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, 2016

OR

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

For The Transition Period From To

Commission File Number 1-5742

RITE AID CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ 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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold on the New York Stock Exchange on August 29, 2015 was approximately $8,554,385,104. For purposes of this calculation, executive officers, directors and 5% shareholders are deemed to be affiliates of the registrant.

As of April 8, 2016 the registrant had outstanding 1,048,406,901 shares of common stock, par value $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's annual meeting of stockholders to be held on June 22, 2016 are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our credit facilities and other debt agreements;
- the continued impact of private and public third party payors reduction in prescription drug reimbursement and their efforts to limit access to payor networks, including mail order;
- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs;
- our ability to continue to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to maintain or grow prescription count and realize front-end sales growth;
- our ability to hire and retain qualified personnel;
- competitive pricing pressures, including aggressive promotional activity from our competitors;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities, which could result in further charges to our operating statement;
- our ability to manage expenses and working capital;
- continued consolidation of the drugstore and the pharmacy benefit management ("PBM") industries;
- changes in state or federal legislation or regulations, and the continued impact from the ongoing implementation of the Patient Protection and Affordable Care Act as well as other healthcare reform;
- risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;
- our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration and early price renegotiations prior to contract expirations;
- the continued impact of declining gross margins in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings,
- our ability to maintain our current Medicare Part D business and obtain new Medicare Part D business, as a result of the annual Medicare Part D competitive bidding process;
- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments and related tax matters;

- the inability to complete the proposed acquisition (the "Merger") of us by Walgreens Boots Alliance, Inc., a Delaware corporation ("WBA"), due to the failure to satisfy the remaining conditions to the completion of the Merger, including receipt of required regulatory approvals;
- the risk that the Merger Agreement may be terminated in certain limited circumstances that require us to pay WBA a termination fee of $325 million;
- risks that the proposed Merger disrupts our current plans and operations or affects our ability to retain or recruit key employees;
- the effect of the pending Merger on Rite Aid's business relationships (including, without limitation customers and suppliers), operating results and business generally;
- the amount of the costs, fees, expenses and charges related to the Merger Agreement or the Merger;
- risks related to the Merger diverting management's or employees' attention from ongoing business operations;
- risks associated with the financing of the Merger transaction;
- the risk that our stock price may decline significantly if the Merger is not completed;
- risks related to obtaining the requisite consents to the Merger, including, without limitation, the timing (including possible delays) and expiration or termination of the applicable waiting periods under the HSR Act and other applicable antitrust laws, and the risk that such consents might not be received;
- the risk that the Merger may not be completed in a timely manner, if at all;
- risks related to other business effects, including the effects of industry, market, economic, political or regulatory conditions, future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies or competitive development;
- the risk that we could experience deterioration in our current Star rating with the Centers of Medicare and Medicaid Services ("CMS");
- the nature, cost and outcome of pending and future litigation and other legal proceedings or governmental investigations, including any such proceedings related to the Merger and instituted against us and others;
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the "SEC").

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

PART I

Item 1. Business

Overview

Rite Aid is the third largest retail drugstore chain in the United States based on both revenues and number of stores. As of February 27, 2016, we operated 4,561 stores in 31 states across the country and in the District of Columbia.

In fiscal 2016, as we continued our transformation into a retail healthcare company, we began reporting our business in two distinct segments. Our Retail Pharmacy Segment consists of Rite Aid stores, RediClinic and Health Dialog. Our Pharmacy Services Segment consists of EnvisionRx, a pharmacy benefit management (PBM) provider that we acquired in June 2015.

Retail Pharmacy Segment—In our Rite Aid retail stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2016, prescription drug sales accounted for 69.1% of our total drugstore sales. We believe that pharmacy operations will continue to represent a significant part of our business due to favorable industry trends, including an aging population, increased life expectancy, anticipated growth in the federally funded Medicare Part D prescription program as "baby boomers" continue to enroll, expanded coverage for uninsured Americans as the result of the Patient Protection and Affordable Care Act and the discovery of new and better drug therapies. We carry a full assortment of front-end products, which accounted for the remaining 30.9% of our total drug store sales in fiscal 2016. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, food and beverages, greeting cards, seasonal merchandise and numerous other everyday and convenience products.

We differentiate our stores from other national chain drugstores, in part, through our **wellness+ with Plenti** loyalty program, our Wellness format stores, innovative merchandising, private brands and our strategic partnership with GNC, a leading retailer of vitamin and mineral supplements. We offer a wide variety of products through our portfolio of private brands, which continue to be well received by our customers. Private brand items contributed approximately 18.7% of our front-end sales in fiscal 2016.

The average size of each store in our chain is approximately 12,700 square feet, and average store size is larger for our locations in the western United States. As of February 27, 2016, 62% of our stores were freestanding; 54% of our stores included a drive-thru pharmacy; and 51% included a GNC store within a Rite Aid store.

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

Health Dialog, a Boston-based 100 percent owned subsidiary that Rite Aid acquired in April 2014, is a provider of health coaching, shared decision making tools and healthcare analytics. Health Dialog helps health plans, employers and physician groups improve healthcare quality while reducing overall costs. Health Dialog offerings include health coaching for medical decisions, chronic conditions, and wellness; population analytic solutions; and consulting services.

Pharmacy Services Segment—EnvisionRx, a 100 percent owned subsidiary of Rite Aid, is a national, full-service pharmacy benefit management ("PBM") provider that also offers a broad range of pharmacy-related services. In addition to its transparent and traditional PBM offerings through the EnvisionRx and MedTrak PBMs, EnvisionRx also offers fully integrated mail-order and specialty pharmacy services through Orchard Pharmaceutical Services. Through its Envision Insurance Company, EnvisionRx also serves one of the fastest-growing demographics in healthcare: seniors enrolled in Medicare Part D. In addition, Envision Rx, through its state of the art Laker Software, performs prescription adjudication services for its own as well as other PBM's.

Merger Agreement—On October 27, 2015, Walgreens Boots Alliance, Inc. (NYSE: WBA) and Rite Aid announced that they had entered into a definitive agreement under which Walgreens Boots Alliance would acquire all outstanding shares of Rite Aid for $9.00 per share in cash, for a total enterprise value of approximately $17.2 billion, including acquired net debt. On February 4, 2016, Rite Aid stockholders voted at a special meeting to approve the adoption of the Agreement and Plan of Merger. The merger, which is expected to be completed in the second half of calendar 2016, is subject to the satisfaction of certain remaining customary closing conditions as set forth in the Merger Agreement and discussed in detail in the definitive proxy statement filed with the U.S. Securities and Exchange Commission by Rite Aid on December 21, 2015. Additionally, the Merger Agreement limits our ability to incur indebtedness for borrowed money and issue additional capital stock among other things. Upon completion of the merger, Rite Aid will be a 100% owned subsidiary of Walgreens Boots Alliance, and is expected to initially operate under the Rite Aid brand name.

We believe that joining together with Walgreens Boots Alliance will enhance our ability to meet the health and wellness needs of Rite Aid customers while also delivering significant value for shareholders. Together with Walgreens Boots Alliance, we can continue building upon our recent success through access to increased capital that will enhance our store base and expand our opportunities as part of the first global, pharmacy-led health and wellbeing enterprise.

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

Industry Trends

The rate of pharmacy sales growth in the United States has slowed in recent years, driven by a decline in new blockbuster drugs, a longer FDA approval process, drug safety concerns, higher copays and an increase in the use of generic (non-brand name) drugs, which are less expensive but generate higher gross margins. However, 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. Furthermore, we expect that the Patient Protection and Affordable Care Act will continue to have a positive impact on our business as more Americans gain health insurance and prescription drug coverage. Additionally, rising U.S. healthcare costs and the shortage of primary care physicians are creating opportunities for pharmacists and drugstores to play a more active role in driving positive health outcomes for patients. Services such as immunizations, medication therapy management, chronic condition management, clinics, health coaching and medication compliance counseling extend our efforts well beyond filling prescriptions. We believe that offerings such as these will gain additional momentum in a rapidly changing healthcare environment.

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

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

The retail drugstore industry relies significantly on third party payors. Third party payors, including the Medicare Part D plans and the state-sponsored Medicaid and related managed care Medicaid agencies, at times change the eligibility requirements of participants or reduce certain reimbursement rates. These changes and reductions are expected to continue. 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 or entirely offset by lowering our product cost, controlling expenses, dispensing more higher margin generics, finding new revenue streams through pharmacy services and dispensing more prescriptions overall.

Strategy

A key focus of our strategy for fiscal 2017 is to continue expanding our retail healthcare capabilities to provide a higher level of care to the communities we serve. This includes continuing to introduce unique and integrated offerings to the healthcare marketplace by leveraging our conveniently located retail stores and the capabilities of our 100 percent owned subsidiaries Health Dialog, RediClinic and EnvisionRx. We believe this strategic focus will not only allow us to better meet the needs of our customers and patients in a rapidly changing healthcare environment, but will also help us to continue the positive financial momentum we have generated over the past several years.

Financially, our primary goal for fiscal 2017, consistent with fiscal 2016, is to continue growing same stores sales. In order to drive our financial performance and sustainable sales growth, we will continue to invest capital into our store base through initiatives such as prescription file buys and our Wellness store remodel program as we continue building up our real estate pipeline for additional store relocations and net new stores. In addition, we will continue engaging our most loyal and valuable customers through **wellness+ with Plenti**, the first coalition loyalty program of its kind in the United States. As we continue to experience rapid change in the U.S. healthcare industry, we will also continue expanding our healthcare offering to meet the growing demand for high quality, convenient and affordable health services, including immunizations, medication compliance consultations, retail clinics and health coaching.

By continuing to execute our strategy and grow same store sales, we believe we can make the most of our opportunity to merge with Walgreens Boots Alliance and work together in advancing and broadening the delivery of retail health, wellbeing and beauty products and services.

Below are descriptions of our key initiatives:

Expanded Healthcare Services—In fiscal 2016, we continued to expand the role of our Rite Aid pharmacists in delivering wellness services that go beyond filling prescriptions. A key area of focus has been our immunizations program, which has grown significantly in recent years. In fiscal 2016, our pharmacists administered more than 3.9 million immunizations, including 3.2 million flu shots and more than 760,000 other immunizations that protect against conditions like shingles, pneumonia and whooping cough. Immunizations will continue to be a key priority in fiscal 2017.

At the same time, helping our patients take their medications as prescribed continues to be a critical opportunity to improve their health and wellness while also lowering healthcare costs by avoiding illnesses and hospital visits. To support our ongoing efforts, in fiscal 2016 we launched One Trips Refills, which allows our patients to refill all of their monthly maintenance medications by making a single trip to the pharmacy. The program has been well received by our patients, and when combined with our existing services to send alerts via text message, e-mail or phone when a prescription is ready to be picked up, it creates a more patient-friendly experience for our Rite Aid customers.

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

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

RediClinic also represents a key component of our efforts to expand Rite Aid's retail healthcare offering. As of February 27, 2016, we had 43 RediClinics operating in Rite Aid stores throughout the Philadelphia, Seattle and Baltimore/Washington, D.C. markets. Including our locations in Texas, we operated a total of 78 RediClinics at the end of fiscal 2016 compared to 55 at the end of the previous fiscal year.

In addition, we continue to leverage the coaching capabilities of Health Dialog to support the innovative Rite Aid Health Alliance program. Through Rite Aid Health Alliance, we partner with local physicians and support patients with chronic conditions in achieving positive health outcomes. Participating physicians recommend our program to patients with one or more chronic conditions such as congestive heart failure, COPD, high cholesterol and diabetes. Once a patient enrolls, Rite Aid pharmacists and specially trained in-store care coaches, which are provided by Health Dialog, work with the physician to create a personalized health care action plan and engage with the patient between physician visits to support the patient in implementing the plan and improving overall health. As of February 27, 2016, the Rite Aid Health Alliance program included partnerships with eight medical practices.

wellness+ with Plenti—Since the launch of wellness+ in April 2010, this free loyalty program has provided customers and patients with the opportunity to earn significant discounts and wellness rewards in return for being loyal Rite Aid shoppers. Enrolled members earn rewards based on the accumulation of points for certain front-end and prescription purchases. The program has been well received by Rite Aid customers and continues to provide significant value to members earning enough points to reach the Gold, Silver or Bronze tier levels. Gold members, for example, receive a tiered discount of 20-percent off most items in the store for an entire year. In addition, all wellness+ members receive exclusive sale pricing and wellness rewards.

We have expanded wellness+ in recent years by launching both wellness+ for diabetes and wellness65+ for seniors. In fiscal 2016, we significantly enhanced our program by partnering with other highly respected brands such as AT&T, ExxonMobil, Macy's, Nationwide, Direct Energy, Hulu and American Express to launch Plenti, the first coalition loyalty program in the U.S.

Plenti, which at Rite Aid has been incorporated into wellness+ to create **wellness+ with Plenti**, allows consumers to earn and use points across a range of well-known brands in different industries. Through **wellness+ with Plenti**, our customers can use one card and earn two kinds of points. Members continue to earn wellness+ points toward various benefits at Rite Aid including discounts of up to 20% off storewide, exclusive sale prices and 24/7 access to a pharmacist. When the enhanced program launched in May, +UP Rewards became Plenti points. Members are now able to earn Plenti points whenever they make qualifying purchases at Rite Aid and all other Plenti partners. Plenti points offer the same savings as +UP Rewards and provide even more value to customers since they can be used for savings at Rite Aid as well as certain other Plenti partners including AT&T, ExxonMobil, Macy's, Nationwide, Direct Energy, Hulu and American Express. Customers have at least two years to use their Plenti points.

We experienced strong membership growth in fiscal 2016, with 26.5 million customers enrolled in **wellness+ with Plenti** and millions more enrolled by our partners throughout the coalition. In addition, 57% of transactions at Rite Aid now involve a **wellness+ with Plenti** card. We've also been highly successful in converting our gold and silver wellness+ members—our most loyal and valuable customers—to the enhanced program. As of the end of fiscal 2016, 98% of gold members and 93% of silver members were enrolled in **wellness+ with Plenti**.

Wellness Store Remodels—In fiscal 2016, we continued to strengthen Rite Aid as a wellness destination by completing additional Wellness store remodels. As a result, our total number of Wellness stores reached 2,042 by the end of the fiscal year, which means that nearly 45% of all Rite Aid stores are now Wellness stores. We also constructed our first net-new Wellness store—our first net new store in five years—as we continue building up our real estate pipeline for additional net new stores and relocations heading forward.

In addition to improved interior design, expanded clinical pharmacy services, innovative merchandising and new wellness product offerings, Wellness stores are staffed with our unique Wellness Ambassadors, who serve as a bridge from the front-end of our stores to the pharmacy and provide an added level of customer service. Our customers have responded favorably to this unique store format. Our Wellness stores are outperforming the rest of our chain in terms of both front-end same store sales and same store prescription count growth.

We plan to complete 350 additional Wellness remodels in fiscal 2017 along with 50 relocations and net new store openings. We believe these efforts represent a cost-effective way to strengthen our store base, grow sales and offer our customers an engaging wellness experience.

Prescription File Purchases—In fiscal 2016, we increased the amount of capital spent on the purchase of prescription files to $128.6 million, up from $112.6 million in fiscal 2015. We have allocated $125 million of our fiscal 2017 capital expenditures budget for prescription file buys as they typically deliver a strong return on investment.

Drug Purchasing and Distribution Efficiencies—In February 2014, we announced an expanded agreement with our long-time partner McKesson for pharmaceutical purchasing and distribution. As part of this five-year agreement, McKesson has assumed responsibility for purchasing all brand and generic medications we dispense in our stores as well as delivering those medications to our nearly 4,600 store locations. This drug purchasing and distribution arrangement is generating lower product costs, working capital benefits and improved in-stock positions that are in line with our expectations.

We have also leveraged daily deliveries from McKesson to significantly reduce pharmacy inventory at stores.

Private Brands—Our private brand items continue to resonate with consumers as private brand penetration has increased from 16% in fiscal 2011 to 18.7% in fiscal 2016. Throughout fiscal 2016, we continued our efforts to create a world-class portfolio of private brand items, which offer great value to our customers, strong margins for Rite Aid and help to differentiate our offering from the competition. We introduced our new Big Win brand, which offers budget-friendly value on high quality consumable items, as well as Dreamhouse, which offers indulgent yet affordable treats. In addition, we completed the chainwide launch of Receutics, an exclusive dermatologist strength over-the-counter skin repair brand. We plan to introduce additional brands and items throughout fiscal 2017.

Enhanced Digital and Technology Offerings—Over the past few years, we have been highly focused on improving the customer experience by providing enhanced digital resources that better reflect our brand of health and wellness. These efforts have included the launch of our new and improved *www.riteaid.com* website, an enhanced mobile app and our new e-commerce site that provides online shoppers with easier navigation. In fiscal 2016, we built upon these efforts by accepting mobile payments such as Apple Pay and Google Wallet at all stores. We also have installed proximity beacons that give us a better understanding of our customer base so that we can better meet their needs.

Customer Service—We have put several store programs in place to improve customer service, including the addition of Wellness Ambassadors in more stores. We are also investing in training for our store associates to deliver a consistently outstanding experience for our customers. We continue to invest in technology to make it easier for our store associates to perform necessary tasks both at the point of sale and on the sales floor. By providing our associates with the ability to execute these tasks more efficiently, we give our store teams more time to focus on providing excellent service to our customers.

Cost Control—After years of reducing our SG&A expense and completing several refinancing transactions to lower our interest expense, we have effectively managed our costs even as we make critical investments for growth such as acquiring EnvisionRx, supporting **wellness+ with Plenti** and continuing to complete Wellness store remodels and prescription file buys. We will continue to focus on controlling costs in fiscal 2017 so that we can maximize the benefits of our sales and customer service initiatives along with our capital investments.

Products and Services

Sales of prescription drugs for our Retail Pharmacy segment represented approximately 69.1%, 68.8% and 67.9% of our total drugstore sales in fiscal years 2016, 2015 and 2014, respectively. In fiscal years 2016, 2015 and 2014, prescription drug sales were $18.4 billion, $18.1 billion and $17.2 billion, respectively. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

We carry a full assortment of non-prescription, or front end, products. The types and number of front end products in each store vary, and selections are based on customer needs and preferences and available space. No single front end product category contributed significantly to our sales during fiscal 2016. Our Retail Pharmacy segment's principal classes of products in fiscal 2016 were the following:

Product Class	Percentage of Sales
Prescription drugs	69.1%
Over-the-counter medications and personal care	9.8%
Health and beauty aids	4.8%
General merchandise and other	16.3%

We offer a wide variety of products under our private brands in virtually every department. We intend to increase the private brand sales percentage in fiscal 2017 by expanding our product lines, entering new categories and enhancing our seasonal programs. We believe that our assortment is differentiated and a compelling value to our customers based on our quality standards and everyday value pricing.

We have a strategic alliance with GNC under which we have opened over 2,300 GNC stores within Rite Aid stores as of February 27, 2016 and have a contractual commitment to open at least 170 additional GNC stores within Rite Aid stores by December 2019. We incorporate the GNC stores within Rite Aid stores concept into many of our new and relocated stores and into many of our Wellness remodels. GNC is a leading nationwide retailer of vitamin and mineral supplements, personal care, fitness and other health-related products.

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

Technology

All of our stores are integrated into a common information system, which enables our customers to fill or refill prescriptions in any of our stores throughout the country, reduces chances of adverse drug interactions, and enables our pharmacists to fill prescriptions more accurately and efficiently. Our customers may also order prescription refills over the Internet through our website, *www.riteaid.com*, our mobile app, or over the phone through our telephonic automated refill systems for pick up at a Rite Aid store. We have automated pharmacy dispensing units in high volume stores, which are linked to our pharmacists' computers that fill and label prescription drug orders. The efficiency of these units allows our pharmacists to spend more time consulting with our customers. 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 continue to embrace technology as a way to enhance the customer experience. Our mobile app, which is available for download for both the Android and iPhone platforms, allows our customers to use their smartphones to manage their wellness + account, refill prescriptions, access the weekly circular to view sale items, order photo prints and locate a nearby Rite Aid store. We have continued to strengthen our presence on social media sites such as Facebook, Twitter and Pinterest through unique promotions and contests.

Sources and Availability of Raw Materials

During fiscal 2014, we purchased brand pharmaceuticals and some generic pharmaceuticals from McKesson Corporation (''McKesson''). Beginning in fiscal 2015, in connection with our pharmaceutical purchasing and delivery arrangement (''Purchasing and Delivery Arrangement'') with limited exceptions, we purchased all of our branded pharmaceutical products and almost all of our generic (non-brand name) pharmaceutical products from McKesson. If our relationship with McKesson were disrupted, we could temporarily have difficulty filling prescriptions for branded and generic drugs until we executed a replacement wholesaler agreement or developed and implemented self-distribution processes.

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

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

Customers and Third Party Payors

During fiscal 2016, our stores filled approximately 305 million prescriptions and served an average of 2.0 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2016, 97.8% 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 2016, the top five third party payors accounted for approximately 70.4% of our pharmacy sales. The largest third party payor, Express Scripts, represented 25.3% of our pharmacy sales.

During fiscal 2016, Medicaid and related managed care Medicaid payors sales were approximately 19.9% of our pharmacy sales, of which the largest single Medicaid payor was approximately 1.5% of our pharmacy sales. During fiscal 2016, approximately 31.9% of our pharmacy sales were to customers covered by Medicare Part D.

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

Competition

The retail drugstore industry is highly competitive. We compete with, among others, retail drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, wellness offerings, dollar stores and mail order pharmacies. We compete on the basis of store location and convenient access, customer service, product selection and price. We believe continued consolidation of the drugstore industry, the aggressive discounting of generic drugs by supermarkets and mass merchandisers and the increase of promotional incentives to drive prescription sales will further increase competitive pressures in the industry.

Marketing and Advertising

In fiscal 2016, marketing and advertising expense was approximately $307.8 million, which was spent primarily on weekly circular, broadcast and digital advertising. Our marketing and advertising activities centered primarily on the following:

- Product price promotions to draw customers to our stores;
- Our wellness + with Plenti loyalty program, which benefits members based on accumulating wellness+ points for certain front end and prescription purchases that qualify for savings of up to 20% off every day for a year, and Plenti point rewards to provide members additional savings at Rite Aid and certain other Plenti partners like AT&T, ExxonMobil, Macy's, Nationwide, Direct Energy, Hulu and American Express;
- Emphasis on the value of our private brand products;
- Support of specific initiatives and stores, including competitor market intrusion and prescription file buys and new and remodeled store grand openings; and
- Our vision to be the customer's first choice for health and wellness products, services and information.

Under the umbrella of our "With Us It's Personal" positioning, we promote educational programs focusing on specific health conditions and pharmacy and clinical services to drive brand preference including our One Trip Refills, immunization and Quit For You smoking cessation programs. We believe all of these programs will help us improve customer satisfaction and grow profitable sales.

Associates

We believe that our relationships with our associates are good. As of February 27, 2016, we had approximately 88,000 Retail Pharmacy segment associates: 11% were pharmacists, 43% were part-time and 26% were represented by unions. Additionally, we have approximately 1,500 Pharmacy Services segment associates. Associate satisfaction is critical to our success. Annually we survey our associates to obtain feedback on various employment-related topics, including job satisfaction and their understanding of our core values and mission.

The pharmacist shortage has eased significantly. The increase in the number of graduates from U.S. Schools of Pharmacy is meeting our workforce demand. However, pharmacist employment opportunities still exist in certain areas.

Research and Development

We do not make significant expenditures for research and development.

Licenses, Trademarks and Patents

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

Collectively, these licenses are material to our operations.

Seasonality

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

Regulation

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

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

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

In addition, in connection with the ownership and operations of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites.

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

Corporate Governance and Internet Address

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

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

Our website also provides information on how to contact us and other items of interest to investors. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, Extensible Business Reporting Language (XBRL) data files of our annual report and quarterly reports beginning with our fiscal 2014 first quarter 10-Q, current reports on Form 8-K and all amendments to these reports, as soon as reasonably practicable after we file these reports with, or furnish them to, the SEC. We do not intend for the information contained on our website to be part of this annual report on Form 10-K.

Item 1A. Risk Factors

Sections omitted

Item 2. Properties

As of February 27, 2016, we operated 4,561 retail drugstores. The average selling square feet of each store in our chain is approximately 9,900 square feet. The average total square feet of each store in our chain is approximately 12,700. The stores in the eastern part of the U.S. average 8,900 selling square feet per store (11,200 average total square feet per store). The stores in the western part of the U.S. average 14,500 selling square feet per store (19,200 average total square feet per store).

The table below identifies the number of stores by state as of February 27, 2016:

State	Store Count
Alabama	93
California	580
Colorado	20
Connecticut	77
Delaware	42
District of Columbia	7
Georgia	179
Idaho	13
Indiana	10
Kentucky	116
Louisiana	62
Massachusetts	146
Maine	79
Maryland	140
Michigan	275
Mississippi	26
North Carolina	225
Nevada	1
New Hampshire	68
New Jersey	257
New York	604
Ohio	224
Oregon	72
Pennsylvania	537
Rhode Island	44
South Carolina	91
Tennessee	81
Utah	22
Vermont	37
Virginia	190
Washington	139
West Virginia	104
Total	4,561

Our stores have the following attributes at February 27, 2016:

Attribute	Number	Percentage
Freestanding	2,829	62.0%
Drive through pharmacy	2,462	54.0%
GNC stores within a Rite Aid store	2,338	51.3%

We lease 4,308 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 253 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 558,000 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 111,000 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
Poca, West Virginia	Owned	255,000
Perryman, Maryland	Owned	885,000
Perryman, Maryland(1)	Leased	262,000
Tuscaloosa, Alabama	Owned	230,000
Cottondale, Alabama(1)	Leased	224,000
Pontiac, Michigan	Owned	325,000
Woodland, California	Owned	513,000
Woodland, California(1)	Leased	200,000
Wilsonville, Oregon	Leased	547,000
Lancaster, California	Owned	914,000
Charlotte, North Carolina	Owned	585,500
Charlotte, North Carolina(1)	Leased	291,000
Dayville, Connecticut	Owned	460,000
Liverpool, New York	Owned	828,000
Philadelphia, Pennsylvania	Owned	245,000
Philadelphia, Pennsylvania(1)	Leased	415,000

(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 are leasing a new 900,000 square foot distribution center in Spartanburg, South Carolina (the "Southeast DC"). The Southeast DC lease agreement has an initial term of 15 years with subsequent renewal options. In addition to minimum rental payments, we are also required to reimburse the landlord for taxes, maintenance and insurance. The Southeast DC is expected to start servicing stores in the first half of Fiscal 2017. Once operational, we plan on consolidating our Charlotte, North Carolina, Tuscaloosa, Alabama and Poca, West Virginia distribution centers into the Southeast DC, which will service approximately 1,000 stores in the southeastern United States.

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

As a result of our April 2014 acquisition of RediClinic, we lease approximately 19,600 square feet in 35 HEB grocery stores in Texas under a master lease agreement that contains various renewal options through 2024.

As a result of our June 24, 2015 acquisition of EnvisionRx, we lease approximately 242,000 square feet of space in various buildings primarily in Twinsburg, Ohio for additional administrative personnel.

In addition, we own approximately 53,000 square feet of space in North Canton, Ohio for our mail order and specialty drug facilities.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, underperforming or otherwise deemed unsuitable. We also evaluate strategic dispositions and acquisitions of facilities and prescription files. When we reduce in size, close or relocate a store or close distribution center facilities, we often continue to have leasing obligations or own the property. We attempt to sublease this space. As of February 27, 2016, we had 7,627,775 square feet of excess space, 4,032,304 square feet of which was subleased.

Item 3. Legal Proceedings

Sections omitted