockholders— basic and diluted	$ (90,909)	$ (452,174)	$ (422,213)
Denominator:			
Basic weighted average shares	53,653	53,228	52,854
Outstanding options and restricted shares, net	—	—	—
Diluted weighted average shares	53,653	53,228	52,854
Basic and diluted (loss) income per share:			
Continuing operations	$ (1.87)	$ (8.82)	$ (12.62)
Discontinued operations	0.18	0.32	4.63
Net basic and diluted loss per share	$ (1.69)	$ (8.50)	$ (7.99)

Due to their antidilutive effect, 780, 1,295 and 1,036 potential common shares related to stock options have been excluded from the computation of diluted income per share as of February 27, 2021, February 29, 2020 and March 2, 2019, respectively. Also, excluded from the computation of diluted income per share as of February 27, 2021, February 29, 2020 and March 2, 2019 are restricted shares of 1,293, 1,253 and 1,008, respectively, which are included in shares outstanding.

6. Lease Termination and Impairment Charges

Impairment Charges

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that an asset group has a carrying value that may not be recoverable. The individual operating store is the lowest level for which cash flows are identifiable. As such, the Company evaluates individual stores for recoverability of assets. To determine if a store needs to be tested for recoverability, the Company considers items such as decreases in market prices, changes in the manner in which the store is being used or physical condition, changes in legal factors or business

climate, an accumulation of losses significantly in excess of budget, a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses, or an expectation that the store will be closed or sold.

The Company monitors new and recently relocated stores against operational projections and other strategic factors such as regional economics, new competitive entries and other local market considerations to determine if an impairment evaluation is required. For other stores, it performs a recoverability analysis if it has experienced current-period and historical cash flow losses.

In performing the recoverability test, the Company compares the expected future cash flows of a store to the carrying amount of its assets. Significant judgment is used to estimate future cash flows. Major assumptions that contribute to its future cash flow projections include expected sales, gross profit and distribution expenses; expected costs such as payroll, occupancy costs and advertising expenses; and estimates for other significant selling, and general and administrative expenses. Many long-term macro-economic and industry factors are considered, both quantitatively and qualitatively, in the future cash flow assumptions. In addition to current and expected economic conditions such as inflation, interest and unemployment rates that affect customer shopping patterns, the Company considers that it operates in a highly competitive industry which includes the actions of other national and regional drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, dollar stores and internet pharmacies. Additionally, the Company takes into consideration that certain operating stores are executing specific improvement plans which are monitored quarterly to recoup recent capital investments, such as an acquisition of an independent pharmacy, which it has made to respond to specific competitive or local market conditions, or have specific programs tailored towards a specific geography or market.

The Company recorded impairment charges of $46,287 in fiscal 2021, $39,875 in fiscal 2020 and $63,492 in fiscal 2019. The Company's methodology for recording impairment charges has been consistently applied in the periods presented.

At February 27, 2021, $850.5 million of the Company's long-lived assets, including intangible assets, were associated with 2,510 active operating stores. Additionally, in connection with the adoption of ASU 2016-02*, Leases (Topic 842)*, we have approximately $2.8 billion of operating lease right-of-use assets associated with the active stores.

If an operating store's estimated future undiscounted cash flows are not sufficient to cover its carrying value, its carrying value is reduced to fair value. Fair value is its estimated future discounted cash flows. The discount rate is commensurate with the risks associated with the recovery of a similar asset. Beginning in fiscal year 2020, operating lease right-of-use assets are included within the stores' asset groups. The Company obtains fair values of these right-of-use assets based on real estate market data.

An impairment charge is recorded in the period that the store does not meet its original return on investment and/or has an operating loss for the last two years and its projected cash flows do not exceed its current asset carrying value. The amount of the impairment charge is the entire difference between the current asset carrying value and its fair value which is the estimated future discounted cash flows.

The Company recorded impairment charges for active stores of $29,745 in fiscal 2021, $34,825 in fiscal 2020 and $46,419 in fiscal 2019.

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The Company reviews key performance results for active stores on a quarterly basis and approves certain stores for closure. Impairment for closed stores, if any (many stores are closed on lease expiration), are recorded in the quarter the closure decision is approved. Closure decisions are made on an individual store or regional basis considering all of the macro-economic, industry and other factors, in addition to, the active store's individual operating results. The Company recorded impairment charges for closed facilities of $16,542 in fiscal 2021, $5,050 in fiscal 2020 and $2,788 in fiscal 2019.

The following table summarizes the impairment charges and number of locations, segregated by closed facilities and active stores that have been recorded in fiscal 2021, 2020 and 2019:

	February 27, 2021		February 29, 2020		March 2, 2019	
(in thousands, except number of stores)	Number	Charge	Number	Charge	Number	Charge
Active stores:						
Stores previously impaired(1)	174	$ 21,372	274	$ 11,449	288	$ 17,939
New, relocated and remodeled stores(2)	2	1,519	8	11,228	22	10,595
Remaining stores not meeting the recoverability test(3)	19	6,854	38	12,148	74	17,885
Total impairment charges—active stores	195	29,745	320	34,825	384	46,419
Total impairment charges—closed facilities	33	16,542	30	5,050	62	2,788
Total impairment charges—other(4)	—	—	—	—	—	14,285
Total impairment charges—all locations	228	$ 46,287	350	$ 39,875	446	$ 63,492

(1) These charges are related to stores that were impaired for the first time in prior periods. In an effort to improve the operating results or to meet geographical competition, the Company will often make additional capital additions in stores that were impaired in prior periods. These additions will be impaired in future periods if they are deemed to be unrecoverable. In connection with our March 3, 2019 adoption of ASU 2016-02*, Leases (Topic 842)*, under the alternative transition method, and the recording of our corresponding right-of-use asset ("ROU"), the Company includes the ROU in its recoverability assessment. The fiscal 2021 impairment charge includes $15,459 of impairment relating to the ROU and $5,913 of capital additions. The fiscal 2020 impairment charge includes $6,594 of impairment relating to the ROU and $4,855 of capital additions.

(2) These charges are related to new stores (open at least three years) and relocated stores (relocated in the last two years) and significant strategic remodels (remodeled in the last year) that did not meet their recoverability test during the current period. These stores have not met their original return on investment projections and have a historical loss of at least two years. Their future cash flow projections do not recover their current carrying value. The fiscal 2021 impairment charge includes $347 of impairment relating to the ROU and $1,172 of capital assets. The fiscal 2020 impairment charge includes $5,625 of impairment relating to the ROU and $5,603 of capital assets.

(3) These charges are related to the remaining active stores that did not meet the recoverability test during the current period. These stores have a historical loss of at least 2 years. Their future cash flow projections do not recover their current carrying value. The fiscal 2021 impairment charge includes $3,177 of impairment relating to the ROU and $3,677 of capital assets. The fiscal 2020 impairment charge includes $2,228 of impairment relating to the ROU and $9,920 of capital assets.

(4) These fiscal 2019 charges were due to the impairment of assets related to the termination of a project to replace the point of sale software used in the Company's stores.

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The primary drivers of its impairment charges are each store's current and historical operating performance and the assumptions that the Company makes about each store's operating performance in future periods. Projected cash flows are updated based on the next year's operating budget which includes the qualitative factors noted above. The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

- Level 1—Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2—Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.
- Level 3—Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

Long-lived non-financial 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 (which are unobservable inputs) and discounting them using a risk-adjusted rate of interest (which is Level 1). The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located. Significant increases or decreases in actual cash flows may result in valuation changes.

The table below sets forth by level within the fair value hierarchy the long-lived assets, which include right-of-use assets, as of the impairment measurement date for which an impairment assessment was performed and total losses as of February 27, 2021 and February 29, 2020:

	Level 1	Level 2	Level 3	Fair Values as of Impairment Date	Total Charges February 27, 2021
Long-lived assets held for use	$ —	$ 74,448	$ 1,071	$ 75,519	$ (43,185)
Long-lived assets held for sale	$ —	$ 5,229	$ —	$ 5,229	$ (3,102)
Total	$ —	$ 79,677	$ 1,071	$ 80,748	$ (46,287)

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	Level 1	Level 2	Level 3	Fair Values as of Impairment Date	Total Charges February 29, 2020
Long-lived assets held for use	$ —	$ 113,510	$ 278	$ 113,788	$ (38,878)
Long-lived assets held for sale	$ —	$ 2,689	$ —	$ 2,689	$ (997)
Total	$ —	$ 116,199	$ 278	$ 116,477	$ (39,875)

The above assets reflected in the caption Long-lived assets held for sale are separate and apart from the Assets to be Sold and due to their immateriality, have not been reclassified to assets held for sale.

Lease Termination and Facility Exit Charges

Upon adoption of ASU 2016-02*, Leases (Topic 842),* the Company recorded a future lease liability for every real estate lease and therefore, no longer records a lease termination charge. Post adoption, the Company records ancillary costs in connection with store closings. Prior to the adoption of ASU 2016-02, charges to close a store, which principally consist of continuing lease obligations associated with ancillary 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 for stores where the remaining lease term exceeds one year, includes the ancillary costs from the date of closure to the end of the remaining lease term. The Company evaluates these assumptions each quarter and adjusts the liability accordingly.

In fiscal 2021, 2020 and 2019, the Company recorded lease termination charges of $12,116, $2,968 and $44,502, respectively.

As part of the Company's ongoing business activities, the Company assesses stores and distribution centers for potential closure or relocation. Decisions to close or relocate stores or distribution centers in future periods would result in lease exit costs and inventory liquidation charges, as well as impairment of assets at these locations. When a store or distribution center is closed, the Company records an expense for unrecoverable costs and accrues a liability equal to the present value at current credit adjusted risk-free interest rates of any anticipated executory costs which are not included within the store or distribution center's respective lease liability under Topic 842. Other store or distribution center closing and liquidation costs are expensed when incurred.

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The following table reflects the closed store and distribution center charges that relate to new closures, changes in assumptions and interest accretion:

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Balance—beginning of period	$ 2,253	$ 124,046	$ 133,290
Existing Topic 420 liabilities eliminated by recording a reduction to the ROU asset	—	(112,288)	—
Provision for present value of executory costs for closed stores	1,643	—	35,190
Changes in assumptions about future sublease income	(73)	—	737
Interest accretion	27	—	9,741
Cash payments, net of sublease income	(407)	(9,505)	(54,912)
Balance—end of period	$ 3,443	$ 2,253	$ 124,046

The Company's revenues and income before income taxes for fiscal 2021, 2020 and 2019 included results from stores that have been closed or are approved for closure as of February 27, 2021. The revenue, operating expenses and income before income taxes of these stores for the periods are presented as follows:

	Year Ended		
	February 27, 2021	February 29, 2020	March 2, 2019
Revenues	$ 23,643	$ 69,352	$ 243,317
Operating expenses	25,000	72,259	264,590
Gain from sale of assets	(7,993)	(2,547)	(38,109)
Other expenses	2,646	1,782	2,647
Income (loss) before income taxes	3,990	(2,142)	14,189
Included in these stores' loss before income taxes are:			
Depreciation and amortization	191	934	1,634
Inventory liquidation charges	(1,528)	(505)	(5,536)

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.

7. Fair Value Measurements

The Company utilizes the three-level valuation hierarchy as described in Note 6 for the recognition and disclosure of fair value measurements.

As of February 27, 2021 and February 29, 2020, the Company did not have any financial assets measured on a recurring basis. Please see Note 6 for fair value measurements of non-financial assets measured on a non-recurring basis.

Other Financial Instruments

Financial instruments other than long-term indebtedness include cash and cash equivalents, accounts receivable and accounts payable. These instruments are recorded at book value, which we believe approximate their fair values due to their short term nature. In addition, as of February 27, 2021 and February 29, 2020, the Company has $7,041 and $7,022, respectively, of investments carried at amortized cost as these investments are being held to maturity. These investments are included as a component of other assets as of February 27, 2021 and February 29, 2020. The Company believes the carrying value of these investments approximates their fair value.

The fair value for LIBOR-based borrowings under the Company's senior secured credit facility is estimated based on the quoted market price of the financial instrument which is considered Level 1 of the fair value hierarchy. The fair values of substantially all of the Company's other long-term indebtedness are estimated based on quoted market prices of the financial instruments which are considered Level 1 of the fair value hierarchy. The carrying amount and estimated fair value of the Company's total long-term indebtedness was $3,063,087 and $3,176,322, respectively, as of February 27, 2021. The carrying amount and estimated fair value of the Company's total long-term indebtedness was $3,077,268 and $3,021,385, respectively, as of February 29, 2020.

On March 15, 2019, the Company entered into an interest rate cap ("Cap"), which has been designated to the variable interest rate payments on the first $650.0 million notional amount of variable rate indebtedness. The Cap has an effective date of March 21, 2019 and expires on March 21, 2021. The Cap provides the Company with interest rate protection in the event that LIBOR increases above 2.75%. The nominal fair market value of the Cap is recorded as a component of other assets. LIBOR continues to be supported through maturity of the Cap.

8. Income Taxes

The CARES Act, enacted on March 27, 2020, includes changes to certain tax law related to net operating losses, the deductibility of interest expense, and the acceleration of refunds for certain federal tax credits. ASC 740, "Income Taxes," requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted. The provisions enacted under the CARES Act related to net operating losses and deductibility of interest expense had a favorable $357 and $2,600 impact on the Company's fiscal 2021 and fiscal 2020 current state income tax, respectively, and no net impact to the deferred income tax provisions. Additionally, the Company recorded a current income tax benefit of $6,748 for fiscal 2021 related to refundable alternative minimum tax credits that were accelerated under the CARES Act.

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The provision for income tax expense (benefit) from continuing operations was as follows:

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Current tax:			
Federal	$ (6,758)	$ (6,758)	$ (22,187)
State	4,145	13,725	9,866
	(2,613)	6,967	(12,321)
Deferred tax and other:			
Federal	(12,649)	345,469	50,151
State	(4,895)	35,171	39,647
	(17,544)	380,640	89,798
Total income tax (benefit) expense	$ (20,157)	$ 387,607	$ 77,477

A reconciliation of the expected statutory federal tax and the total income tax expense (benefit) from continuing operations was as follows:

	Year Ended		
	February 27, 2021 (52 Weeks)	February 29, 2020 (52 Weeks)	March 2, 2019 (52 Weeks)
Federal statutory rate*	$ (25,247)	$ (17,093)	$ (123,790)
Nondeductible expenses	588	1,025	2,890
State income taxes, net	9,791	46,620	(12,605)
Bargain purchase gain	(10,018)	—	—
Decrease of previously recorded liabilities	(2,273)	(4,477)	(3,105)
Nondeductible compensation	3,764	2,623	1,798
Officer life insurance	—	5,555	—
Qualified fringe disallowance	313	974	—
Nondeductible excise tax	1,296	—	—
Stock based compensation	2,806	4,999	3,478
Valuation allowance	(1,827)	347,599	212,252
Other	650	(218)	(3,441)
Total income tax (benefit) expense	$ (20,157)	$ 387,607	$ 77,477

* Federal statutory rate included in the above table is 21.0% for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 in accordance with the Tax Cuts and Jobs Act enacted December 22, 2017.

Net loss for fiscal 2021 from continuing operations included an income tax benefit of $20,157, of which $1,827 was recorded to maintain a full valuation allowance for federal deferred tax assets as well as the majority of the Company's state deferred tax assets. These assets may not be realized based on the Company's most recent assessment that it is more likely than not that sufficient taxable income may not be generated to realize the tax benefits of the Company's net deferred tax assets. Additionally, the overall tax rate includes a permanent tax benefit related to the Company's bargain purchase gain on the Bartell acquisition resulting in an impact of 8.3%.

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Net loss for fiscal 2020 from continuing operations included income tax expense of $387,607, of which $347,599 relates to establishing a full valuation allowance for federal deferred tax assets and an increase to the valuation allowance for state net deferred tax assets that may not be realized based on the Company's most recent assessment of all available evidence including future projections of taxable income.

Net loss for fiscal 2019 from continuing operations included income tax expense of $77,477, of which $212,252 relates to the increase in valuation allowance for federal and state net deferred tax assets that may not be realized based on the Company's future projections of taxable income.

The Company recognized tax expense of $4,283, $7,011 and $91,067 within Net loss (income) from discontinued operations, net of tax, in the Statement of Operations in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The Company’s effective income tax rate from discontinued operations included adjustments to the valuation allowance of $0, $0 and $(2,417) for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

The tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at February 27, 2021 and February 29, 2020:

	2021	2020
Deferred tax assets:		
Accounts receivable	$ 17,032	$ 29,734
Accrued expenses	50,783	99,637
Pension, retirement and other benefits	73,870	98,408
Long-lived assets	258,871	303,630
Operating lease liabilities	934,978	903,020
Credits	24,133	35,197
Net operating losses	1,431,583	1,284,831
Other	562	1,426
Total gross deferred tax assets	2,791,812	2,755,883
Valuation allowance	(1,657,562)	(1,673,119)
Total deferred tax assets	1,134,250	1,082,764
Deferred tax liabilities:		
Outside basis difference	5,632	5,616
Inventory	256,896	242,238
Operating lease right-of-use assets	856,758	818,230
Total gross deferred tax liabilities	1,119,286	1,066,084
Net deferred tax assets	$ 14,964	$ 16,680

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A reconciliation of the beginning and ending amount of unrecognized tax benefits from continuing operations was as follows:

	2021	2020	2019
Unrecognized tax benefits	$ 198,325	$ 219,839	$ 230,210
Increases to prior year tax positions	42	440	155
Decreases to tax positions in prior periods	(807)	(6,448)	(111)
Increases to current year tax positions	—	—	—
Settlements	—	—	—
Divestitures	—	—	(543)
Lapse of statute of limitations	(13,146)	(15,506)	(9,872)
Unrecognized tax benefits balance	$ 184,414	$ 198,325	$ 219,839

The amount of the above unrecognized tax benefits at February 27, 2021, February 29, 2020 and March 2, 2019 which would impact the Company's effective tax rate, if recognized, was $20,923, $23,439 and $28,482 respectively. Additionally, any impact on the effective rate may be mitigated by the valuation allowance that is remaining against the Company's net deferred tax assets.

The Company believes that it is reasonably possible that a decrease of up to $11,851 in unrecognized tax benefits related to state exposures may be necessary in the next twelve months however, management does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

The Company recognizes interest and penalties related to tax contingencies as income tax expense. The Company recognized an expense/(benefit) for interest and penalties in connection with tax matters of $(123), $(220) and $(769) for fiscal years 2021, 2020 and 2019, respectively. As of February 27, 2021 and February 29, 2020 the total amount of accrued income tax-related interest and penalties was $6,209 and $6,332, respectively.

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 are closed for examination through fiscal year 2017. However, any net operating losses that were generated in these prior closed years may be subject to examination by the IRS upon utilization. Tax examinations by various state taxing authorities could generally be conducted for a period of three to five years after filing of the respective return.

Net Operating Losses and Tax Credits

At February 27, 2021, the Company had federal net operating loss carryforwards of approximately $1,681,353. Of these, $900,383 will expire, if not utilized, between fiscal 2029 and 2031. An additional $178,246 will expire, if not utilized, between fiscal 2032 and 2038.

At February 27, 2021, the Company had state net operating loss carryforwards of approximately $11,603,310, the majority of which will expire ratably through fiscal 2031; the net tax effect of these carryforwards is $1,081,642 and are reflected in the table above.

At February 27, 2021, the Company had federal business tax credit carryforwards of $14,142 the majority of which will expire between 2022 and 2028. In addition to these credits, the Company had alternative minimum tax credit

carryforwards of $6,748 which will be refunded to the Company as a result of the provisions of the CARES Act. This amount has been recorded as a current income tax receivable in fiscal 2021.

Valuation Allowances

The valuation allowances as of February 27, 2021 and February 29, 2020 apply to the net deferred tax assets of the Company. The Company maintained a valuation allowance of $1,657,562 and $1,673,119 at February 27, 2021 and February 29, 2020, respectively. A valuation allowance has been recorded for fiscal 2021 and fiscal 2020 to reduce certain federal and state net deferred tax assets that may not be realized based on positive and negative evidence that currently does not support the realization of these assets.

9. Accounts Receivable

The Company maintains an allowance for doubtful accounts receivable based upon the expected collectability of accounts receivable. The allowance for uncollectible accounts at February 27, 2021 and February 29, 2020 was $14,722 and $12,849, respectively. The Company's accounts receivable are due primarily from third-party payors (e.g., PBM companies, insurance companies or governmental agencies) and are recorded net of any allowances provided for under the respective plans. Since payments due from third-party payors are sensitive to payment criteria changes and legislative actions, the allowance is reviewed continually and adjusted for accounts deemed uncollectible by management.

10. Medicare Part D

The Company offers Medicare Part D benefits through EI, which has contracted with CMS to be a PDP and, pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, must be a risk-bearing entity regulated under state insurance laws or similar statutes.

EI is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, EI must file quarterly and annual reports with the National Association of Insurance Commissioners ("NAIC") and certain state regulators, must maintain certain minimum amounts of capital and surplus under formulas established by certain states and must, in certain circumstances, request and receive the approval of certain state regulators before making dividend payments or other capital distributions to the Company. The Company does not believe these limitations on dividends and distributions materially impact its financial position. EI is subject to minimum capital and surplus requirements in certain states. The minimum amount of capital and surplus required to satisfy regulatory requirements in these states is $15,070 as of December 31, 2020. EI was in excess of the minimum required amounts in these states as of February 27, 2021.

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidies, reinsurance amounts, and coverage gap discount amounts ultimately payable to CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

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On February 19, 2020, the Company entered into a receivable purchase agreement (the "2019 Receivable Purchase Agreement") with Bank of America, N.A. (the "Purchaser").

Pursuant to the terms and conditions set forth in the 2019 Receivable Purchase Agreement, the Company sold $501,422 of its calendar 2019 CMS receivable for $484,547, of which $449,949 was received on February 19, 2020 and the remainder was received in fiscal 2021 upon receipt of the final remittance from CMS. In connection therewith, the Company recognized a loss of $16,875, which was included as a component of loss on sale of assets, net in the fourth quarter of fiscal 2020.

On February 19, 2020, concurrent with the 2019 Receivable Purchase Agreement, the Company entered into an indemnity agreement (the "2019 Indemnity Agreement"), whereby the Company has agreed to indemnify, reimburse and hold Purchaser harmless from certain liabilities and expenses actually suffered or incurred by the Purchaser resulting from the occurrence of certain events as specified in the 2019 Indemnity Agreement. Based on its evaluation of the 2019 Indemnity Agreement, the Company has determined that it is highly unlikely that the events covered under the 2019 Indemnity Agreement would occur, and consequently, the Company has not recorded any indemnification liability associated with the 2019 Indemnity Agreement.

On November 12, 2020, the Company entered into a receivable purchase agreement (the "November 2020 Receivable Purchase Agreement") with Purchaser, which was on terms similar to the 2019 Receivable Purchase Agreement.

Pursuant to the terms and conditions set forth in the November 2020 Receivable Purchase Agreement, the Company sold $464,019, a portion of its calendar 2020 CMS receivable, for $444,812, of which $412,795 was received on November 12, 2020. The remaining $32,017, which is included in accounts receivable, net as of February 27, 2021, is payable to the Company, subject to final CMS claim reconciliation adjustments, upon receipt of the final remittance from CMS. In connection therewith, the Company recognized a loss of $19,207, which is included as a component of (gain) loss on sale of assets, net.

On November 12, 2020, concurrent with the November 2020 Receivable Purchase Agreement, the Company entered into an indemnity agreement (the "November 2020 Indemnity Agreement"), whereby the Company has agreed to indemnify, reimburse and hold Purchaser harmless from certain liabilities and expenses actually suffered or incurred by the Purchaser resulting from the occurrence of certain events as specified in the November 2020 Indemnity Agreement. Based on its evaluation of the November 2020 Indemnity Agreement, the Company has determined that it is highly unlikely that the events covered under the November 2020 Indemnity Agreement would occur, and consequently, the Company has not recorded any indemnification liability associated with the November 2020 Indemnity Agreement.

On February 18, 2021, the Company entered into a receivable purchase agreement (the "February 2021 Receivable Purchase Agreement") with Purchaser, which was on terms similar to the 2019 Receivable Purchase Agreement.

Pursuant to the terms and conditions set forth in the February 2021 Receivable Purchase Agreement, the Company sold $300,015, the remaining portion of its calendar 2020 CMS receivable, for $290,613, of which $269,912 was received on February 18, 2021. The remaining $20,701, which is included in accounts receivable, net as of February 27, 2021, is payable to the Company, subject to final CMS claim reconciliation adjustments, upon receipt of the final remittance from CMS. In connection therewith, the Company recognized a loss of $9,403, which is included as a component of (gain) loss on sale of assets, net.

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On February 18, 2021, concurrent with the February 2021 Receivable Purchase Agreement, the Company entered into an indemnity agreement (the "February 2021 Indemnity Agreement"), whereby the Company has agreed to indemnify, reimburse and hold Purchaser harmless from certain liabilities and expenses actually suffered or incurred by the Purchaser resulting from the occurrence of certain events as specified in the February 2021 Indemnity Agreement. Based on its evaluation of the February 2021 Indemnity Agreement, the Company has determined that it is highly unlikely that the events covered under the February 2021 Indemnity Agreement would occur, and consequently, the Company has not recorded any indemnification liability associated with the February 2021 Indemnity Agreement.

As of February 27, 2021, accounts receivable, net included $69,800 of amounts due from CMS. As of February 29, 2020, accrued salaries, wages and other current liabilities included $14,083 due to CMS resulting from the receipt of the Company's monthly capitation payment.

11. Manufacturer Rebates Receivables

The Pharmacy Services Segment has manufacturer rebates receivables of $632,267 and $530,451 included in Accounts receivable, net of an allowance for uncollectable rebates of $10,132 and $6,399, as of February 27, 2021 and February 29, 2020, respectively.

12. Inventory

At February 27, 2021 and February 29, 2020, inventories were $485,859 and $539,640, respectively, lower than the amounts that would have been reported using the first-in, first-out ("FIFO") cost flow assumption. The Company calculates its FIFO inventory valuation using the retail method for store inventories and the cost method for distribution facility inventories. The Company recorded a LIFO credit for fiscal year 2021 of $51,692, compared to a LIFO credit of $64,804 for fiscal year 2020 and a LIFO charge of $23,354 for fiscal year 2019. During fiscal 2021, 2020 and 2019, a reduction in non-pharmacy inventories resulted in the liquidation of applicable LIFO inventory quantities carried at lower costs in prior years. This LIFO liquidation resulted in a $26,861, $14,449 and $5,884 cost of revenues decrease, with a corresponding reduction to the adjustment to LIFO for fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

13. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at February 27, 2021 and February 29, 2020:

	2021	2020
Land	$ 108,734	$ 131,814
Buildings	354,990	513,264
Leasehold improvements	1,577,594	1,533,729
Equipment	1,792,768	1,774,424
Software	77,646	60,035
Construction in progress	50,805	44,063
	3,962,537	4,057,329
Accumulated depreciation	(2,882,038)	(2,841,491)
Property, plant and equipment, net	$ 1,080,499	$ 1,215,838

Depreciation expense, which included the depreciation of assets recorded under capital leases, was $238,104, $224,336 and $232,242 in fiscal 2021, 2020 and 2019, respectively.

Included in property, plant and equipment was the carrying amount, which approximates fair value, of assets to be disposed of totaling $2,438 and $1,187 at February 27, 2021 and February 29, 2020, respectively.

14. Goodwill and Other Intangibles

Goodwill and indefinitely-lived assets, such as certain trademarks acquired in connection with acquisition transactions, are not amortized, but are instead evaluated for impairment on an annual basis at the end of the fiscal year, or more frequently if events or circumstances indicate it may be more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, the Company performs a quantitative goodwill impairment test. The fair value estimates used in the quantitative impairment test are calculated using an average of the income and market approaches. The income approach is based on the present value of future cash flows of each reporting unit, while the market approach is based on certain multiples of selected guideline public companies or selected guideline transactions. The approaches, which qualify as Level 3 within the fair value hierarchy, incorporate a number of market participant assumptions including future growth rates, discount rates, income tax rates and market activity in assessing fair value and are reporting unit specific. If the carrying amount exceeds the reporting unit's fair value, the Company recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. In addition, the Company considers the income tax effect of any tax deductible goodwill when measuring a goodwill impairment loss.

In the fiscal fourth quarter of fiscal 2021 and fiscal 2020, the Company completed a quantitative goodwill impairment assessment and determined after evaluating the results, events and circumstances, that sufficient evidence existed to assert that it is more likely than not that the fair values of the reporting units exceeded their carrying values. Therefore, no goodwill impairment charge was recorded for the fiscal years ended February 27, 2021 and February 29, 2020. As of February 27, 2021 and February 29, 2020, the accumulated impairment losses for the Pharmacy Services segment was $574,712.

In the fiscal second quarter of fiscal 2019, the Company completed a qualitative goodwill impairment assessment, at which time it was determined after evaluating results, events and circumstances that a quantitative assessment was necessary for the Pharmacy Services segment. The quantitative assessment concluded that the carrying amount of the Pharmacy Services segment exceeded its fair value principally due to a decrease in Adjusted EBITDA that was driven by commercial business compression and an increase in SG&A expenses. This resulted in goodwill impairment charges of $312,985 ($235,698 net of the related income tax benefit) for the fiscal year ended March 2, 2019.

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Below is a summary of the changes in the carrying amount of goodwill by segment for the fiscal years ended February 27, 2021 and February 29, 2020:

	Retail Pharmacy	Pharmacy Services	Total
Balance, March 2, 2019	$ 43,492	$ 1,064,644	$ 1,108,136
Goodwill impairment	—	—	—
Balance, February 29, 2020	43,492	1,064,644	1,108,136
Goodwill impairment	—	—	—
Balance, February 27, 2021	$ 43,492	$ 1,064,644	$ 1,108,136

The Company's intangible assets are primarily finite-lived and amortized over their useful lives. Following is a summary of the Company's finite-lived and indefinite-lived intangible assets as of February 27, 2021 and February 29, 2020.

	February 27, 2021				February 29, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net	Remaining Weighted Average Amortization Period
Non-compete agreements and other(a)	$ 193,916	$ (172,618)	$ 21,298	3 years	$ 186,183	$ (163,575)	$ 22,608	3 years
Prescription files	1,023,200	(900,321)	122,879	6 years	950,887	(867,430)	83,457	3 years
Customer relationships(a)	388,000	(261,584)	126,416	11 years	388,000	(231,015)	156,985	12 years
CMS license	57,500	(13,072)	44,428	20 years	57,500	(10,772)	46,728	21 years
Claims adjudication and other developed software	58,985	(47,887)	11,098	2 years	58,985	(39,459)	19,526	3 years
Trademarks	—	—	—	0 years	20,100	(9,413)	10,687	6 years
Backlog	11,500	(11,500)	—	0 years	11,500	(11,500)	—	0 years
Total finite	$ 1,733,101	$ (1,406,982)	326,119		$ 1,673,155	$ (1,333,164)	$ 339,991	
Trademarks	14,400	—	14,400	Indefinite	19,500	—	19,500	Indefinite
Total	$ 1,747,501	$ (1,406,982)	$ 340,519		$ 1,692,655	$ (1,333,164)	$ 359,491	

(a) Amortized on an accelerated basis which is determined based on the remaining useful economic lives of the customer relationships that are expected to contribute directly or indirectly to future cash flows.

In connection with the RxEvolution initiatives previously announced on March 16, 2020, the Company rebranded its EnvisionRxOptions and MedTrak subsidiaries to its new brand name, Elixir. These trademarks qualify as Level 3 within the fair value hierarchy. Upon the implementation of the rebranding initiatives during the first quarter of fiscal 2021, the Company has determined that the carrying value exceeded the fair value and consequently the Company incurred an impairment charge of $29,852 for these trademarks, which is included within intangible asset impairment charges within the consolidated statement of operations.

Amortization expense for these intangible assets and liabilities was $89,020, $103,941 and $125,640 for fiscal 2021, 2020 and 2019, respectively. The anticipated annual amortization expense for these intangible assets and liabilities is 2022—$72,824; 2023—$57,531; 2024—$43,865; 2025—$32,581 and 2026—$21,976.

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15. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consisted of the following at February 27, 2021 and February 29, 2020:

	2021	2020
Accrued wages, benefits and other personnel costs	$ 233,137	$ 254,773
Accrued interest	18,675	12,073
Accrued sales and other taxes payable	73,848	76,816
Accrued store expense	64,732	97,801
Other	251,972	304,855
	$ 642,364	$ 746,318

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16. Indebtedness and Credit Agreement

Following is a summary of indebtedness and lease financing obligations at February 27, 2021 and February 29, 2020:

	February 27, 2021	February 29, 2020
Secured Debt:		
Senior secured revolving credit facility due December 2023 ($850,000 and $650,000 face value less unamortized debt issuance costs of $14,103 and $19,167)	$ 835,897	$ 630,833
FILO term loan due December 2023 ($450,000 face value less unamortized debt issuance costs of $2,230 and $3,046)	447,770	446,954
	1,283,667	1,077,787
Second Lien Secured Debt:		
7.5% senior notes due July 2025 ($600,000 face value less unamortized debt issuance costs of $8,876 and $10,927)	591,124	589,073
8.0% senior notes due November 2026 ($849,918 and $0 face value less unamortized debt issuance costs of $17,477 and $0)	832,441	—
	1,423,565	589,073
Guaranteed Unsecured Debt:		
6.125% senior notes due April 2023 ($90,808 and $1,153,490 face value less unamortized debt issuance costs of $448 and $8,430)	90,360	1,145,060
	90,360	1,145,060
Unguaranteed Unsecured Debt:		
7.70% notes due February 2027 ($237,386 face value less unamortized debt issuance costs of $776 and $908)	236,610	236,478
6.875% fixed-rate senior notes due December 2028 ($29,001 face value less unamortized debt issuance costs of $116 and $131)	28,885	28,870
	265,495	265,348
Lease financing obligations	23,120	28,166
Total debt	3,086,207	3,105,434
Current maturities of long-term debt and lease financing obligations	(6,409)	(8,840)
Long-term debt and lease financing obligations, less current maturities	$ 3,079,798	$ 3,096,594

Credit Facility

On December 20, 2018, the Company entered into a senior secured credit agreement (as amended by the First Amendment to Credit Agreement, dated as of January 6, 2020, the "Credit Agreement"), consisting of a $2,700,000 senior secured asset-based revolving credit facility ("Senior Secured Revolving Credit Facility") and a $450,000 "first-in, last out" senior secured term loan facility ("Senior Secured Term Loan," and together with the Senior Secured Revolving Credit Facility, collectively, the "Existing Facilities"). The Company used proceeds from the Existing Facilities to refinance its prior $2,700,000 existing credit agreement (the "Old Facility"). The Existing Facilities extend

the Company's debt maturity profile and provide additional liquidity. Borrowings under the Senior Secured Revolving Credit Facility bear interest at a rate per annum between LIBOR plus 1.25% and LIBOR plus 1.75% based upon the Average ABL Availability (as defined in the Credit Agreement). Borrowings under the Senior Secured Term Loan bear interest at a rate per annum of LIBOR plus 3.00%. The Company is required to pay fees between 0.250% and 0.375% per annum on the daily unused amount of the commitments under the Senior Secured Revolving Credit Facility, depending on Average ABL Availability. The Existing Facilities mature on December 20, 2023, subject to an earlier maturity on December 31, 2022 if the Company has not repaid or refinanced its existing 6.125% Notes due 2023 prior to such date. The Company has refinanced the majority of its existing 6.125% Notes due 2023 and intends to repay the remaining balance prior to the early maturity becoming effective.

The Company's borrowing capacity under the Senior Secured Revolving Credit Facility is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At February 27, 2021, the Company had $1,300,000 of borrowings outstanding under the Existing Facilities and had letters of credit outstanding against the Senior Secured Revolving Credit Facility of $122,035 which resulted in additional borrowing capacity under the Senior Secured Revolving Credit Facility of $1,643,077. If at any time the total credit exposure outstanding under the Existing Facilities and the principal amount of our other senior obligations exceed the borrowing base, the Company will be required to make certain other mandatory prepayments to eliminate such shortfall.

The Credit Agreement restricts the Company and all of its subsidiaries that guarantee its obligations under the Existing Facilities, the secured guaranteed notes and unsecured guaranteed notes (collectively, the "Subsidiary Guarantors") from accumulating cash on hand in excess of $200,000 at any time when revolving loans are outstanding (not including cash located in store and lockbox deposit accounts and cash necessary to cover current liabilities). The Credit Agreement also states that if at any time (other than following the exercise of remedies or acceleration of any senior obligations or second priority debt and receipt of a triggering notice by the senior collateral agent from a representative of the senior obligations or the second priority debt) either (i) an event of default exists under the Existing Facilities or (ii) the sum of the Company's borrowing capacity under the Senior Secured Revolving Credit Facility and certain amounts held on deposit with the senior collateral agent in a concentration account is less than $275.0 million for three consecutive business days or less than or equal to $200.0 million on any day (a "cash sweep period"), the funds in the Company's deposit accounts will be swept to a concentration account with the senior collateral agent and will be applied first to repay outstanding revolving loans under the Existing Facilities, and then held as collateral for the senior obligations until such cash sweep period is rescinded pursuant to the terms of the Existing Facilities.

With the exception of EI, substantially all of Rite Aid Corporation's 100% owned subsidiaries guarantee the obligations under the Existing Facilities, the secured guaranteed notes and unsecured guaranteed notes. The Company's obligations under the Existing Facilities and the Subsidiary Guarantors' obligations under the related guarantees are secured by (i) a first-priority lien on all of the Subsidiary Guarantors' cash and cash equivalents, accounts receivable, inventory, prescription files (including eligible script lists), intellectual property (prior to the repayment of the Senior Secured Term Loan) and certain other assets arising therefrom or related thereto (including substantially all of their deposit accounts, collectively, the "ABL priority collateral") and (ii) a second-priority lien on all of the Subsidiary Guarantors' equipment, fixtures, investment property (other than equity interests in subsidiaries), intellectual property (following the repayment of the Senior Secured Term Loan) and all other assets that do not constitute ABL priority collateral, in each case, subject to customary exceptions and limitations. The subsidiary guarantees related to the Company's Existing Facilities, the secured guaranteed notes and, on an unsecured basis, the unsecured guaranteed notes, are full and unconditional and joint and several, and there are no restrictions on the ability of the Company to obtain funds from its subsidiaries. The Company has no independent assets or operations. Other than EI, the subsidiaries, including joint ventures, that do not guarantee the Existing Facilities and applicable notes, are minor.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

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The Credit Agreement allows the Company to have outstanding, at any time, up to an aggregate principal amount of $1,500,000 in secured second priority debt, split-priority debt, unsecured debt and disqualified preferred stock in addition to borrowings under the Existing Facilities and existing indebtedness, provided that not in excess of $750,000 of such secured second priority debt, split-priority debt, unsecured debt and disqualified preferred stock shall mature or require scheduled payments of principal prior to 90 days after the latest of (i) the fifth anniversary of the effectiveness of the Existing Facilities and (ii) the latest maturity date of any Term Loan or Other Revolving Commitment (each as defined in the Credit Agreement) (excluding bridge facilities allowing extensions on customary terms to at least the date that is 90 days after such date). Subject to the limitations described in clauses (i) and (ii) of the immediately preceding sentence, the Credit Agreement additionally allows the Company to issue or incur an unlimited amount of unsecured debt and disqualified preferred stock so long as a Financial Covenant Effectiveness Period (as defined in the Credit Agreement) is not in effect; provided, however, that certain of the Company's other outstanding indebtedness limits the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence or other exemptions are not available. The Credit Agreement also contains certain restrictions on the amount of secured first priority debt the Company is able to incur. The Credit Agreement also allows for the voluntary repurchase of any debt or other convertible debt, so long as the Existing Facilities are not in default and the Company maintains availability under its revolver of more than $365,000.

The Credit Agreement has a financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 (i) on any date on which availability under the Senior Secured Revolving Credit Facility is less than $200,000 or (ii) on the third consecutive business day on which availability under the Senior Secured Revolving Credit Facility is less than $250,000 and, in each case, ending on and excluding the first day thereafter, if any, which is the 30th consecutive calendar day on which availability under the revolver is equal to or greater than $250,000. As of February 27, 2021, the Company's fixed charge coverage ratio was greater than 1.00 to 1.00 and the Company was in compliance with the Credit Agreement's financial covenant. The Credit Agreement also contains covenants which place restrictions on the incurrence of debt, the payments of dividends, the making of investments, sale of assets, mergers and acquisitions and the granting of liens.

The Credit Agreement provides for customary 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 $50.0 million or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity or require the repayment, repurchase, redemption or defeasance of such debt.

Fiscal 2019, 2020 and 2021 Transactions

During January 2018, the Company used proceeds from the Asset Sale to repay and retire all of its outstanding second lien $470,000 tranche 1 term loan and $500,000 tranche 2 term loan principal (the "Second Lien Term Loan Prepayment"). During February 2018, the Company reduced the borrowing capacity on its Old Facility from $3,700,000 to $3,000,000 (which was subsequently further reduced as described below). In connection with the transactions, the Company recorded a loss on debt retirement of $8,180, which included interest and unamortized debt issuance costs. The debt repayment and related loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On February 27, 2018, the Company announced that it had commenced an offer to purchase up to $900,000 of the outstanding 9.25% senior notes due 2020 (the "9.25% Notes"), the 6.75% senior notes due 2021 (the "6.75% Notes") and the 6.125% senior notes due 2023 (the "6.125% Notes"), pursuant to the asset sale provisions of the indentures of

such notes. On March 29, 2018, the Company accepted for payment, pursuant to its offer to purchase, $3,454 principal amount of the 9.25% Notes, representing 0.38% of the outstanding principal amount of the 9.25% Notes, $3,471 principal amount of the 6.75% Notes, representing 0.43% of the outstanding principal amount of the 6.75% Notes, and $41,751 principal amount of the 6.125% Notes, representing 2.32% of the outstanding principal amount of the 6.125% Notes. In connection therewith, the Company recorded a loss on debt retirement of $49 which included unamortized debt issuance costs, partially offset by unamortized discount. The debt repayment and related loss on debt retirement is included in the results of operations and cash flows of discontinued operations. The debt repayment and related loss on debt retirement of $498 for the 6.125% Notes is included in the results of operations and cash flows of continuing operations.

On March 13, 2018, the Company issued a notice of redemption for all of the 9.25% Notes that were outstanding on April 12, 2018, pursuant to the terms of the indenture of the 9.25% Notes. On April 12, 2018, the Company redeemed 100% of the remaining outstanding 9.25% Notes. In connection therewith, the Company recorded a loss on debt retirement of $3,422 which included unamortized debt issuance costs, partially offset by unamortized discount. The debt repayment and related loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On April 19, 2018, the Company announced that it had commenced an offer to purchase up to $700,000 of its outstanding 6.75% Notes and its 6.125% Notes pursuant to the asset sale provisions of such indentures. On May 21, 2018, the Company accepted for payment, pursuant to its offer to purchase, $1,360 aggregate principal amount of the 6.75% Notes and $4,759 aggregate principal amount of the 6.125% Notes. The debt repayment and related loss on debt retirement of $8 for the 6.75% Notes is included in the results of operations and cash flows of discontinued operations. The debt repayment and related loss on debt retirement of $56 for the 6.125% Notes is included in the results of operations and cash flows of continuing operations.

On April 29, 2018, the Company further reduced the borrowing capacity on its Old Facility from $3,000,000 to $2,700,000. In connection therewith, the Company recorded a loss on debt retirement of $1,091, which included unamortized debt issuance costs. The loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On June 25, 2018, the Company redeemed the remaining $805,169 of its 6.75% Notes, which resulted in a loss on debt retirement of $18,075. The loss on debt retirement is included in the results of operations and cash flows of discontinued operations.

On October 11, 2019, the Company completed a privately negotiated purchase from a noteholder and its affiliated funds of $84,097 aggregate principal amount of the 7.70% Notes and 6.875% Notes for $51,300. In connection therewith, the Company recorded a gain on debt retirement of $32,416, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

On October 15, 2019, the Company commenced an offer to purchase up to $100,000 of its outstanding 7.70% Notes and its 6.875% Notes. In November 2019, the Company accepted for payment $18,075 aggregate principal amount of the 7.70% Notes and $39,441 aggregate principal amount of the 6.875% Notes for $38,392. In connection therewith, the Company recorded a gain on debt retirement of $18,510, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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During November 2019, the Company made additional purchases of $15,000 aggregate principal amount of the 7.70% Notes for $10,012. In connection therewith, the Company recorded a gain on debt retirement of $4,766, which included unamortized debt issuance costs. The debt repayment and related gain on debt retirement is included in the results of operations and cash flows of continuing operations.

On January 6, 2020, the Company commenced an offer to exchange up to $600,000 aggregate principal amount of the outstanding 6.125% Senior Notes due 2023 for newly issued 7.500% Senior Secured Notes due 2025. On February 5, 2020, the Company announced that the exchange offer was oversubscribed and accepted for payment $600,000 aggregate principal amount of the 6.125% Senior Notes due 2023 in exchange for newly issued 7.500% Senior Secured Notes due 2025. The Company accounted for the exchange as a debt modification and accordingly did not record a loss on debt retirement.

The 7.500% Senior Secured Notes due 2025 mature on July 1, 2025, and are guaranteed on a senior secured basis by the same Subsidiary Guarantors that guarantee the Existing Facilities and the 6.125% Senior Notes due 2023. The 7.500% Senior Secured Notes due 2025 and the obligations under the related guarantees are secured by (i) a first-priority lien on all of the Subsidiary Guarantors' equipment, fixtures, investment property (other than equity interests in subsidiaries), intellectual property (following the repayment of the Senior Secured Term Loan) and other collateral to the extent it does not constitute ABL priority collateral (as defined below), and (ii) a second-priority lien on all of the Subsidiary Guarantors' cash and cash equivalents, accounts receivables, payment intangibles, inventory, prescription files (including eligible script lists) and, intellectual property (prior to the repayment of the Senior Secured Term Loan (collectively, the "ABL priority collateral"), which, in each case, also secure the Existing Facilities.

On June 25, 2020, the Company commenced an offer to exchange (the "June 25, 2020 Exchange Offer") up to $750,000 aggregate principal amount of the outstanding 6.125% Notes for a combination of $600,000 newly issued 8.0% Senior Secured Notes due 2026 (the "8.0% Notes") and $145,500 cash. On July 10, 2020, the Company increased the maximum amount of 6.125% Notes that may be accepted for exchange from $750,000 to $1,125,000 and, on July 24, 2020, the Company announced that it accepted for payment $1,062,682 aggregate principal amount of the 6.125% Notes in exchange for $849,918 aggregate principal amount of newly issued 8.0% Notes and $206,373 in cash. In connection therewith, the Company recorded a gain on debt modification of $5,274 which is included in the results of operations and cash flows of continuing operations. The 8.0% Notes are secured on an equal and ratable basis by the same assets that secure the 7.500% Notes. The 8.0% Notes are guaranteed on a senior secured basis by the same subsidiaries that guarantee the 7.500% Notes. In conjunction with the June 25, 2020 Exchange Offer, the Company also commenced a solicitation of consents from the holders of outstanding 6.125% Notes to certain proposed amendments to the indenture governing the 6.125% Notes. On July 9, 2020, following the receipt of the requisite number of consents, the Company entered into a supplemental indenture, which modified certain limitations in the debt covenant to allow for the creation of the 8.0% Notes.

Interest Rates and Maturities

The annual weighted average interest rate on the Company's indebtedness was 5.4%, 5.7% and 5.6% for fiscal 2021, 2020 and 2019, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2022—$0; 2023—$0; 2024—$1,390,808; 2025—$0 and $1,716,305 in 2026 and thereafter. These aggregate annual

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principal payments of long-term debt assume that the Company has repaid or refinanced its existing 6.125% Senior Notes due 2023 prior to December 31, 2022.

17. Leases

The Company leases most of its retail stores and certain distribution facilities under noncancellable operating and finance leases, most of which have initial lease terms ranging from 5 to 22 years. The Company also leases certain of its equipment and other assets under noncancellable operating leases with initial terms ranging from 3 to 10 years. In addition to minimum rental payments, certain store leases require additional payments based on sales volume, as well as reimbursements for taxes, maintenance and insurance. Most leases contain renewal options, certain of which involve rent increases.

The following table is a summary of the Company's components of net lease cost for the fiscal years ended February 27, 2021 and February 29, 2020:

	Year Ended	
	February 27, 2021	February 29, 2020
Operating lease cost	$ 651,261	$ 653,803
Financing lease cost:		
Amortization of right-of-use asset	4,359	5,722
Interest on long-term finance lease liabilities	2,505	3,276
Total finance lease costs	$ 6,864	$ 8,998
Short-term lease costs	3,214	1,160
Variable lease costs	172,088	168,849
Less: sublease income	(14,886)	(20,930)
Net lease cost	$ 818,541	$ 811,880

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

Supplemental cash flow information related to leases for the fiscal years ended February 27, 2021 and February 29, 2020:

	Year Ended	
	February 27, 2021	February 29, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	$ 683,226	$ 641,709
Operating cash flows paid for interest portion of finance leases	2,505	3,276
Financing cash flows paid for principal portion of finance leases	4,744	6,313
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	513,215	365,192
Finance leases	—	—

Supplemental balance sheet information related to leases as of February 27, 2021 and February 29, 2020 (in thousands, except lease term and discount rate):

	February 27, 2021	February 29, 2020
Operating leases:		
Operating lease right-of-use asset	$ 3,064,077	$ 2,903,256
Short-term operating lease liabilities	$ 516,752	$ 490,161
Long-term operating lease liabilities	2,829,293	2,710,347
Total operating lease liabilities	$ 3,346,045	$ 3,200,508
Finance leases:		
Property, plant and equipment, net	$ 16,074	$ 19,904
Current maturities of long-term debt and lease financing obligations	$ 6,409	$ 8,840
Lease financing obligations, less current maturities	16,711	19,326
Total finance lease liabilities	$ 23,120	$ 28,166
Weighted average remaining lease term		
Operating leases	7.9	7.8
Finance leases	8.9	8.9
Weighted average discount rate		
Operating leases	6.0 %	6.1 %
Finance leases	9.8 %	10.2 %

As a result of the Sale to WBA and the related Amended and Restated Asset Purchase Agreement, the Company has lease guarantee obligations related to 1,125 former stores. The Company is only obligated to pay for the lease guarantees in the event that WBA fails to perform under the lease agreements, as WBA is the primary obligor.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

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The following table summarizes the maturity of lease liabilities under finance and operating leases as of February 27, 2021:

	February 27, 2021		
Fiscal year	Finance Leases	Operating Leases (1)	Total
2022	$ 8,595	$ 694,268	$ 702,863
2023	3,562	650,311	653,873
2024	3,438	588,426	591,864
2025	3,223	490,576	493,799
2026	2,670	397,208	399,878
Thereafter	13,990	1,391,732	1,405,722
Total lease payments	35,478	4,212,521	4,247,999
Less: imputed interest	(12,358)	(866,476)	(878,834)
Total lease liabilities	$ 23,120	$ 3,346,045	$ 3,369,165

(1) – Future operating lease payments have not been reduced by minimum sublease rentals of $42 million due in the future under noncancelable leases.

Sale-Leaseback Transactions:

During the year ended February 27, 2021, the Company sold eleven owned and operating properties, including the Company's Perryman, MD, Woodland, CA, and Lancaster, CA distribution centers, the Company's Ice Cream Plant and seven retail stores to independent third parties. Net proceeds from the sales were $177,892. Concurrent with these sales, the Company entered into agreements to lease the properties back from the purchasers over minimum lease terms between 15 and 20 years. The Company accounted for these leases as operating lease right-of-use assets and corresponding operating lease liabilities in accordance with the Lease Standard. The transactions resulted in a gain of $93,841 which is included in the (gain) loss on sale of assets, net for the fifty-two weeks ended February 27, 2021.

During the year ended February 29, 2020, the Company sold one owned operating store to an independent third party. Net proceeds from the sale were $4,879. Concurrent with this 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 this lease as an operating lease right-of-use asset and a corresponding operating lease liability in accordance with the Lease Standard. The transaction resulted in a gain of $4,149 which is included in the (gain) loss on sale of assets, net for the fifty-two weeks ended February 29, 2020.

The Company has additional capacity under its outstanding debt agreements to enter into additional sale-leaseback transactions.

Prior year disclosure before the adoption of ASU 2016-02:

Total rental expense, net of sublease income of $4,509, was $626,166 in fiscal 2019. This amount includes contingent rentals of $7,084.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

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18. Stock Option and Stock Award Plans

The Company recognizes share-based compensation expense in accordance with ASC 718, "Compensation—Stock Compensation." Expense is recognized over the requisite service period of the award, net of an estimate for the impact of forfeitures. Operating results for fiscal 2021, 2020 and 2019 include $13,003, $16,087 and $12,115 of compensation costs related to the Company's stock-based compensation arrangements.

In June 2010, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2010 Omnibus Equity Plan. Under the plan, 1,750 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2010 Omnibus Equity Plan became effective on June 23, 2010.

In June 2012, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2012 Omnibus Equity Plan. Under the plan, 1,425 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2012 Omnibus Equity Plan became effective on June 21, 2012.

In June 2014, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2014 Omnibus Equity Plan. Under the plan, 2,900 shares of Rite Aid common stock plus any shares of common stock remaining available for grant under the Rite Aid Corporation 2010 Omnibus Equity Plan and the Rite Aid Corporation 2012 Omnibus Equity Plan as of the effective date of the 2014 Plan (provided that no more than 1,250 shares may be granted as incentive stock options) are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2014 Omnibus Equity Plan became effective on June 19, 2014.

In July 2020, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2020 Omnibus Equity Plan. Under the plan, 3,350 shares of Rite Aid common stock plus any shares of common stock remaining available for grant under the Rite Aid Corporation 2010 Omnibus Equity Plan, the Rite Aid Corporation 2012 Omnibus Equity Plan and the Rite Aid Corporation 2014 Omnibus Equity Plan are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2020 Omnibus Equity Plan became effective on July 8, 2020.

All of the plans provide for the Board of Directors (or at its election, the Compensation Committee) to determine both when and in what manner options may be exercised; however, it may not be more than 10 years from the date of grant. All of the plans provide that stock options may be granted at prices that are not less than the fair market value of a share of common stock on the date of grant. The aggregate number of remaining shares authorized for issuance for all plans is 1,862 as of February 27, 2021.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Stock Options

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes-Merton option-pricing model. The following weighted average assumptions were used for options granted in fiscal 2021, 2020 and 2019:

	2021	2020	2019
Expected stock price volatility(1)	N/A	56 %	N/A
Expected dividend yield(2)	N/A	0.0 %	N/A
Risk-free interest rate(3)	N/A	1.5 %	N/A
Expected option life(4)	N/A	5.5 years	N/A

(1) The expected volatility is based on the historical volatility of the stock price over the most recent period equal to expected life of the option.

(2) The dividend rate that will be paid out on the underlying shares during the expected term of the options. The Company does not currently pay dividends on its common stock, as such, the dividend rate is assumed to be 0%.

(3) The risk free interest rate is equal to the rate available on United States Treasury zero-coupon issues as of the grant date of the option with a remaining term equal to the expected term.

(4) The period of time for which the option is expected to be outstanding. The Company analyzed historical exercise behavior to estimate the life.

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The weighted average fair value of options granted during fiscal 2021, 2020 and 2019 was $0.00, $3.66 and $0.00, respectively. Following is a summary of stock option transactions for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 3, 2018	1,343	$ 51.42		
Granted	—	N/A		
Exercised	(99)	23.07		
Cancelled	(208)	71.07		
Outstanding at March 2, 2019	1,036	$ 50.15		
Granted	612	7.21		
Exercised	—	N/A		
Cancelled	(353)	48.56		
Outstanding at February 29, 2020	1,295	$ 30.29		
Granted	—	N/A		
Exercised	(2)	25.08		
Cancelled	(513)	48.16		
Outstanding at February 27, 2021	780	$ 18.56	6.99	$ 7,567
Vested or expected to vest at February 27, 2021	780	$ 18.56	6.99	$ 7,567
Exercisable at February 27, 2021	330	$ 34.06	4.95	$ 1,996

As of February 27, 2021, there was $1,318 of total unrecognized pre-tax compensation costs related to unvested stock options, net of forfeitures. These costs are expected to be recognized over a weighted average period of 2.26 years.

Cash received from stock option exercises for fiscal 2021, 2020 and 2019 was $53, $0 and $2,294, respectively. The income tax benefit from stock options for fiscal 2021, 2020 and 2019 was $1, $0 and $7, respectively. The total intrinsic value of stock options exercised for fiscal 2021, 2020 and 2019 was $10, $0 and $726, respectively.

Typically, stock options granted vest, and are subsequently exercisable in equal annual installments over a four-year period for employees.

Restricted Stock

The Company provides restricted stock grants to associates under plans approved by the stockholders. Shares awarded under the plans typically vest in equal annual installments over a three-year period. Unvested shares are

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forfeited upon termination of employment. Following is a summary of restricted stock transactions for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019:

	Shares	Weighted Average Grant Date Fair Value
Balance at March 3, 2018	611	$ 66.34
Granted	700	16.05
Vested	(215)	76.99
Cancelled	(88)	72.87
Balance at March 2, 2019	1,008	$ 28.60
Granted	1,402	8.40
Vested	(695)	28.59
Cancelled	(462)	16.76
Balance at February 29, 2020	1,253	$ 10.32
Granted	780	17.79
Vested	(574)	13.37
Cancelled	(166)	12.23
Balance at February 27, 2021	1,293	$ 13.23

At February 27, 2021, there was $13,385 of total unrecognized pre-tax compensation costs related to unvested restricted stock grants, net of forfeitures. These costs are expected to be recognized over a weighted average period of 2.0 years.

The total fair value of restricted stock vested during fiscal years 2021, 2020 and 2019 was $7,670, $19,846 and $16,519, respectively.

Performance Based Incentive Plan

Beginning in fiscal 2015, the Company provided certain of its associates with performance based incentive plans under which the associates will receive a certain number of shares of the Company's common stock or cash based on the Company meeting certain financial and performance goals. If such goals are not met, no stock-based compensation expense is recognized and any recognized stock-based compensation expense is reversed. The Company incurred $3,278, $(461) and $(1,084) related to these performance based incentive plans for fiscal 2021, 2020 and 2019, respectively, which is recorded as a component of stock-based compensation expense.

19. Retirement Plans

Defined Contribution Plans

The Company and its subsidiaries sponsor several retirement plans that are primarily 401(k) defined contribution plans covering nonunion associates and certain union associates. The Company does not contribute to all of the plans. In accordance with those plan provisions, the Company matches 100% of a participant's pretax payroll contributions, up to a maximum of 3% of such participant's pretax annual compensation. Thereafter, the Company will match 50% of the participant's additional pretax payroll contributions, up to a maximum of 2% of such participant's

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additional pretax annual compensation. Total expense recognized for the above plans was $36,270 in fiscal 2021, $42,746 in fiscal 2020 and $44,564 in fiscal 2019.

The Company sponsored a Supplemental Executive Retirement Plan ("SERP") for its officers, based on an account-based plan design, that was subject to a five year graduated vesting schedule. On February 25, 2019, the SERP was terminated and additional allocations were discontinued and all prior benefits under the program became fully vested. During fiscal 2020, participant benefits under this program were paid in full. The expense recognized for the SERP was $0 in fiscal 2021, $3,871 in fiscal 2020 and $4,913 in fiscal 2019.

Defined Benefit Plans

The Company and its subsidiaries also sponsor a qualified defined benefit pension plan that requires benefits to be paid to eligible associates based upon years of service and, in some cases, eligible compensation. The Company's funding policy for The Rite Aid Pension Plan (the "Defined Benefit Pension Plan") is to contribute the minimum amount required by the Employee Retirement Income Security Act of 1974. However, the Company may, at its sole discretion, contribute additional funds to the plan. The Company made contributions of $6,305 in fiscal 2021, $0 in fiscal 2020 and $2,715 in fiscal 2019.

Net periodic pension expense and other changes recognized in other comprehensive income for the defined benefit pension plans included the following components:

	Defined Benefit Pension Plan		
	2021	2020	2019
Service cost	$ 486	$ 462	$ 597
Interest cost	4,753	6,186	6,159
Expected return on plan assets	(4,614)	(4,793)	(5,673)
Amortization of unrecognized prior service cost	—	—	—
Amortization of unrecognized net loss	3,749	1,695	1,769
Net periodic pension expense	$ 4,374	$ 3,550	$ 2,852
Other changes recognized in other comprehensive loss:			
Unrecognized net (gain) loss arising during period	$ (20,633)	$ 19,046	$ (3,486)
Prior service cost arising during period	—	—	—
Amortization of unrecognized prior service costs	—	—	—
Amortization of unrecognized net (loss) gain	(3,749)	(1,695)	(1,769)
Net amount recognized in other comprehensive loss	(24,382)	17,351	(5,255)
Net amount recognized in pension expense and other comprehensive loss	$ (20,008)	$ 20,901	$ (2,403)

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The table below sets forth reconciliation from the beginning of the year for both the benefit obligation and plan assets of the Company's defined benefit plans, as well as the funded status and amounts recognized in the Company's balance sheet as of February 27, 2021 and February 29, 2020:

	Defined Benefit Pension Plan	
	2021	2020
Change in benefit obligations:		
Benefit obligation at end of prior year	$ 178,904	$ 150,705
Service cost	486	462
Interest cost	4,753	6,186
Distributions	(8,748)	(7,525)
Actuarial loss (gain)	(6,523)	29,076
Benefit obligation at end of year	$ 168,872	$ 178,904
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 132,130	$ 124,832
Employer contributions	6,305	—
Actual return on plan assets	18,725	14,823
Distributions (including expenses paid by the plan)	(8,748)	(7,525)
Fair value of plan assets at end of year	$ 148,412	$ 132,130
Funded status	$ (20,460)	$ (46,774)
Net amount recognized	$ (20,460)	$ (46,774)
Amounts recognized in consolidated balance sheets consisted of:		
Accrued pension liability	(20,460)	(46,774)
Net amount recognized	$ (20,460)	$ (46,774)
Amounts recognized in accumulated other comprehensive loss consist of:		
Net actuarial loss	$ (20,377)	$ (44,760)
Amount recognized	$ (20,377)	$ (44,760)

The decrease in the benefit obligation during the year ended February 27, 2021, was driven by the increase in discount rate from 2.75% as of February 29, 2020 to 3.00% as of February 27, 2021. The pension plan also benefitted from updating the mortality improvement scale from MP-2019 to MP-2020.

The increase in the benefit obligation during the year ended February 29, 2020, was driven by the decrease in discount rate from 4.25% as of March 2, 2019 to 2.75% as of February 29, 2020.

The estimated net actuarial loss and prior service cost amounts that will be amortized from accumulated other comprehensive loss into net periodic pension expense in fiscal 2022 are $492 and $0, respectively.

The accumulated benefit obligation for the defined benefit pension plan was $168,872 and $178,904 as of February 27, 2021 and February 29, 2020, respectively.

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The accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets as of February 27, 2021 and February 29, 2020 were as follows:

	Defined Benefit Pension Plan	
	2021	2020
Accumulated Benefit Obligations	$ 168,872	$ 178,904
Fair Value of Plan Assets	$ 148,412	$ 132,130

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets as of February 27, 2021 and February 29, 2020 were as follows:

	Defined Benefit Pension Plan	
	2021	2020
Projected Benefit Obligations	$ 168,872	$ 178,904
Fair Value of Plan Assets	$ 148,412	$ 132,130

The significant actuarial assumptions used for all defined benefit plans to determine the benefit obligation as of February 27, 2021, February 29, 2020 and March 2, 2019 were as follows:

	Defined Benefit Pension Plan		
	2021	2020	2019
Discount rate	3.00 %	2.75 %	4.25 %
Rate of increase in future compensation levels	N/A	N/A	N/A
Expected long-term rate of return on plan assets	5.50 %	6.00 %	6.25 %

Weighted average assumptions used to determine net cost for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019 were:

	Defined Benefit Pension Plan		
	2021	2020	2019
Discount rate	2.75 %	4.25 %	4.00 %
Rate of increase in future compensation levels	N/A	N/A	N/A
Expected long-term rate of return on plan assets	6.00 %	6.25 %	6.25 %

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 6.00% long-term rate of return on plan assets assumption for fiscal 2021, and the selection of 6.25% for 2020 and 2019.

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For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

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The Company's pension plan asset allocations at February 27, 2021 and February 29, 2020 by asset category were as follows:

	February 27, 2021	February 29, 2020
Equity securities	56 %	47 %
Fixed income securities	44 %	53 %
Total	100 %	100 %

The investment objectives of the Defined Benefit Pension Plan, the only defined benefit plan with assets, are to:

- Achieve a rate of return on investments that exceeds inflation over a full market cycle and is consistent with actuarial assumptions;
- Balance the correlation between assets and liabilities by diversifying the portfolio among various asset classes to address return risk and interest rate risk;
- Balance the allocation of assets between the investment managers to minimize concentration risk;
- Maintain liquidity in the portfolio sufficient to meet plan obligations as they come due; and
- Control administrative and management costs.

The asset allocation established for the pension investment program reflects the risk tolerance of the Company, as determined by:

- the current and anticipated financial strength of the Company;
- the funded status of the plan; and
- plan liabilities.

Investments in both the equity and fixed income markets will be maintained, recognizing that historical results indicate that equities (primarily common stocks) have higher expected returns than fixed income investments. It is also recognized that the correlation between assets and liabilities must be balanced to address higher volatility of equity investments (return risk) and interest rate risk.

The following targets are to be applied to the allocation of plan assets.

Category	Target Allocation
Equity securities	56 %
Fixed income securities	44 %
Total	100 %

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The Company expects to contribute $3,845 to the Defined Benefit Pension Plan during fiscal 2022.

Short Term Investments

Short term investments, which is a short term investment fund, and is considered cash and cash equivalents, is classified within Level 2 of the valuation hierarchy due to the lack of an active market for trading.

Common and Collective Trusts

Common collective trust funds are stated at fair value as determined by the issuer of the common collective trust funds based on the net asset value ("NAV") of the underlying investments in accordance with ASC 820. There are generally no restrictions on redemptions from these funds and no unfunded commitments to invest. In accordance with ASC subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The underlying investments mainly consist of equity and fixed income securities funds that are valued based on the daily closing price as reported by the fund.

The proceeding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at February 27, 2021.

The following table sets forth by level within the fair value hierarchy a summary of the plan's investments measured at fair value on a recurring basis as of February 27, 2021 and February 29, 2020:

	Fair Value Measurements at February 27, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity Securities				
International equity	$ —	$ —	$ —	$ 24,628
Large Cap	—	—	—	28,397
Small-Mid Cap	—	—	—	5,071
Aon Global Real Estate	—	—	—	202
Aon Core Real Estate Fun	—	—	—	16,795
Aon High Yield Plus Bond	—	—	—	426
Aon Multi-Asset Credit	—	—	—	7,946
Fixed Income				
Long Term Credit Bond Index	—	—	—	48,244
Long Term US Government Bonds	—	—	—	800
20+ Year Treasury STRIPS	—	—	—	108
Intermediate Fixed Income	—	—	—	14,590
AGT High Yield Bond	—	—	—	—
Other types of investments				
Short Term Investments	—	1,205	—	1,205
Total	$ —	$ 1,205	$ —	$ 148,412

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	Fair Value Measurements at February 29, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity Securities				
International equity	$ —	$ —	$ —	$ 15,251
Large Cap	—	—	—	33,174
Small-Mid Cap	—	—	—	14,223
Fixed Income				
Long Term Credit Bond Index	—	—	—	25,129
Long Term US Government Bonds	—	—	—	18,897
20+ Year Treasury STRIPS	—	—	—	1,447
Intermediate Fixed Income	—	—	—	14,606
AGT High Yield Bond	—	—	—	7,673
Other types of investments				
Short Term Investments	—	1,729	—	1,729
Total	$ —	$ 1,729	$ —	$ 132,129

Following are the future benefit payments expected to be paid for the Defined Benefit Pension Plan during the years indicated:

Fiscal Year	Defined Benefit Pension Plan
2022	$ 9,318
2023	9,233
2024	9,503
2025	9,355
2026	9,330
2027 - 2031	45,640
Total	$ 92,379

20. Multiemployer Plans that Provide Pension Benefits

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Additionally, if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in these plans for the annual period ended February 27, 2021 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act zone status available for fiscal 2021 and fiscal

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2020 is for the plan year-ends as indicated below. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. In addition to regular plan contributions, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last two columns list the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject and any minimum funding requirements. There have been no significant changes that affect the comparability of total employer contributions of fiscal years 2021, 2020 and 2019.

Pension	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/ RP Status Pending/ Implemented	Contributions of the Company			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement	Minimum Funding Requirements
		2021	2020		2021	2020	2019			
1199 SEIU Health Care Employees Pension Fund	13-3604862-001	Green—12/31/2019	Green—12/31/2018	No	$ 9,613	$ 9,026	$ 9,670	No	4/18/2022	Contribution rate of 12.6% of gross wages per associate beginning 09/30/2018. Contribution rate of 10.76% of gross wages earned per associate beginning 01/01/2016.
Southern California United Food and Commercial Workers Unions and Drug Employers Pension Fund	51-6029925-001	Red—12/31/2020	Red—12/31/2019	Implemented	8,239	8,495	8,273	No	7/17/2021	From 01/01/2021 through 01/01/2022 contributions of $1.844 per hour worked for pharmacists and $0.836 per hour worked for non-pharmacists. From 01/01/2020 through 12/31/2020 contributions of $1.758 per hour worked for pharmacists and $0.797 per hour worked for non-pharmacists. From 01/01/2019 through 12/31/2019 contributions of $1.672 per hour for worked for pharmacists and $0.758 per hour worked for non-pharmacists.
UFCW Pharmacists, Clerks and Drug Employers Pension Trust	94-2518312-001	Green—12/31/2020	Green—12/31/2019	No	2,319	2,421	2,666	No	7/13/2019	Effective 01/01/2020, contribution rate of $0.855 per hour worked for clerks and $1.239 per hour works for pharmacists. Effective 09/01/2014, contribution rate frozen at $0.55 per hour worked for associates.
United Food and Commercial Workers Union-Employer Pension Fund	34-6665155-001	Red—9/30/2020	Red—9/30/2019	Implemented	809	738	772	No	2/28/2021	Effective 02/02/2020 contribution rate of $2.30 per hour worked. Effective 02/03/2019 contribution rate of $2.16 per hour worked. Effective 02/04/2018 contribution rate of $2.03 per hour worked.
United Food and Commercial Workers Union Local 880—Mercantile Employers Joint Pension Fund	51-6031766-001	Red—9/30/2020	Yellow—9/30/2019	Implemented	399	437	470	No	2/28/2021	Effective 10/01/2020 contribution rate of $2.15 per hour worked. Effective 10/01/2019 contribution rate of $2.06 per hour worked. Effective 10/01/2018 contribution rate of $1.97 per hour worked.
Other Funds					1,573	1,554	1,648			
					$ 22,952	$ 22,671	$ 23,499			

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The Company was listed in these plans Forms 5500 as providing more than 5% of the total contributions for the following plans and plan years:

Pension Fund	Year Contributions to Plan Exceeded More Than 5 % of Total Contributions (as of the Plan's Year-End)
UFCW Pharmacists, Clerks and Drug Employers Pension Trust	12/31/2019 and 12/31/2018
Southern California United Food and Commercial Workers Unions and Drug Employers Pension Fund	12/31/2019 and 12/31/2018
United Food & Commercial Workers Union - Employer Pension Fund	9/30/2019 and 9/30/2018
United Food & Commercial Workers Union Local 880—Mercantile Employers Joint Pension Fund	9/30/2019 and 9/30/2018

At the date the Company's financial statements were issued, certain Forms 5500 were not available.

During fiscal 2021, 2020 and 2019, the Company did not withdraw from any plans or incur any additional withdrawal liabilities.

21. Segment Reporting

The Company has two reportable segments, its retail drug stores ("Retail Pharmacy"), and its pharmacy services ("Pharmacy Services") segments.

The Retail Pharmacy segment's primary business is the sale of prescription drugs and related consultation to its customers. Additionally, the Retail Pharmacy segment sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private brand product line. The Pharmacy Services segment offers a full range of PBM services including plan design and administration, formulary management and claims processing. Additionally, the Pharmacy Services segment offers specialty and mail order services, infertility treatment, and drug benefits to eligible beneficiaries under the federal government's Medicare Part D program.

The Company's chief operating decision makers are its Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer (collectively the "CODM"). The CODM has ultimate responsibility for enterprise decisions. The CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, the Retail Pharmacy segment and the Pharmacy Services segment. The Retail Pharmacy and Pharmacy Services segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. The CODM relies on internal management reporting that analyzes enterprise results on certain key performance indicators, namely, revenues, gross profit and Adjusted EBITDA.

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The following is balance sheet information for the Company's reportable segments:

	Retail Pharmacy	Pharmacy Services	Eliminations(1)	Consolidated
February 27, 2021:				
Total Assets	$ 6,613,370	$ 2,736,546	$ (14,512)	$ 9,335,404
Goodwill	43,492	1,064,644	—	1,108,136
February 29, 2020:				
Total Assets	$ 6,757,196	$ 2,709,737	$ (14,564)	$ 9,452,369
Goodwill	43,492	1,064,644	—	1,108,136

(1) As of February 27, 2021 and February 29, 2020, intersegment eliminations include netting of the Pharmacy Services segment long-term deferred tax liability of $0 against the Retail Pharmacy segment long-term deferred tax asset for consolidation purposes in accordance with ASC 740, and intersegment accounts receivable of $14,512 and $14,564, respectively, that represents amounts owed from the Pharmacy Services segment to the Retail Pharmacy segment that are created when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products.

The following table is a reconciliation of the Company's business segments to the consolidated financial statements for the fiscal years ended February 27, 2021, February 29, 2020 and March 2, 2019:

	Retail Pharmacy	Pharmacy Services	Intersegment Eliminations(1)	Consolidated
February 27, 2021:				
Revenues	$ 16,365,260	$ 7,970,137	$ (292,157)	$ 24,043,240
Gross Profit	4,255,791	448,531	—	4,704,322
Adjusted EBITDA(2)	279,896	157,769	—	437,665
Additions to property and equipment and intangible assets	204,290	20,651	—	224,941
February 29, 2020:				
Revenues	$ 15,616,186	$ 6,559,560	$ (247,353)	$ 21,928,393
Gross Profit	4,274,836	451,922	—	4,726,758
Adjusted EBITDA(2)	370,435	167,776	—	538,211
Additions to property and equipment and intangible assets	192,489	21,897	—	214,386
March 2, 2019:				
Revenues	$ 15,757,152	$ 6,093,688	$ (211,283)	$ 21,639,557
Gross Profit	4,258,716	417,636	—	4,676,352
Adjusted EBITDA(2)	405,206	158,238	—	563,444
Additions to property and equipment and intangible assets	228,079	16,610	—	244,689

(1) Intersegment eliminations include intersegment revenues and corresponding cost of revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Retail Pharmacy and Pharmacy Services segments record the revenue on a stand-alone basis.

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(2) See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Continuing Operations—Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Net Income (Loss) per Diluted Share and Other Non-GAAP Measures" for additional details.

The following is a reconciliation of net (loss) income to Adjusted EBITDA for fiscal 2021, 2020 and 2019:

	February 27, 2021 (52 weeks)	February 29, 2020 (52 weeks)	March 2, 2019 (52 weeks)
Net loss from continuing operations	$ (100,070)	$ (469,219)	$ (666,954)
Interest expense	201,388	229,657	227,728
Income tax (benefit) expense	(20,157)	387,607	77,477
Depreciation and amortization	327,124	328,277	357,882
LIFO (credit) charge	(51,692)	(64,804)	23,354
Lease termination and impairment charges	58,403	42,843	107,994
Goodwill and intangible asset impairment charges	29,852	—	375,190
(Gain) loss on debt modifications and retirements, net	(5,274)	(55,692)	554
Merger and Acquisition-related costs	10,549	3,599	37,821
Stock-based compensation expense	13,003	16,087	12,115
Restructuring-related costs	84,552	105,642	4,704
Inventory write-downs related to store closings	3,709	4,652	13,487
Litigation settlement	—	—	18,000
(Gain) loss on sale of assets, net	(69,300)	4,226	(38,012)
Gain on Bartell acquisition	(47,705)	—	—
Other	3,283	5,336	12,104
Adjusted EBITDA from continuing operations	$ 437,665	$ 538,211	$ 563,444

22. Commitments, Contingencies and Guarantees

Legal Matters and Regulatory Proceedings

The Company is regularly involved in a variety of legal matters including arbitration, litigation (and related settlement discussions), and other claims, and is subject to regulatory proceedings including audits, inspections, inquiries, investigations, and similar actions by health care, insurance, pharmacy, tax and other governmental authorities arising in the ordinary course of its business, including, without limitation, the matters described below. The Company records accruals for outstanding legal matters and applicable regulatory proceedings when it believes it is probable that a loss has been incurred, and the amount can be reasonably estimated. The Company evaluates on a quarterly basis, developments in legal matters and regulatory proceedings that could affect the amount of any existing accrual or that warrant an accrual. If a loss contingency is not both probable and estimable, the Company typically does not establish an accrued liability. With respect to the litigation and other legal proceedings described below, the Company is unable to estimate the amount or range of reasonably possible loss due to the inherent difficulty of predicting the outcome of and uncertainties regarding such litigation and legal proceedings.

None of the Company's accruals for outstanding legal matters or regulatory proceedings are currently material, individually or in the aggregate, to the Company's consolidated financial position. However, during the course of any

proceeding, developments may result in the creation or an increase of an accrual that could be material. Additionally, unfavorable or unexpected outcomes in outstanding legal matters or regulatory proceedings could exceed any accrual and impact the Company's financial position. Further, even if the Company is successful in its legal proceedings, the Company may incur significant costs and expenses defending itself or others that it is required to indemnify, and such costs and expenses may not be subject to or exceed reimbursement pursuant to any applicable insurance.

The Company's contingencies are subject to significant uncertainties, many of which are beyond the Company's control, including, among other factors: (i) the stage of any proceeding and delays in scheduling; (ii) whether class or collective action status is sought and the likelihood of a class being certified; (iii) the outcome of pending or potential appeals, motions and settlement discussions; (iv) the range and magnitude of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the matter; (vi) whether novel or unsettled legal theories are at issue or advanced; (vii) whether there are significant factual issues to be resolved; (viii) in the case of certain government agency investigations, whether a *qui tam* lawsuit ("whistleblower" action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation, and/or (viii) changes in priorities following any change in political administration at the state or federal level.

California Employment Litigation.

The Company is currently a defendant in several lawsuits filed in courts in California that contain allegations regarding violations of the California Business and Professions Code, various California employment laws and regulations, industry wage orders, wage-and-hour laws, rules and regulations pertaining primarily to failure to pay overtime, failure to pay premiums for missed meals and rest periods, failure to provide accurate wage statements, and failure to reimburse business expenses (the "California Cases"). Some of the California Cases purport or may be determined to be class actions or representative actions under the California Private Attorneys General Act and seek substantial damages and penalties. These single-plaintiff and multi-plaintiff California Cases in the aggregate, seek substantial damages. The Company believes that it has meritorious defenses in the California Cases. The Company has aggressively defended itself and challenged the merits of the lawsuits and, where applicable, allegations that the lawsuits should be certified as class or representative actions.

Usual and Customary Litigation.

The Company is named as a defendant in a number of lawsuits, including the cases below, that allege that the Company's retail stores overcharged for prescription drugs by not submitting the price available to members of the Rite Aid's Rx Savings Program as the pharmacy's usual and customary price, and related theories. The Company is defending itself against these claims.

In January 2017, *qui tam* plaintiff Azam Rahimi ("Relator") filed a sealed False Claims Act ("FCA") lawsuit in the United States District Court for the Eastern District of Michigan. The United States Attorney's Office for the Eastern District of Michigan, 18 states, and the District of Columbia declined to intervene. The unsealed lawsuit alleges that the Company failed to report its Rx Savings Program prices as its usual and customary prices under the Medicare Part D program, federal and state Medicaid programs, and other publicly funded health care programs, and that the Company is thus liable under the federal FCA and similar state statutes. On December 12, 2019, the court granted the Company's motion to dismiss and judgment on the pleadings based upon the FCA's public disclosure bar. The Relator filed a motion for reconsideration which was denied. The Relator has appealed from the order granting the Company's motion to dismiss and for judgment on the pleadings, and also from the order denying his motion for reconsideration. That appeal has been fully argued and briefed and is now awaiting decision.

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The State of Mississippi, by and through its Attorney General, filed a lawsuit against the Company and various purported related entities on September 27, 2016 alleging the Company failed to accurately report usual and customary prices to Mississippi's Division of Medicaid.

The Company is involved in a putative consumer class action lawsuit in the United States District Court for the Southern District of California captioned *Byron Stafford v. Rite Aid Corp*. A separate lawsuit, *Robert Josten v. Rite Aid Corp*., was consolidated with this lawsuit in November, 2019. The lawsuit contains allegations that (i) the Company was obligated to charge the plaintiffs' insurance companies its usual and customary prices for their prescription drugs; and (ii) the Company failed to do so because the prices it reported were not equal to or adjusted to account for the prices that Rite Aid offers to uninsured and underinsured customers through its Rx Savings Program. The cases are currently stayed pending an appeal of an order denying a motion to compel arbitration of claims in *Stafford*.

On February 6, 2019, Humana, Inc., filed an arbitration claim alleging that the Company improperly submitted various usual and customary overcharges by failing to report its Rx Savings Program prices as its usual and customary prices to Humana. An arbitral hearing is scheduled to commence in September 2021.

The Company is a defendant in two consolidated lawsuits pending in the United States District Court for the District of Minnesota filed in 2020 by various Blue Cross/Blue Shield plans that operate in eight different states (North Carolina, North Dakota, Alabama, Utah, Minnesota, Oregon, Washington and New Jersey) alleging that the Company improperly submitted various usual and customary overcharges by failing to report its Rx Savings Program pricing to several Pharmacy Benefit Managers with which Rite Aid and the insurers had independent contracts.

Drug Utilization Review and Code 1 Litigation

In June 2012, *qui tam* plaintiff, Loyd F. Schmuckley ("Relator") filed a complaint under seal against the Company alleging that it failed to comply with certain requirements of California's Medicaid program between 2007 and 2014. In June 2013, the Company was served with a Civil Investigative Demand ("CID") by the United States Attorney's Office for the Eastern District of California regarding (1) the Company's Drug Utilization Review and prescription dispensing protocol; and (2) the dispensing of drugs designated as "Code 1" by the State of California. Specifically, the Relator alleged that the Company did not perform special verification and documentation for certain medications known as "Code 1" drugs. While the complaint remained under seal, the United States Department of Justice conducted an extensive investigation and ultimately declined to intervene. Although numerous states declined to intervene, in September 2017, the State of California filed a complaint in intervention. The Company filed a motion to dismiss Relator's and the State of California Department of Justice's Bureau of Medical Fraud and Elder Abuse respective complaints in January 2018, the hearing was held on March 23, 2018. On September 5, 2018, the court issued an order denying the motion to dismiss. No trial date has been set.

Controlled Substances Litigation, Audits and Investigations

The Company, along with various other defendants, is named in multiple opioid-related lawsuits filed by counties, cities, municipalities, Native American tribes, hospitals, third-party payers, and others across the United States. In December 2017, the U.S. Judicial Panel on Multidistrict Litigation consolidated and transferred more than a thousand federal opioid-related lawsuits that name the Company as a defendant to the multi-district litigation ("MDL") pending in the United States District Court for the Northern District of Ohio under *In re National Prescription Opiate Litigation* (Case No. 17-MD-2804). A significant number of similar cases that are not part of the MDL and name the Company as a defendant are also pending in state courts. The plaintiffs in these opioid-related lawsuits generally allege claims that

(In thousands, except per share amounts)

include public nuisance and negligence theories of liability resulting from the impacts of widespread opioid abuse against defendants along the pharmaceutical supply chain, including manufacturers, wholesale distributors, and retail pharmacies. At this stage of the proceedings, the Company is not able to predict the outcome of the opioid-related lawsuits or estimate a potential range of loss regarding the lawsuits, and is defending itself against all relevant claims.

The Company also has received warrants, subpoenas, CIDs, and other requests for documents and information from, and is being investigated by, the federal and state governments regarding opioids and other controlled substances. The Company has been cooperating with and responding to these investigatory inquiries.

In April 2019, the Company initiated a coverage action styled *Rite Aid Corporation et al. v. ACE American Ins. Co. et al.* Through this action, the Company is seeking the recovery of defense costs and future settlement and/or judgment costs for the opioid-related lawsuits. The action seeks declaratory relief with respect to the obligations of the insurers under all of the policies at issue in the action and asserts claims for breach of contract and statutory remedies against an insurer. While the Company prevailed on a partial summary judgment motion that this insurer has a past and continuing duty to reimburse defense costs for the suits in excess of a satisfied $3,000,000 retention, that insurer has appealed the ruling and has refused to reimburse the Company for any of its defense costs. The briefing on the insurer's appeal to the Delaware Supreme Court is expected to be completed on April 30, 2021.

Miscellaneous Litigation and Investigations.

The U.S. Securities and Exchange Commission ("SEC") is investigating trading in the Company's securities that occurred in or around January 2017, and has subpoenaed information from the Company in connection with that investigation. The Company is cooperating with the SEC in this matter. The Company has received a CID and requests for information with respect to consumer protection laws.

23. Supplementary Cash Flow Data

	February 27, 2021	February 29, 2020	March 2, 2019
Cash paid for interest(a)	$ 181,634	$ 216,489	$ 267,760
Cash payments for income taxes, net(a)	$ 7,535	$ (4,935)	$ 17,383
Equipment financed under capital leases	$ 1,849	$ 3,715	$ 4,165
Equipment received for noncash consideration	$ —	$ —	$ —
Reduction in lease financing obligation	$ —	$ —	$ —
Accrued capital expenditures	$ 19,904	$ 15,952	$ 15,298
Gross borrowings from revolver(a)	$ 7,912,000	$ 2,897,000	$ 4,257,000
Gross repayments to revolver(a)	$ 7,712,000	$ 3,122,000	$ 3,382,000

(a)–Amounts are presented on a total company basis.

Significant components of cash used by Other Liabilities of $50,947 for the fifty-two week period ended February 27, 2021 includes cash used resulting from changes in accrued wages, benefits and other personnel costs of $21,636 and changes in accrued store expenses of $33,069.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

24. Interim Financial Results (Unaudited)

	Fiscal Year 2021				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$ 6,027,376	$ 5,981,970	$ 6,117,038	$ 5,916,856	$ 24,043,240
Cost of revenues	4,829,057	4,821,625	4,913,939	4,774,297	19,338,918
Selling, general and administrative expenses	1,197,147	1,116,142	1,156,355	1,187,541	4,657,185
Lease termination and impairment charges	3,753	11,528	7,453	35,669	58,403
Intangible asset impairment charges	29,852	—	—	—	29,852
Interest expense	50,547	50,007	50,835	49,999	201,388
Gain on debt modifications and retirements, net	—	(5,274)	—	—	(5,274)
(Gain) loss on sale of assets, net	(2,260)	1,092	(16,305)	(51,827)	(69,300)
Gain on Bartell acquisition	—	—	—	(47,705)	(47,705)
	6,108,096	5,995,120	6,112,277	5,947,974	24,163,467
(Loss) income from continuing operations before income taxes	(80,720)	(13,150)	4,761	(31,118)	(120,227)
Income tax (benefit) expense	(8,018)	47	437	(12,623)	(20,157)
(Loss) income from continuing operations	(72,702)	(13,197)	4,324	(18,495)	(100,070)
Net income from discontinued operations, net of tax	9,161	—	—	—	9,161
Net (loss) income	(63,541)	(13,197)	4,324	(18,495)	(90,909)
Basic (loss) income per share(a):					
Continuing operations	$ (1.36)	$ (0.25)	$ 0.08	$ (0.34)	$ (1.87)
Discontinued operations	$ 0.17	$ —	$ —	$ —	$ 0.18
Net basic (loss) income per share	$ (1.19)	$ (0.25)	$ 0.08	$ (0.34)	$ (1.69)
Diluted (loss) income per share(a):					
Continuing operations	$ (1.36)	$ (0.25)	$ 0.08	$ (0.34)	$ (1.87)
Discontinued operations	$ 0.17	$ —	$ —	$ —	$ 0.18
Net diluted (loss) income per share	$ (1.19)	$ (0.25)	$ 0.08	$ (0.34)	$ (1.69)

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

	Fiscal Year 2020				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$ 5,372,589	$ 5,366,264	$ 5,462,298	$ 5,727,242	$ 21,928,393
Cost of revenues	4,245,866	4,221,825	4,273,323	4,460,621	17,201,635
Selling, general and administrative expenses	1,162,652	1,135,530	1,134,854	1,154,300	4,587,336
Lease termination and impairment charges	478	1,471	166	40,728	42,843
Interest expense	58,270	60,102	57,856	53,429	229,657
Gain on debt retirements, net	—	—	(55,692)	—	(55,692)
(Gain) loss on sale of assets, net	(2,712)	(1,587)	(1,371)	9,896	4,226
	5,464,554	5,417,341	5,409,136	5,718,974	22,010,005
(Loss) income from continuing operations before income taxes	(91,965)	(51,077)	53,162	8,268	(81,612)
Income tax expense	7,374	27,628	876	351,729	387,607
(Loss) income from continuing operations	(99,339)	(78,705)	52,286	(343,461)	(469,219)
Net (loss) income from discontinued operations, net of tax	(320)	(574)	(801)	18,740	17,045
Net (loss) income	$ (99,659)	$ (79,279)	$ 51,485	$ (324,721)	$ (452,174)
Basic (loss) income per share(a):					
Continuing operations	$ (1.88)	$ (1.48)	$ 0.98	$ (6.43)	$ (8.82)
Discontinued operations	$ —	$ (0.01)	$ (0.01)	$ 0.35	$ 0.32
Net basic (loss) income per share	$ (1.88)	$ (1.49)	$ 0.97	$ (6.08)	$ (8.50)
Diluted (loss) income per share(a):					
Continuing operations	$ (1.88)	$ (1.48)	$ 0.98	$ (6.43)	$ (8.82)
Discontinued operations	$ —	$ (0.01)	$ (0.02)	$ 0.35	$ 0.32
Net diluted (loss) income per share	$ (1.88)	$ (1.49)	$ 0.96	$ (6.08)	$ (8.50)

(a) Income per share amounts for each quarter may not necessarily total to the yearly income per share due to the weighting of shares outstanding on a quarterly and year-to-date basis.

During the fourth quarter of fiscal 2021, the Company recorded a gain on Bartell acquisition of $47,705, a gain of $54,530 in connection with the sale-leaseback of two distribution centers and two retail stores, and facilities impairment charges of $31,057. Also, during the fourth quarter of fiscal 2021, the Company recorded a LIFO credit of $21,389 which resulted from deflation in generic drug costs, partially offset by brand drug inflation compared to a LIFO credit recognized at prior year end caused by higher deflation on pharmaceutical drugs.

During the fourth quarter of fiscal 2020, the Company recorded an income tax expense of $347,599 in connection with the revaluation of the Company's deferred tax assets resulting from an increase in the valuation allowance as discussed in Note 8 and facilities impairment charges of $38,342. Also, during the fourth quarter of fiscal 2020, the Company recorded a LIFO credit of $72,357 which resulted from deflation in generic drug costs, partially offset by brand drug inflation compared to a LIFO charge recognized at prior year end caused by higher inflation on pharmaceutical drugs.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019

(In thousands, except per share amounts)

25. Financial Instruments

The carrying amounts and fair values of financial instruments at February 27, 2021 and February 29, 2020 are listed as follows:

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	$ 1,283,667	$ 1,300,000	$ 1,077,787	$ 1,100,000
Fixed rate indebtedness	$ 1,779,420	$ 1,876,322	$ 1,999,481	$ 1,921,385

Cash, trade receivables and trade payables are carried at market value, which approximates their fair values due to the short-term maturity of these instruments. In addition, as of February 27, 2021 and February 29, 2020, the Company had $7,041 and $7,022, respectively, of investments carried at amortized cost, as these investments are being held to maturity. These investments are included as a component of other assets as of February 27, 2021 and February 29, 2020. The Company believes the carrying value of these investments approximates their fair value.

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

LIBOR-based borrowings under credit facilities:

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

Long-term indebtedness:

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

RITE AID CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended February 27, 2021, February 29, 2020 and March 2, 2019
(dollars in thousands)

Allowances deducted from accounts receivable for estimated uncollectible amounts:	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended February 27, 2021	$ 12,849	$ 43,855	$ 31,850	$ 24,854
Year ended February 29, 2020	$ 13,106	$ 40,357	$ 40,614	$ 12,849
Year ended March 2, 2019	$ 25,134	$ 48,728	$ 60,756	$ 13,106

Exhibit 10.32

January 27, 2021

Dan Robson
EnvisionRxOptions
Canyon Falls Corporate Center
8957 Canyon Falls Blvd.
Twinsburg, OH 44087

Re: Separation of Employment

Dear Dan:

This letter agreement (this "Agreement") confirms our understanding and agreement with respect to your separation of employment with Rite Aid Corporation and its subsidiaries, including RxOptions, LLC (the "Company," and together with you, the "Parties"). Capitalized terms not otherwise defined herein will have the meanings attributed to them in your employment agreement with the Company, dated effective as of December 12, 2019 (the "Employment Agreement").

1. Separation of Employment. Your last day of employment with the Company shall be January 27, 2021 (the "Separation Date"). As of the Separation Date, you irrevocably resign from all positions you currently hold with the Company and its subsidiaries and affiliates, including as President, and agree to execute any additional documents required by the Company to effectuate such resignations. You agree that, following the Separation Date, you will not represent yourself to be associated in any capacity with the Company, Rite Aid or any of their respective subsidiaries or affiliates.

2. Accrued Benefits, Severance.

(a) Whether or not this Agreement becomes effective pursuant to its terms, the Company will pay you the Accrued Benefits set forth on Appendix A hereto, less all applicable withholdings and deductions.

(b) Provided that this Agreement becomes effective on the Release Effective Date (as defined in Section 5(c) below) and you remain in compliance with this Agreement at all times, the Company will pay you the severance payments and benefits set forth on Appendix A items 2(b) through 2(e), at the time and in the form set forth on Appendix A (the "Release Consideration"), less all applicable withholdings and deductions.

3. Release.

(a) You hereby release, discharge and forever acquit the Company, Rite Aid and their respective affiliates and subsidiaries and each of their past, present and future stockholders, directors, employees, agents, successors and assigns of the foregoing, in their personal and representative capacities (individually, "Company Party," and collectively, the "Company Parties"), from liability for, and hereby waive, any and all claims, charges, liabilities, causes of action, rights, complaints, sums of money, suits, debts, covenants, contracts, agreements, promises, benefits, obligations, damages, demands or liabilities of every nature, kind and description, in law, equity or otherwise, whether known or unknown, suspected or unsuspected (collectively, " Claims") which you or your heirs, executors, administrators,

spouse, relatives, successors or assigns ever had, now have or may hereafter claim to have by reason of any matter, cause or thing whatsoever: (i) arising from the beginning of time through the date upon which you sign this Agreement, including, but not limited to (A) any such Claims relating in any way to your employment relationship with the Company or any other Company Parties, and (B) any such Claims arising under any federal, state, local or foreign statute or regulation, including, without limitation, the Age Discrimination in Employment Act of 1967, as amended by the Older Workers Benefit Protection Act (the "ADEA"), Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, the Pennsylvania Human Relations Act, the Pennsylvania Equal Pay Law, the Ohio Civil Rights Act, the Ohio Equal Pay Statute, the Ohio Wage Payment Anti-Retaliation Statute, the Ohio Workers' Compensation Anti-Retaliation Statute, the Kansas Act Against Discrimination, the Kansas Age Discrimination in Employment Act, the Kansas Wage Payment Act, the Kansas Minimum Wage and Maximum Hours Law, and any other federal, state, local or foreign law (statutory, regulatory or otherwise) that may be legally waived and released; (ii) relating to wrongful employment termination; or (iii) arising under or relating to any policy, agreement, understanding or promise, written or oral, formal or informal, between the Company or any of the other Company Parties and you, including, without limitation, the Employment Agreement, between you and the Company and any incentive compensation plan or equity plan with any Company Party. Notwithstanding the above, this release does not extend to (A) claims for Accrued Benefits; (B) claims for worker's compensation benefits or for an occupational disease; (C) any whistleblower claims arising under the Sarbanes-Oxley Act or Dodd-Frank Wall Street Reform and Consumer Protection Act; (D) claims to require the Company to honor its commitments set forth in this Agreement; (E) claims to interpret or to determine the scope, meaning or effect of this Agreement; (F) claims for indemnification and officers and directors liability insurance coverage under Section 4.6 of the Employment Agreement, the Company's charter, by-laws or applicable law; and/or (G) claims that cannot be waived as a matter of law pursuant to federal, state, or local law (collectively, clauses (A) through (G) are the "Excluded Claims").

(b) You further acknowledge and agree that, except with respect to the Excluded Claims, and the payments and benefits set forth on Appendix A as referenced in Section 2 of this Agreement, the Company Parties have fully satisfied any and all obligations whatsoever owed to you arising out of your employment with the Company or any other Company Party, and that no further payments or benefits are owed to you by the Company or any other Company Party.

(c) You represent and warrant that you have no known workplace injuries or occupational diseases, have been provided and/or have not been denied any leave or reasonable accommodation under applicable disability or leave laws, and have faced no reprisal or retaliation for exercising your right to any leave and/or reasonable accommodation. You further represent and warrant that, except as set forth on Appendix B, you are not aware of, or suspect, any wrongdoing (including, without limitation, violation of the Company's code of conduct or any Company policy) or illegal activity by the Company or any of its subsidiaries or affiliates

4. Attorney Consultation; Voluntary Agreement. You acknowledge that (a) the Company has advised you to consult with an attorney of your own choosing before signing this Agreement, (b) you have been given the opportunity to seek the advice of counsel, (c) you have carefully read and fully understand all of the provisions of this Agreement, including the release in Section 3 (the "Release"), (d) the Release specifically applies to any rights or claims you may have against the Company Parties pursuant to the ADEA, (e) you are entering into this Agreement knowingly, freely and voluntarily in exchange for good and valuable consideration to which you are not otherwise entitled, including the payments and benefits referenced in items 2(a) through 2(e) of Appendix A of this Agreement and (f) you have the full power, capacity and authority to enter into this Agreement.

5. Review and Revocation Period.

(a) You have twenty-one (21) days following your receipt of this Agreement to review its terms, including the Release, and to reflect upon them and consider whether you want to sign it, although you may sign it sooner. You understand and agree that you may consent to this Agreement, including the Release, by signing and returning this Agreement within the applicable time frame to Executive Vice President, Secretary and General Counsel, Rite Aid Corporation, 30 Hunter Lane, Camp Hill, PA 17011 or by e-mail at paul.d.gilbert@riteaid.com.

(b) You may revoke your consent to the Release within the seven day period beginning on the date you execute this Agreement (such seven day period being referred to herein as the "Release Revocation Period"). To be effective, such revocation must be in writing signed by you and delivered to the Company at the above address before 11:59 p.m., Eastern Standard time, on the last day of the Release Revocation Period.

(c) In the event of such revocation by you, the Release shall be of no force or effect, and you will not have any rights and the Company will not have any obligations under Section 2(b) of this Agreement. Provided that you do not revoke your consent to the Release within the Release Revocation Period, the Release shall become effective on the eighth (8th) calendar day after the date upon which you execute this Agreement (the "Release Effective Date").

6. Restrictive Covenants. You acknowledge and agree that the confidentiality obligations and the restrictive covenants and agreements set forth in Sections 6 and 7 of the Employment Agreement, respectively, and any other written restrictive covenants and confidentiality agreements in effect with the Company, are incorporated herein by reference and fully made a part hereof for all purposes and remain in full force and effect. You agree to keep the contents of this Agreement strictly confidential except as necessary to obtain the advice of your tax and legal advisors.

7. Cooperation.

(a) You agree that, at mutually agreeable times, you will meet with representatives of the Company, or its respective parent or subsidiary company representatives and provide any information you acquired during the course of your employment relating in any way to any legal disputes involving the Company. You further agree that you will cooperate fully with the Company relating to any such litigation matter or other legal proceeding in which you were involved or on which you have knowledge by virtue of your employment with the Company, including any existing or future litigation or other legal proceeding involving the Company, whether administrative, civil or criminal in nature in which and to the extent the Company deems your cooperation necessary. You will be entitled to reimbursement by the Company of reasonable costs and expenses incurred by you in connection with complying with your obligations under Section 7(a) of this Agreement.

(b) You agree that, for a period of 6 months following the Separation Date, you will make yourself available to respond to a reasonable number of phone inquiries in connection with matters on which you were involved in prior to the Separation Date (the "Transition Services"). The Company shall compensate you for your time spent on any Transition Services at a rate of $250.00 per hour. You agree to timely submit, in accordance with the Company's policies, monthly invoices indicating the hours during which you provided the Transition Services to the Company during such month, and payment by the Company shall occur as soon as administratively possible after receipt.

8. Non-Disparagement. You agree that you will not make any negative comments or disparaging remarks, in writing, orally or electronically ("Disparaging Remarks"), about the Company or

any of the other Company Parties and their respective products and services. The Company agrees to instruct members of its senior management team not to, for as long as such individuals remain affiliated with the Company, make any Disparaging Remarks about you; provided, however, that nothing in this Section 8 shall prohibit you from (a) making truthful and accurate statements or disclosures that are required by applicable law or legal process; (b) making any voluntary disclosure of information or documents concerning possible violations of law to any governmental agency or legislative body, or any self-regulatory organization; or (c) exercising protected rights to the extent that such rights, by law, cannot be waived by agreement.

9. Permitted Disclosures. Pursuant to 18 U.S.C. § 1833(b), you will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret of the Company that (a) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to your attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If you file a lawsuit for retaliation by the Company for reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding if you (I) file any document containing the trade secret under seal and (II) do not disclose the trade secret except pursuant to court order. Nothing in this Agreement or any other agreement you have with the Company is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in any agreement you have with the Company will prohibit or restrict you from making any voluntary disclosure of information or documents related to any violation of law to any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to the Company. The Company agrees that you may provide only a copy of sections 6 and/or 7 of your Employment Agreement to any potential employer for the sole purpose of informing potential employers of these continuing obligations pursuant to your Employment Agreement and only after potential employers agree to maintain the confidentiality of these sections of your Employment Agreement. The Company has no objection to you verbally informing any potential employer of the content of sections 6 and/or 7 of your Employment Agreement.

10. No Admission. Nothing herein will be deemed to constitute an admission of wrongdoing by you or any of the Company Parties. Neither this Agreement nor any of its terms may be used as an admission or introduced as evidence as to any issue of law or fact in any proceeding, suit or action, other than an action to enforce this Agreement.

11. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when so executed and delivered, will be deemed to be an original and both counterparts, taken together, will constitute one and the same Agreement. A faxed or .pdf-ed signature will operate the same as an original signature.

12. Successors and Assigns. This Agreement will inure to the benefit of and be binding upon the Company and any successor organization which shall succeed to the Company by acquisition, merger, consolidation or operation of law, or by acquisition of assets of the Company and any assigns. You may not assign this Agreement, except with respect to the rights provided under Section 2 of this Agreement, which will inure to the benefit of your heirs, executors and administrators. In the event of your death at any time, your estate will receive all unpaid payments and benefits due you under this Agreement, including under Appendix A.

13. Severability; Blue-Penciling. The provisions of this Agreement are severable and the invalidity of any one or more provisions will not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application

thereof is unenforceable in whole or in part because of the scope thereof, the Parties hereto agree that said court in making such determination shall have the power to reduce the scope of such provision to the extent necessary to make it enforceable, and that this Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

14. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Ohio, without regard to any conflict of law principles thereof that would give rise to the application of the laws of any other jurisdiction.

15. Entire Agreement/No Oral Modifications. This Agreement constitutes the entire agreement between you and any of the Company Parties with respect to the subject matter hereof and supersedes all prior discussions, negotiations, representations, arrangements or agreements relating thereto, whether written or oral, including but not limited to the Employment Agreement, provided, however, that Section 4.6 of the Employment Agreement shall survive the Separation Date, and Sections 6 and 7 of the Employment Agreement shall remain in effect, for the duration and on the terms set forth therein. You represent that in executing this Agreement, you have not relied on any representation or statement not set forth herein. No amendment or modification of this Agreement shall be valid or binding on the Parties unless in writing and signed by both Parties.

* * *

IN WITNESS WHEREOF, the Parties have signed this Agreement as of the dates indicated below.

Rite Aid Corporation

By: /s/ Paul D. Gilbert
Name: Paul D. Gilbert

Title: EVP, Secretary & General Counsel

Date: February 15, 2021

Dan Robson

/s/ Dan Robson
Dan Robson

Date: February 15, 2021

APPENDIX A

ACCRUED BENEFITS AND SEVERANCE BENEFITS

Accrued Benefits: The Company will pay or provide to you, to the extent not previously paid: (i) your Base Salary earned through the Separation Date; (ii) any reimbursements owed to you pursuant to Section 4.2 of the Employment Agreement; and (iii) the amounts accrued and credited to your account under the Company's 401(k) Savings Plan, and other applicable tax-qualified retirements plans in accordance with the terms and conditions of such employee benefit plans, programs or arrangements (the "Accrued Benefits"). You acknowledge that there is no accrued or unpaid vacation payable to you under the Employment Agreement or the Company's unlimited paid time off policy.

Severance Benefits: You will be paid or provided with the following payments/benefits in accordance with Section 2(b) of this Agreement:

The gross amount of $550,000 representing one times your Base Salary, payable in equal installments over the one-(1) year period following the Release Effective Date in accordance with the Company's regular payroll practices, commencing with the Company's first regular payroll date that occurs after the Release Effective Date.

Your annual bonus for CY 2020 based on actual performance following a determination by the Compensation Committee (or the Board) that the Company has achieved or exceeded its annual performance targets under the Management Incentive Plan ("MIP") for the fiscal year, paid the later of (i) at the same time as annual performance bonus amounts are paid to the Company's similarly situated associates generally in respect of CY 2020 or (ii) the Company's first regular payroll date that occurs after the Release Effective Date. You will also receive a pro rata annual bonus for CY 2021 (for your 2021 period of employment) based on actual performance following a determination by the Compensation Committee (or the Board) that the Company has achieved or exceeded its annual performance targets under the MIP for the fiscal year, paid at the same time as annual performance bonus amounts are paid to the Company's similarly situated associates generally in respect of CY 2021.

Accelerated vesting with respect to those stock options and time-vesting restricted stock awards that would have vested within the one (1) year period following the Separation Date, as shown below:

Dan Robson (LTIP Detail)		
Award Date	**Award Type**	**# Shares/Units**
7/17/2019	RSA	2,933
12/16/2019	RSA	21,633
7/8/2020	RSA	10,336

The RSAs eligible for accelerated vesting (as shown) per the Employment Agreement will accelerate upon the Release Effective Date. Except as provided above,

outstanding RSAs and performance cash awards have been forfeited as of the Separation Date.

A lump sum payment of $16,282.08 representing the cost of COBRA continuation health and dental coverage for you and your immediate family for a period of one (1) year following the Separation Date, paid as soon as practicable but in any event within thirty (30) days following the Release Effective Date. Your actual COBRA coverage is contingent on your COBRA election and compliance with applicable requirements.

$45,205, representing thirty (30) days' Base Salary, payable in a lump sum as soon as practicable following the Release Effective Date in accordance with the Company's regular payroll schedule.

Additional consideration of $25,000, payable in a lump sum as soon as practicable following the Release Effective Date in accordance with the Company's regular payroll schedule.

Exhibit 21

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
1515 West State Street Boise, Idaho, LLC	Delaware
1740 Associates, LLC	Michigan
4042 Warrensville Center Road—Warrensville Ohio, Inc.	Ohio
5277 Associates, Inc.	Washington
5600 Superior Properties, Inc.	Ohio
Advance Benefits, LLC	Florida
Apex Drug Stores, Inc.	Michigan
Ascend Health Technology, LLC	Delaware
Broadview and Wallings—Broadview Heights Ohio, Inc.	Ohio
Design Rx, LLC	Wyoming
Design Rxclusives, LLC	Wyoming
Design Rx Holdings, LLC	Delaware
Drug Palace, Inc.	Maine
Eckerd Corporation	Delaware
EDC Drug Stores, Inc.	North Carolina
Elixir Insurance Company	Ohio
Elixir Savings, LLC	Florida
Envision Pharmaceutical Holdings LLC	Delaware
Elixir Rx Solutions of Nevada, LLC	Nevada
Elixir Rx Solutions, LLC	Ohio
EnvisionRx Puerto Rico, Inc.	Delaware
First Florida Insurers of Tampa, LLC	Florida
GDF, Inc.	Maryland
Genovese Drug Stores, Inc.	Delaware
Gettysburg and Hoover-Dayton, Ohio LLC	Ohio
Grand River & Fenkell, LLC	Delaware
Harco, Inc.	Alabama
Health Dialog Services Corporation	Delaware
Hunter Lane, LLC	Delaware
ILG – 90 B Avenue Lake Oswego, LLC	Delaware
JCG (PJC) USA, LLC	Delaware
JCG Holdings (USA), Inc.	Delaware
K&B Alabama Corporation	Alabama
K&B Louisiana Corporation	Louisiana
K&B Mississippi Corporation	Mississippi
K&B Services, Incorporated	Louisiana
K&B Tennessee Corporation	Tennessee
K&B Texas Corporation	Texas
K&B, Incorporated	Delaware
Lakehurst and Broadway Corporation	New Jersey
Laker Software, LLC	Minnesota
LMW – 90B Avenue Lake Oswego Inc.	Delaware
Maxi Drug North, Inc.	Delaware
Maxi Drug South, L.P.	Delaware
Maxi Drug, Inc.	Delaware
Maxi Green, Inc.	Vermont
Elixir Rx Solutions, LLC	Missouri
Munson & Andrews, LLC	Delaware
Name Rite, LLC	Delaware
Elixir Pharmacy, LLC	Ohio
P.J.C. Distribution, Inc.	Delaware
P.J.C. Realty Co., Inc.	Delaware

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
PDS-1 Michigan, Inc.	Michigan
Perry Distributors, Inc.	Michigan
Perry Drug Stores Inc.	Michigan
PJC Lease Holdings, Inc.	Delaware
PJC Manchester Realty LLC	Delaware
PJC of Massachusetts, Inc.	Massachusetts
PJC of Rhode Island, Inc.	Rhode Island
PJC of Vermont, Inc.	Vermont
PJC Peterborough Realty LLC	Delaware
PJC Realty MA, Inc.	Massachusetts
PJC Revere Realty LLC	Delaware
PJC Special Realty Holdings, Inc.	Delaware
RCMH, LLC	Texas
RDS Detroit, Inc.	Michigan
READ's Inc.	Maryland
RediClinic Associates, Inc.	Delaware
RediClinic LLC	Delaware
RediClinic of Dallas Forth-Worth, LLC	Delaware
RediClinic of DC, LLC	Delaware
RediClinic of DE, LLC	Delaware
RediClinic of MD, LLC	Delaware
RediClinic of PA, LLC	Delaware
RediClinic of VA, LLC	Delaware
RediClinic US, LLC	Delaware
Richfield Road – Flint, Michigan, LLC	Michigan
Rite Aid Drug Palace, Inc.	Delaware
Rite Aid Hdqtrs. Corp.	Delaware
Rite Aid Hdqtrs. Funding, Inc.	Delaware
Rite Aid Lease Management Company	California
Rite Aid of Connecticut, Inc.	Connecticut
Rite Aid of Delaware, Inc.	Delaware
Rite Aid of Georgia, Inc.	Georgia
Rite Aid of Indiana, Inc.	Indiana
Rite Aid of Kentucky, Inc.	Kentucky
Rite Aid of Maine, Inc.	Maine
Rite Aid of Maryland, Inc.	Maryland
Rite Aid of Michigan, Inc.	Michigan
Rite Aid of New Hampshire, Inc.	New Hampshire
Rite Aid of New Jersey, Inc.	New Jersey
Rite Aid of New York, Inc.	New York
Rite Aid of North Carolina, Inc.	North Carolina
Rite Aid of Ohio, Inc.	Ohio
Rite Aid of Pennsylvania, LLC	Pennsylvania
Rite Aid of South Carolina, Inc.	South Carolina
Rite Aid of Tennessee, Inc.	Tennessee
Rite Aid of Vermont, Inc.	Vermont
Rite Aid of Virginia, Inc.	Virginia
Rite Aid of Washington, D.C., Inc.	Washington DC
Rite Aid of West Virginia, Inc.	West Virginia
Rite Aid Online Store Inc.	Delaware
Rite Aid Payroll Management Inc.	Delaware
Rite Aid Realty Corp.	Delaware
Rite Aid Rome Distribution Center, Inc.	New York
Rite Aid Specialty Pharmacy LLC	Delaware

Company (Name in which such subsidiary conducts business if other than corporate name):	State of Incorporation or Organization
Rite Aid Transport, Inc.	Delaware
Rite Investments Corp.	Delaware
Rite Investments Corp., LLC	Delaware
Rx Choice, Inc.	Delaware
Rx Initiatives, LLC	Utah
Elixir Rx Options, LLC	Ohio
Rx USA, Inc.	Delaware
The Bartell Drug Company	Washington
The Jean Coutu Group (PJC) USA, Inc.	Delaware
The Lane Drug Company	Ohio
Thrift Drug Inc.	Delaware
Thrifty Corporation	California
Thrifty PayLess, Inc.	California

Exhibit 22

List of Guarantor Subsidiaries

The Guaranteed Notes are jointly and severally guaranteed on a full and unconditional basis by Rite Aid Corporation (incorporated in Delaware) and the following 100% owned subsidiaries of Rite Aid Corporation as of February 27, 2021:

Entity	**Jurisdiction of Incorporation or Organization**
Harco, Inc.	Alabama
K & B Alabama Corporation	Alabama
Rite Aid Lease Management Company (a California corporation)	California
Thrifty Corporation (a California corporation)	California
Thrifty PayLess, Inc. (a California corporation)	California
Rite Aid of Connecticut, Inc.	Connecticut
1515 West State Street Boise, Idaho, LLC (a Delaware limited liability company)	Delaware
Ascend Health Technology, LLC (a Delaware limited liability company)	Delaware
Design Rx Holdings, LLC (a Delaware limited liability company)	Delaware
Eckerd Corporation (a Delaware corporation)	Delaware
Envision Pharmaceutical Holdings LLC (a Delaware limited liability company)	Delaware
EnvisionRx Puerto Rico, Inc. (a Delaware corporation)	Delaware
Genovese Drug Stores, Inc. (a Delaware corporation)	Delaware
Health Dialog Services Corporation (a Delaware corporation)	Delaware
Hunter Lane, LLC (a Delaware limited liability company)	Delaware
JCG (PJC) USA, LLC (a Delaware limited liability company)	Delaware
JCG Holdings (USA), Inc. (a Delaware corporation)	Delaware
K & B, Incorporated (a Delaware corporation)	Delaware
Maxi Drug North, Inc. (a Delaware corporation)	Delaware
Maxi Drug South, L.P. (a Delaware limited partnership)	Delaware
Maxi Drug, Inc. (a Delaware corporation)	Delaware
Munson & Andrews, LLC (a Delaware limited liability company)	Delaware
Name Rite, LLC (a Delaware limited liability company)	Delaware
P.J.C. Distribution, Inc. (a Delaware corporation)	Delaware
P.J.C. Realty Co., Inc. (a Delaware corporation)	Delaware
PJC Lease Holdings, Inc. (a Delaware corporation)	Delaware
PJC Manchester Realty LLC (a Delaware limited liability company)	Delaware
PJC Peterborough Realty LLC	Delaware
PJC Revere Realty LLC (a Delaware limited liability company)	Delaware
PJC Special Realty Holdings, Inc. (a Delaware corporation)	Delaware
RediClinic Associates, Inc. (a Delaware corporation)	Delaware

Entity	Jurisdiction of Incorporation or Organization
RediClinic LLC (a Delaware limited liability company)	Delaware
RediClinic of PA, LLC (a Delaware limited liability company)	Delaware
Rite Aid Corporation (PARENT)	Delaware
Rite Aid Drug Palace, Inc. (a Delaware corporation)	Delaware
Rite Aid Hdqtrs. Corp. (a Delaware corporation)	Delaware
Rite Aid Hdqtrs. Funding, Inc. (a Delaware corporation)	Delaware
Rite Aid of Delaware, Inc. (a Delaware corporation)	Delaware
Rite Aid Online Store Inc. (a Delaware corporation)	Delaware
Rite Aid Payroll Management Inc. (a Delaware corporation)	Delaware
Rite Aid Realty Corp. (a Delaware corporation)	Delaware
Rite Aid Specialty Pharmacy LLC (a Delaware limited liability company)	Delaware
Rite Aid Transport, Inc. (a Delaware corporation)	Delaware
Rite Investments Corp. (a Delaware corporation)	Delaware
Rite Investments Corp., LLC (a Delaware limited liability company)	Delaware
Rx Choice, Inc. (a Delaware corporation)	Delaware
The Jean Coutu Group (PJC) USA, Inc. (a Delaware corporation)	Delaware
Thrift Drug Inc. (a Delaware corporation)	Delaware
Advance Benefits, LLC	Florida
Elixir Savings, LLC	Florida
First Florida Insurers of Tampa, LLC	Florida
Rite Aid of Georgia, Inc.	Georgia
Rite Aid of Indiana, Inc.	Indiana
Rite Aid of Kentucky, Inc.	Kentucky
K & B Louisiana Corporation	Louisiana
K & B Services, Incorporated	Louisiana
Rite Aid of Maine, Inc.	Maine
GDF, Inc.	Maryland
READ'S, Inc.	Maryland
Rite Aid of Maryland, Inc.	Maryland
PJC of Massachusetts, Inc. (a Massachusetts corporation)	Massachusetts
PJC Realty MA, Inc. (a Massachusetts corporation)	Massachusetts
1740 Associates, LLC	Michigan
Apex Drug Stores, Inc.	Michigan
PDS-1 Michigan, Inc.	Michigan
Perry Distributors, Inc.	Michigan
Perry Drug Stores, Inc.	Michigan
RDS Detroit, Inc.	Michigan
Rite Aid of Michigan, Inc.	Michigan
Laker Software, LLC	Minnesota
K & B Mississippi Corporation	Mississippi
Elixir Rx Solutions, LLC	Missouri
Elixir Rx Solutions of Nevada, LLC	Nevada
Rite Aid of New Hampshire, Inc.	New Hampshire

Entity	Jurisdiction of Incorporation or Organization
Lakehurst and Broadway Corporation	New Jersey
Rite Aid of New Jersey, Inc.	New Jersey
Rite Aid of New York, Inc. (a New York corporation)	New York
Rite Aid Rome Distribution Center, Inc. (a New York corporation)	New York
EDC Drug Stores, Inc.	North Carolina
Rite Aid of North Carolina, Inc.	North Carolina
4042 Warrensville Center Road - Warrensville Ohio, Inc.	Ohio
5600 Superior Properties, Inc.	Ohio
Broadview and Wallings-Broadview Heights Ohio, Inc.	Ohio
Elixir Rx Solutions, LLC	Ohio
Gettysburg and Hoover - Dayton, Ohio, LLC	Ohio
Elixir Pharmacy, LLC	Ohio
Rite Aid of Ohio, Inc.	Ohio
Elixir Rx Options, LLC	Ohio
The Lane Drug Company	Ohio
Rite Aid of Pennsylvania, LLC (Formerly Rite Aid of Pennsylvania, Inc.)	Pennsylvania
PJC of Rhode Island, Inc.	Rhode Island
Rite Aid of South Carolina, Inc.	South Carolina
K & B Tennessee Corporation	Tennessee
Rite Aid of Tennessee, Inc.	Tennessee
K & B Texas Corporation (a Texas corporation)	Texas
RCMH, LLC (a Texas limited liability company)	Texas
Rx Initiatives, L.L.C.	Utah
Maxi Green, Inc.	Vermont
PJC of Vermont, Inc.	Vermont
Rite Aid of Vermont, Inc.	Vermont
Rite Aid of Virginia, Inc.	Virginia
Rite Aid of Washington, D.C., Inc.	Wash. D.C.
5277 Associates, Inc.	Washington
The Bartell Drug Company	Washington
Rite Aid of West Virginia, Inc.	West Virginia
Design Rx, LLC	Wyoming
Design Rxclusives, LLC	Wyoming

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-08071, 333-61734, 333-107824, 333-124725, 333-146531, 333-167720, 333-182320, 333-196904, 333-233230 and 333-239758 on Form S-8 of our reports dated April 27, 2021, relating to the financial statements and financial statement schedule of Rite Aid Corporation and subsidiaries, and the effectiveness of Rite Aid Corporation and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Rite Aid Corporation for the year ended February 27, 2021.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 27, 2021

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Heyward Donigan, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 27, 2021

By: /s/ HEYWARD DONIGAN
Heyward Donigan
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Matthew C. Schroeder, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 27, 2021

By: /s/ MATTHEW C. SCHROEDER
Matthew C. Schroeder
Executive Vice President and Chief Financial Officer

Exhibit 32

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Rite Aid Corporation (the "Company") for the annual period ended February 27, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Heyward Donigan, as President and Chief Executive Officer of the Company, and Matthew C. Schroeder, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HEYWARD DONIGAN
Name: Heyward Donigan
Title: *President and Chief Executive Officer*
Date: April 27, 2021

/s/ MATTHEW C. SCHROEDER
Name: Matthew C. Schroeder
Title: *Executive Vice President and Chief Financial Officer*
Date: April 27, 2021