Wingstop Inc.
Form 424B4
March 09, 2016
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-209726

PROSPECTUS

5,750,000 shares

Common stock

The selling stockholders identified in this prospectus are offering all of the shares of common stock. We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

Our common stock is listed on The Nasdaq Global Select Market, or Nasdaq, under the symbol WING. The last reported sale price of our common stock on Nasdaq on March 8, 2016, was $24.25 per share.

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012 and are subject to reduced public company reporting requirements. See Prospectus Summary Emerging Growth Company Status.

Investing in our common stock involves risks. See Risk Factors beginning on page 16.

	Price to public	*Underwriting discounts and commissions[1]*	*Proceeds, before expenses to the selling stockholders*
Per share	*$24.00*	*$1.14*	*$22.86*
Total	*$138,000,000*	*$6,555,000*	*$131,445,000*

(1) See Underwriters beginning on page 106 for additional information regarding underwriting compensation. The underwriters may also exercise their option to purchase up to an additional 862,500 shares of common stock from the selling stockholders identified in this prospectus. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.

Neither the Securities and Exchange Commission, or SEC, nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock on or about March 14, 2016.

Morgan Stanley	*Jefferies*	*Baird*
Goldman, Sachs & Co.	*Barclays*	*Wells Fargo Securities*

March 8, 2016

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You should rely only on the information contained or incorporated by reference in this prospectus or in any free-writing prospectus we may specifically authorize to be delivered or made available to you. Neither we, the selling stockholders, nor the underwriters (or any of our or their respective affiliates) authorized anyone to provide you with additional or different information. Neither we, the selling stockholders, nor the underwriters (or any of our or their respective affiliates) take any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The selling stockholders and the underwriters are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained or incorporated by reference in this prospectus or any free-writing prospectus is accurate only as of its date, regardless of its time of delivery or the time of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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MARKET DATA AND FORECASTS

Unless otherwise indicated, information included or incorporated by reference in this prospectus concerning economic conditions, our industry, our markets and our competitive position is based on a variety of sources, including information from independent industry analysts and publications, as well as our own estimates and research. The term designated market area, or DMA, refers to a geographic area as defined by Nielsen Media Research Company as a group of counties that make up a particular media market. Technomic, Inc. is a leading restaurant industry consulting and researching firm.

Our estimates are derived from publicly available information released by third-party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. None of the independent industry publications used in this prospectus were prepared on our behalf.

TRADEMARKS AND TRADE NAMES

This prospectus and the documents incorporated by reference in this prospectus include our trademarks, such as WING-STOP®; Wing-Stop The Wing Experts; WINGSTOP; THE WING EXPERTS and THE BONELESS WING EXPERTS, which are protected under applicable intellectual property laws and are the property of Wingstop Inc. or its subsidiaries. Solely for convenience, trademarks, service marks and trade names referred to in this prospectus may appear without the ®, TM or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, service marks and trade names. This prospectus and the documents incorporated by reference in this prospectus may also contain trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners.

BASIS OF PRESENTATION

Except where the context otherwise requires or where otherwise indicated, the terms Wingstop, we, us, our, our company and our business refer collectively to Wingstop Inc. and its consolidated subsidiaries. Wingstop Restaurants Inc. is an indirect wholly owned subsidiary of Wingstop Inc. and is the franchisor of all Wingstop franchised restaurants and the lessee, owner and operator of all company-owned restaurants. Accordingly, any references to Wingstop, we, us, our, our company or our business in the context of domestic and international franchising a domestic and international franchised restaurants and the leasing, ownership or operations of company-owned restaurants should be read as a reference to Wingstop Restaurants Inc. The term selling stockholders refers to the entities and individuals named herein that intend to sell shares in this offering. RC II WS LLC, a Georgia limited liability company, or RC II WS, is our majority stockholder.

Throughout this prospectus, we include or incorporate by reference a number of key performance indicators used by management and typically used by our competitors in the restaurant industry, including same store sales, system-wide sales and average unit volume. Same store sales reflect the change in year-over-year sales for the same store base, which includes restaurants open for at least 52 weeks. System-wide sales include restaurant net sales at all company-owned restaurants and at all franchised restaurants, as reported by franchisees. While we do not record franchised restaurant sales as revenue, our royalty revenue is calculated based on a percentage of franchised restaurant sales, which generally range from 5.0% to 6.0% of gross sales net of discounts. Average unit volume, or AUV, consists of the average annual sales of all restaurants that have been open for a trailing 52-week period or longer. This measure is calculated by dividing sales during the applicable period for all restaurants being measured by the number of restaurants being measured. In this prospectus, we include or incorporate by reference AUV for domestic restaurants and company-owned restaurants. Domestic AUV includes revenue from both company-owned and franchised restaurants, which are not owned by us. Unless

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otherwise indicated, references to domestic same store sales and domestic AUV include both domestic franchised restaurants and domestic company-owned restaurants. These and other key performance indicators are discussed in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Performance Indicators in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015, filed with the SEC on March 4, 2016, incorporated by reference herein (the 2015 Form 10-K). In this prospectus and the documents incorporated by reference in this prospectus, we also reference EBITDA and Adjusted EBITDA, which are non-GAAP financial measures. See Prospectus Summary Selected Historical Consolidated Financial and Other Data for a discussion of EBITDA and Adjusted EBITDA, as well as a reconciliation of those measures to net income, the most directly comparable financial measure required by, or presented in accordance with, generally accepted accounting principles in the United States, or U.S. GAAP.

Our fiscal year ends on the last Saturday of each calendar year. Our most recent fiscal year ended on December 26, 2015. Fiscal years 2015, 2014, 2013 and 2012 were 52-week years, fiscal year 2011 was a 53-week year and fiscal year 2016 is a 53-week year. References to fiscal years 2015, 2014, 2013 and 2012 and references to 2015, 2014, 2013 and 2012 are references to the fiscal years ended December 26, 2015, December 27, 2014, December 28, 2013 and December 29, 2012, respectively. Our fiscal quarters are comprised of 13 weeks each, except for 53-week fiscal years for which the fourth quarter will be comprised of 14 weeks, and end on the 13^{th} Saturday of each quarter (14^{th} Saturday of the fourth quarter, when applicable). For purposes of same store sales and AUV calculations in 53-week fiscal years, we do not include the 53^{rd} week of the fiscal year.

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PROSPECTUS SUMMARY

This summary highlights significant aspects of our business and this offering that appear later or are incorporated by reference in this prospectus, but it is not complete and does not contain all of the information that you should consider before making your investment decision. You should read carefully the entire prospectus and the documents incorporated by reference in this prospectus, especially the information set forth under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Form 10-K and the financial statements and related notes incorporated by reference in this prospectus, before making an investment decision.

OVERVIEW

#TheWingExperts

Wingstop is a high-growth franchisor and operator of restaurants that specialize in cooked-to-order, hand-sauced and tossed chicken wings. Founded in 1994 in Garland, Texas, we believe we pioneered the concept of wings as a center-of-the-plate item for all of our meal occasions. We offer our guests 11 bold, distinctive and craveable flavors on our bone-in and boneless chicken wings paired with hand-cut, seasoned fries and sides made fresh daily. Our menu is highly customizable for different dining occasions, and we believe it delivers a compelling value proposition for groups, families, and individuals. Our average transaction size in 2015 was $16.34, as a result of our large, value-oriented family packs, as well as meals for two and individual combo meals, which start at approximately $8. Additionally, carry-out orders constituted approximately 75% of our sales during the same time period. Our concept has received numerous accolades, including recognition in 2014 as the Best Chicken Wings in the U.S. by *Food and Wine*, the #3 Fastest-Growing Chain by *Nation s Restaurant News*, and the Best Franchise Deal in North America by *QSR Magazine*.

We are the largest fast casual chicken wings-focused restaurant chain in the world, and have demonstrated strong, consistent growth on a national scale. We have sold approximately 4 billion wings over the last 20 years, as we grew to 845 restaurants across 39 states and 7 countries, as of December 26, 2015. Wings are our center-of-the-plate specialty. While other concepts include wings as add-on menu items or focus on wings in a bar or sports-centric setting, we are singularly focused on wings, fries and sides, which generate approximately 90% of our sales. We have broad and growing consumer appeal anchored by a sought after core demographic of 18-34 year old Millennials, which we believe is a loyal consumer group that dines at fast casual restaurants more frequently. Increasing customer loyalty and brand awareness have enabled us to deliver positive domestic same store sales for 12 consecutive years through 2015, while growing our restaurant count at a 14.9% compound annual growth rate, or CAGR, over the same timeframe.

As of December 26, 2015, our restaurant base was 98% franchised, with 826 franchised locations (including 59 international locations) and 19 company-owned restaurants. We believe our simple and efficient restaurant operating model, low initial cash investment and compelling restaurant economics help drive continued system growth through both existing and new franchisees. Our wings, fries, sides, repeat restaurant operating model requires few ingredients and easy preparation within a small, flexible real estate footprint. We believe we offer an attractive investment opportunity for our franchisees as evidenced by our domestic average sales-to-investment ratio of 3.0x during the fiscal year ended December 26, 2015, and the 61.1% increase in domestic restaurant count since the end of 2011. We believe our asset-light, highly-franchised business model generates strong operating margins and requires low capital expenditures, creating shareholder value through strong and consistent free cash flow and capital-efficient growth.

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#ExceptionalFinancialPerformance

We believe our bold flavors, compelling value proposition, strong base of franchisees, growing brand awareness and focused development strategy drive strong operating results, as illustrated by the following:

- Domestic restaurant count has increased 61.1% since the end of 2011, with the pace of restaurant openings increasing each year;

- We have grown domestic same store sales 12 consecutive years through 2015, which includes four year cumulative domestic same store sales growth of 44.1% since 2011 and for the fiscal year ended December 26, 2015 we have had domestic same store sales growth of 7.9%; and

- On a year-over-year basis, for fiscal year 2015, our total revenue increased by 15.6% to $78.0 million, our Adjusted EBITDA increased by 18.5% to $28.9 million, our Adjusted EBITDA margin increased 90 basis points to 37.0%, and our net income increased by 12.5% to $10.1 million. For a reconciliation of Adjusted EBITDA, a non-GAAP metric, to net income, see Summary Historical Consolidated Financial and Other Data.

The graphs below highlight the consistency of our exceptional performance and growth across our key metrics, including restaurant expansion and system-wide sales, domestic same store sales and domestic AUV. Each of the graphs below include information regarding franchised restaurants and company-owned restaurants.

(1) The percentage of system-wide sales attributable to company-owned restaurants for the fiscal years ended December 31, 2011, December 29, 2012, December 28, 2013, December 27, 2014 and December 26, 2015 was 6.0%, 5.8%, 5.2%, 4.3% and 3.8%, respectively. The remainder was generated by franchised restaurants, as reported by our franchisees. Our total revenue during the fiscal years ended December 31, 2011, December 29, 2012, December 28, 2013, December 27, 2014 and December 26, 2015 was $46.1 million, $51.6 million, $59.0 million, $67.4 million and $78.0 million, respectively.

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OUR STRENGTHS

#UnleashTheFlavor

Wingstop is the destination when our guests crave fresh, cooked-to-order wings with bold, layered flavors that touch all of the senses. People who prioritize flavor prioritize Wingstop because it is more than a meal, it is a flavor experience. We speak in bold, distinctive and craveable flavors. Our dialect is our 11 proprietary flavors, presented here in order from most spicy to least:

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Our diverse flavor offerings allow our guests to customize their experience. All of our wings are cooked-to-order, hand-sauced and tossed and served fresh to our guests for dine-in or carry-out. We never use heat lamps or microwaves in the preparation of our food. To complement our wings, we serve hand-cut, freshly-prepared seasoned fries, crafted from carefully-selected whole Russet potatoes. We complete the flavor experience with fresh carrots and celery and ranch and bleu cheese dips made from buttermilk in-house daily, as well as freshly-prepared side items, including coleslaw, bourbon baked beans, potato salad and freshly-baked yeast rolls. We believe our bold and distinctive flavors leave our guests craving more and create a differentiated and tailor-made flavor experience that drives repeat business and brand loyalty.

Our customizable menu and craveable flavors drive demand across multiple day-parts and occasions. Our 11 flavors, signature fries, freshly-prepared sides and numerous order options (eat-in / to go, individual / combo meals / family packs) allow guests to eat Wingstop during any occasion, whether it is a quick carry-out snack, dine-in dinner with friends or picking up a party size order for their favorite sporting event. Since our inception, we have received numerous accolades from both consumers and industry-leading publications for the quality of our food offering and strong brand appeal, including:

Best Chicken Wings in the U.S., *Food and Wine* (2014); and

Best Menu Variety and Best Craveability, *Nation s Restaurant News* (2014).

#CompellingUnitEconomics

We believe the growing popularity of the Wingstop experience and the operational simplicity of our restaurants translate into attractive economics at our franchised and company-owned locations. Our compelling franchisee investment opportunity has been recognized across the industry, including by *QSR magazine*, which in 2014 named us The Best Franchise Deal in North America amongst fast casual and QSR brands. Additionally, existing franchisees accounted for approximately 76% of franchised restaurants opened in 2015 and 2014, which we believe further underscores our restaurant model s financial appeal.

Our restaurants do not generally experience a honeymoon period of higher sales upon opening, but instead typically build year over year. Our domestic AUV has grown consistently, achieving $1.13 million during the fiscal year ended December 26, 2015. In addition, new restaurant sales volumes in the first year of operation have improved 45% since 2006, with the 2013 new restaurants openings averaging approximately $820,000 during their first 52 weeks of operations, accelerating our franchisees return on investment. Our restaurants are approximately 1,700 square feet on average and yield average sales per square foot of $662 based on 2015 domestic AUV due to the high average domestic carry-out mix of 75% in 2015. Our operational simplicity results in low labor costs, further improving the profitability of our concept. Our operating model targets a low average estimated initial investment of approximately $370,000, excluding real estate purchase or lease costs and pre-opening expenses. In year two of operation, we believe that, on average, our franchisees can achieve an unlevered cash-on-cash return, which is defined as restaurant-level operating profit after royalties and advertising fund contributions, divided by initial investment costs, of approximately 35% to 40%. We believe low entry costs and high returns provide a compelling investment opportunity for our franchisees that has helped drive the continued growth of our system.

#ProvenPortability

Our concept is successful across the United States, with restaurants operating in 39 states across varying geographic regions, population densities and real estate settings. We have had positive same store sales growth across a wide variety of major markets over the last three years. Broad appeal and the simplicity of our restaurant operating model have supported our success across the country. While our concept has succeeded in a variety of real estate formats and locations, our preferred real estate site is an in-line or end-cap retail strip center location available in most shopping centers. The flexibility of our real estate model coupled with the broad appeal of our food has enabled us and our franchisees to locate profitable restaurants in both urban and suburban areas throughout the country. Accordingly, we believe our concept is well-positioned for continued system growth in both existing and new markets.

#SocialEngagement

We believe we have developed a broad, loyal and diverse guest base which is attracted to Wingstop by the unique flavor experience, product quality, brand personality and the convivial nature of eating wings. While we appeal to a broad demographic, we have been particularly successful at actively engaging the coveted Millennial consumer. Millennials leverage technology via smartphones and social media to connect with each other, search out dining experiences and voice their opinions, and we engage them on all of these fronts. We take pride in connecting with our guests, both inside and outside of our restaurants.

We believe much of our growth is attributable to our focus on meaningful consumer engagement, fueled by social media. We actively engage our core audience in conversation through key social media channels, which in turn drives our editorial calendar and advertising content. As of December 26, 2015, we had 1,137,377 Facebook followers, 136,331 Twitter followers and 61,844 Instagram followers, representing year-over-year growth of 90%, 65% and 202%, respectively. According to a report published by *Forbes* in November 2014, over 30% of the time, followers engage with our content over a period of 30 days, compared to an average 3% for the top 25 restaurants in social media cited in the same study. Our social game is just as strong as our wing game and we believe that this continues to inspire brand loyalty and repeat visits to our restaurants.

#StrengthInNumbers

We have demonstrated a consistent track record of strong financial performance:

- Domestic same store sales increased 13.8% in 2012, 9.9% in 2013, 12.5% in 2014 and 7.9% in 2015, representing four year cumulative domestic same store sales growth of 44.1% since 2011;

- Our domestic same store sales growth is even more meaningful given that we have had 12 consecutive years of positive same store sales;

- From 2012 to 2015, our system-wide sales increased from $457 million to $821 million, which represents growth of 79.6% over the period;

- Total revenue increased from $51.6 million in 2012, to $59.0 million in 2013, to $67.4 million in 2014 to $78.0 million in 2015, our Adjusted EBITDA increased from $15.6 million, to $19.5 million, to $24.4 million, to $28.9 million respectively, and our net income grew from $3.6 million, to $7.5 million, to $9.0 million, to $10.1 million respectively; and

- Our Adjusted EBITDA margin increased from 30.3% in 2012, to 33.0% in 2013, to 36.1% in 2014, to 37.0% in 2015, while our capital expenditures were 3.1%, 3.6%, 2.2% and 2.5% of revenue, respectively, leading to high cash flow conversion.

#OurCrew

Our strategic vision and results-driven culture are directed by our executive management team under the leadership of our President and Chief Executive Officer, Charlie Morrison. Charlie joined Wingstop in 2012, bringing more than 20 years of experience in the restaurant and multi-unit retail industry, including leadership positions at Pizza Hut, Boston Market, Kinko s, Steak & Ale and, most recently, Rave Restaurant Group, where he served as Chief Executive Officer and led the creation of the award winning Pie Five restaurant concept. At the 2015 Nation s Restaurant News Multi-Unit Foodservice Operators conference, Charlie was recognized as a

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2015 Golden Chain Winner for his outstanding leadership. Charlie is supported by a strong executive team with significant retail and restaurant experience. Bill Engen, our Chief Operating Officer, previously was the Senior Vice President of Eastern Operations at 7-Eleven, overseeing approximately 4,000 stores. Our Chief Financial Officer, Mike Mravle, came to us from Bloomin Brands, where he was the Chief Financial Officer of the U.S. segment. Heading up our marketing efforts is Flynn Dekker, who has over 20 years of experience and was previously the Chief Marketing Officer of Fogo de Chao and Rave Restaurant Group. Dave Vernon, our Chief Development Officer, joined us from Sonic Corporation, where he was Vice President of Franchise Sales, and brings 25 years of experience in the restaurant industry to oversee our franchise development efforts. Our newest member, Larry Kruguer, President of International, joined us in June 2015 from Wendy s International, where he served as Vice President, International Joint Ventures. Jay Young, our General Counsel, joined us from CEC Entertainment Inc., the parent company of Chuck E. Cheese, where he was Senior Vice President and General Counsel. Completing our executive team is Stacy Peterson, our Chief Information Officer, who has over 15 years of information technology experience at multi-unit retailers, including Blockbuster and Kinko s. We believe our management team is a key driver of our success and positions us well for long-term growth.

OUR GROWTH STRATEGY

#SpreadOurWings

We believe that there is significant opportunity to expand in the United States, and we intend to focus our efforts on increasing our geographic penetration in both existing and new markets. We believe our highly-franchised model positions us for continued strong unit growth over the medium and long-term. We expect high franchisee demand for our brand, supported by compelling unit economics, operational simplicity, low entry costs and flexible real estate profile, to drive domestic restaurant growth. Based on our internal analysis, we believe there is opportunity for our brand to grow to approximately 2,500 restaurants across the United States.

We intend to achieve our domestic restaurant potential by expanding in our existing markets, where we believe we have the opportunity to more than double our current restaurant count. In addition, we will continue to expand into new markets. Our inside out domestic market expansion strategy focuses our initial development in urban centers where our core demographic is most densely populated and then builds outward into suburban areas as our brand awareness grows in the market. We have a robust domestic development pipeline including 530 total commitments to open new franchised restaurants as of December 26, 2015. Approximately 78% of our current domestic commitments are from existing franchisees, supporting the attractiveness of our restaurant business model as well as our positive franchisor / franchisee relationships. We believe that our highly-franchised business model provides a platform for continued growth as it allows us to focus on our core strengths of flavor innovation, marketing and guest engagement, and franchisee selection and support, while growing our restaurant presence and brand recognition with limited capital investment by us. We also believe that there is significant international growth opportunity. We opened our first international location in Mexico in 2009. As of December 26, 2015, we had 59 international restaurants located in Indonesia, Mexico, the Philippines, Russia, Singapore and United Arab Emirates, all of which were franchised. In 2015, we opened 24 international locations. Subsequent to the year end, we closed our three franchised Wingstop restaurants in Russia, terminated these franchise agreements and exited the Russian market, reducing the number of foreign countries in which we operate to five. We believe we have a restaurant operating model that is flexible and can adapt to local economic, consumer and operating preferences. Depending on the individual market profile, we are able to enter with a restaurant operating model similar to our domestic fast casual concept, or use a casual dining, sports-themed restaurant. This flexible approach, along with the universal and broad appeal of chicken and our ability to customize our wide variety of flavors to local tastes, positions us for significant international growth opportunity.

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#KeepItGrowing

Flavor Innovation

We plan to leverage flavor innovation to drive restaurant traffic and social media engagement. We do not have limited time offers; instead, we have limited time flavor events that pique our guests interest and drive frequency of visit. We approach additions to our menu as a conversation between us and our guests and make changes only after intense scrutiny in our test kitchen. For example, our Mango Habanero flavor was introduced as a limited time flavor event. When the flavor event ended, overwhelming demand from our highly-engaged social following to bring it back influenced us to return it to the menu as a permanent flavor. We do not believe in off-the-shelf flavors and are careful not to crowd the menu with too many flavors or any flavors the development of which has not received the attention and care that our guests expect. We anticipate that our powerful and selective flavor innovation will continue to drive domestic same store sales growth.

Improve Efficiency to Drive Sales

We are making focused investments in technology and restaurant design to increase the efficiency of our model and drive increased revenue. We are in the process of rolling out a single integrated point-of-sale system, or POS system. We also launched an updated online ordering system and mobile ordering application, or app, in 2014, that simplifies the ordering process and integrates into our POS system, uniting online and register ordering across our system for the first time. We believe that we can continue to grow sales through integration of orders through our website and app. As an example, since the implementation of our new online ordering platform and app in September 2014, online ordering increased from less than 7% of sales during the nine months preceding the launch of the new online ordering platform and app to approximately 15% of sales during the fourth quarter of 2015. Additionally, average transaction size for online orders is approximately $4 higher than the average for all other orders. As guests ordering preferences continue to shift online, we will implement a new front counter design in our existing and new restaurants, creating a dedicated queuing area for guests to efficiently pick up their prepaid online orders.

Grow Brand Awareness

We believe our strong domestic same store sales growth has been supported by growing brand awareness as our concept has expanded. Franchisees in our 13 most penetrated markets have formed advertising co-ops at our direction to leverage their collective local marketing spend to buy traditional and digital media more efficiently. As our restaurant base continues to grow and we further penetrate existing and new markets, we expect to add more advertising co-ops in markets where efficient media purchasing can be achieved. Over time, we believe increased marketing funds contributed to our ad fund, driven by unit growth and increased contribution rates, combined with local co-op spending will yield sufficient funds to efficiently purchase traditional and digital media nationally to further expand our brand recognition.

Leverage Social Media

We expect that our advertising will become more cost-effective and drive system-wide revenue more efficiently as we grow in scale and further increase our use of social media to activate interest from our guests. We believe social media is a cost-effective way of targeting existing and new guests, as we do not have to purchase as much advertising through more expensive forms of traditional media. Furthermore, we believe that our strong and growing social media presence will drive more orders through our online portals.

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#CreateShareholderValue

We expect our asset-light, highly-franchised business model to generate strong operating margins and consistent free cash flow as a result of low capital expenditures and working capital needs. As we execute our growth strategy, we believe we will continue to grow revenue and leverage our cost infrastructure, generating continued earnings growth and strong free cash flow, which will create additional equity value for our shareholders.

CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The first Wingstop restaurant opened in July 1994. Our operating company, Wingstop Restaurants Inc., was incorporated in November 1996 and began offering franchises for Wingstop restaurants in May 1997. The first franchised restaurant opened in April 1998. On April 9, 2010, Wingstop Holdings, Inc., the holding company for Wingstop Restaurants Inc., was acquired by Wing Stop Holding Corporation. Wingstop Inc. was incorporated in Delaware on March 18, 2015, as a wholly owned subsidiary of Wing Stop Holding Corporation. On May 28, 2015, Wing Stop Holding Corporation merged with and into Wingstop Inc., with Wingstop Inc. as the surviving corporation in the merger. As of December 26, 2015, we were the franchisor of 826 restaurants and owned and operated 19 restaurants for a total of 845 system-wide restaurants in 39 states and 7 countries.

Our principal executive offices are located at 5501 LBJ Freeway, 5th Floor, Dallas, Texas 75240, and our telephone number at that address is (972) 686-6500. Our website is located at www.wingstop.com. Our website, and the information on our website, is neither part of this prospectus nor incorporated by reference herein.

On June 17, 2015, we completed our initial public offering of 6,670,000 shares of our common stock at a public offering price of $19 per share, which included 870,000 shares issued pursuant to the underwriters option to purchase additional shares of our common stock. In the offering, we sold 2,150,000 shares and certain selling shareholders sold 4,520,000 shares. We received $35.0 million in net proceeds, net of underwriting discounts, commissions and offering expenses, which we used to repay an aggregate amount of $31.4 million of outstanding indebtedness under our senior secured credit facility and to pay an aggregate amount of $3.3 million in connection with the termination of our management agreement with Roark Capital Management, LLC, or Roark Capital Management. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

RISK FACTORS

Investing in our common stock involves substantial risk, and our ability to successfully operate our business is subject to numerous risks, including those that are generally associated with our industry. Any of the risks set forth in this prospectus under the heading Risk Factors may limit our ability to successfully execute our business strategy. You should carefully consider all of the information set forth or incorporated by reference in this prospectus and, in particular, should evaluate the specific risks set forth in this prospectus under the heading Risk Factors in deciding whether to invest in our common stock. The following is a summary of some of the principal risks we face:

- if we fail to successfully implement our growth strategy, which includes opening new domestic and international restaurants, our ability to increase our revenue and operating profits could be adversely affected;

- our financial results are affected by the operating results of our and our franchisees existing restaurants;

our results of operations and growth strategy depend in significant part on the success of our franchisees, and we are subject to a variety of additional risks associated with our franchisees;

if we fail to identify, recruit and contract with a sufficient number of qualified franchisees, our ability to open new franchise restaurants and increase our revenue could be materially adversely affected;

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- our franchisees could take actions that could harm our business;
- interruptions in the supply of product to company-owned restaurants and franchisees could adversely affect our revenue;
- our success depends on our ability to compete with many other restaurants;
- reliance on past increases in our domestic same store sales or our average weekly sales as an indication of our future results of operations;
- our quarterly operating results may fluctuate significantly, resulting in a decline in our stock price; and
- expansion into new markets presents increased risks.

EMERGING GROWTH COMPANY STATUS

We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, which permits us to elect not to be subject to certain disclosure and other requirements that otherwise would have been applicable to us had we not been an emerging growth company. These provisions include:

- only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced Management s Discussion and Analysis of Financial Condition and Results of Operations disclosure;
- reduced disclosure about our executive compensation arrangements;
- no requirement for non-binding advisory votes on executive compensation or golden parachute arrangements; and
- exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting.

We may take advantage of these exemptions for up to five years from our initial public offering or such earlier time as we are no longer an emerging growth company. We will qualify as an emerging growth company until the earliest of (1) December 26, 2020, which is the last day of our fiscal year following the fifth anniversary of the date of completion of our initial public offering, (2) the last day of our fiscal year in which we have annual gross revenue of $1.0 billion or more, (3) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt, and (4) the last day of the fiscal year in which we become a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under this definition, we will be an emerging growth company upon completion of this offering and could remain an emerging growth company until as late as December 26, 2020.

In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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PRINCIPAL STOCKHOLDER

Roark Capital Partners II, LP and Roark Capital Partners Parallel II, LP, which we refer to in this prospectus, along with RC II WS (but excluding us and other companies that they own as a result of their investment activity), as Roark, are part of an Atlanta-based private equity firm with over $6 billion in equity capital commitments raised since inception. Roark and its affiliates invest primarily in consumer, business and environmental service companies with a specialization around franchised and multi-unit business models in the retail, restaurant and consumer services sectors. Immediately prior to this offering, Roark beneficially owned 66.9% of our outstanding common stock, and Roark will beneficially own approximately 47.6% of our common stock immediately following consummation of this offering, or 44.7% if the underwriters exercise in full their option to purchase additional shares of common stock. Upon completion of the offering, Roark will own less than 50% of the total voting power of our common stock. Accordingly, we will no longer be a controlled company . Despite no longer being a controlled company, during the phase-in period we may continue to rely on exemptions from certain corporate governance requirements. Roark will also continue to be able to have a significant effect over fundamental and significant corporate matters and transactions as a result of their significant ownership and voting power with respect to our common stock. For example, three of the seven members of our board of directors are employees of Roark Capital Management, which is an affiliate of Roark, and our amended and restated certificate of incorporation provides that the doctrine of corporate opportunity does not apply against Roark, or any of our directors who are employees of or affiliated with Roark. Accordingly, the interests of Roark may supersede ours, causing it or its affiliates to compete against us or to pursue opportunities instead of us, for which we have no recourse. See Risk Factors Risks Related to this Offering and Ownership of our Common Stock.

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THE OFFERING

Common stock offered by the selling stockholders	5,750,000 shares (or 6,612,500 shares if the underwriters option to purchase additional shares from the selling stockholders identified in this prospectus is exercised in full).
Common stock to be outstanding immediately after this offering	28,584,452 shares.
Underwriters option to purchase additional shares of common stock	The underwriters may also exercise their option to purchase up to an additional 862,500 shares of common stock from the selling stockholders identified in this prospectus. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.
Use of proceeds	We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. See Use of Proceeds.
Dividend policy	We currently expect to retain all future earnings, if any, for use in the operation and expansion of our business and repayment of debt; therefore, we do not anticipate paying cash dividends on our common stock in the foreseeable future. See Dividend Policy below.
Risk factors	You should carefully read and consider the information set forth under the heading Risk Factors of this prospectus and all other information set forth in this prospectus before investing in our common stock.
Nasdaq ticker symbol	WING

As of March 4, 2016, 28,584,452 shares of our common stock are outstanding. Unless otherwise indicated, all information in this prospectus relating to the number of shares of common stock that will be outstanding following this offering:

- excludes, as of December 26, 2015, 1,176,453 shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of $4.66 per share; and

- excludes 2,081,616 shares reserved for future issuance under our new equity compensation plan.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table provides a summary of our historical and unaudited consolidated financial and operating data for the periods and as of the dates indicated. We derived the financial information for the fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013 from our audited consolidated financial statements, which are incorporated by reference into this prospectus. You should read this information in conjunction with Risk Factors included elsewhere in this prospectus and Selected Historical Consolidated Financial and Operating Data , Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes to those statements in our 2015 Form 10-K all of which are incorporated by reference in this prospectus.

Wingstop utilizes a 52- or 53-week fiscal year that ends on the last Saturday of the calendar year. The fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013 included 52 weeks. The first three quarters of our fiscal year consist of 13 weeks and our fourth quarter consists of 13 weeks for 52-week fiscal years and 14 weeks for 53-week fiscal years.

	Year ended		
(in thousands)	**December 26, 2015**	**December 27, 2014**	**December 28, 2013**
Consolidated Statements of Operations Data:			
Revenue:			
Royalty revenue and franchise fees	$ 46,688	$ 38,032	$ 30,202
Company-owned restaurant sales	31,281	29,417	28,797
Total revenue	77,969	67,449	58,999
Cost and expenses:			
Cost of sales	22,219	20,473	22,176
Selling, general and administrative	33,350	26,006	18,913
Depreciation and amortization	2,682	2,904	3,030
Total costs and expenses	58,251	49,383	44,119
Operating income	19,718	18,066	14,880
Interest expense, net	3,477	3,684	2,863
Other (income) expense, net	396	84	(6)
Income before income tax expense	15,845	14,298	12,023
Income tax expense	5,739	5,312	4,493
Net income	$ 10,106	$ 8,986	$ 7,530
Consolidated Statement of Cash Flows Data:			
Net cash provided by operating activities	$ 13,047	$ 14,370	$ 10,906
Net cash provided by (used in) investing activities	(1,915)	(363)	(2,144)
Net cash provided by (used in) financing activities	(10,165)	(7,457)	(9,842)

Net increase (decrease) in cash and cash equivalents	$	967	$	6,550	$	(1,080)

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(in thousands, except share, per share and unit data)	Year ended December 26, 2015	December 27, 2014	December 28, 2013
Per Share Data:			
Earnings per share:			
Basic	$ 0.37	$ 0.35	$ 0.30
Diluted	0.36	0.34	0.29
Weighted average shares outstanding:			
Basic	27,497	25,846	25,168
Diluted	27,816	26,204	25,648
Selected Other Data[(1)]:			
Number of system-wide restaurants open at end of period	845	712	614
Number of domestic company restaurants open at end of period	19	19	24
Number of domestic franchised restaurants open at end of period	767	652	569
Number of international franchised restaurants open at end of period	59	41	21
System-wide sales[(2)]	$ 821,248	$ 678,771	$ 549,904
Domestic restaurant AUV[(3)]	$ 1,126	$ 1,073	$ 974
Company-owned domestic AUV[(3)]	$ 1,646	$ 1,504	$ 1,206
Number of restaurants opened (during period)	142	102	74
Number of restaurants closed (during period)	9	4	6
Company-owned restaurants refranchised (during period)		5	
EBITDA[(4)]	$ 22,004	$ 20,886	$ 17,916
Adjusted EBITDA[(4)]	$ 28,879	$ 24,378	$ 19,495
Adjusted EBITDA margin[(5)]	37.0%	36.1%	33.0%
Same Store Sales Data[(6)]:			
Domestic same store base (end of period)	667	589	527
Domestic same store sales growth	7.9%	12.5%	9.9%

(in thousands)	As of December 26, 2015 (audited)
Consolidated Balance Sheet Data:	
Cash and cash equivalents	$ 10,690
Total assets	121,142
Total long-term debt (including current portion)	95,500
Total stockholders equity (deficit)	(9,673)

(1) See the definitions of key performance indicators under Management s Discussion and Analysis of Financial Condition and Results of Operations Key Performance Indicators in our 2015 Form 10-K incorporated by reference in this prospectus.

(2) The percentage of system-wide sales attributable to company-owned restaurants was 3.8%, 4.3% and 5.2% for the fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013, respectively. The remainder was generated by franchised restaurants, as reported by our franchisees.

(3) Domestic AUV and company-owned domestic AUV are calculated using the 52-week trailing period.

(4) EBITDA and Adjusted EBITDA are supplemental measures of our performance that are not required by, or presented in accordance with, U.S. GAAP. EBITDA and Adjusted EBITDA are not measurements of our

financial performance under U.S. GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with U.S. GAAP, or as an alternative to cash flows from operating activities as a measure of our liquidity.

We define EBITDA as net income before interest expense, net, income tax expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted for management fees and expense reimbursement, a management agreement termination fee, transaction costs, gains and losses on the disposal of assets and stock-based compensation expense. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by our competitors, because not all companies and analysts calculate EBITDA and Adjusted EBITDA in the same manner. We present EBITDA and Adjusted EBITDA because we consider them to be important supplemental measures of our performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Management believes that investors understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations. Many investors are interested in understanding the performance of our business by comparing our results from ongoing operations period over period and would ordinarily add back non-cash expenses such as depreciation and amortization, as well as items that are not part of normal day-to-day operations of our business.

Management uses EBITDA and Adjusted EBITDA:

- as a measurement of operating performance because they assist us in comparing the operating performance of our restaurants on a consistent basis, as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget and financial projections;
- to evaluate the performance and effectiveness of our operational strategies;
- to evaluate our capacity to fund capital expenditures and expand our business; and
- to calculate incentive compensation payments for our employees, including assessing performance under our annual incentive compensation plan and determining the vesting of performance shares.

By providing these non-GAAP financial measures, together with a reconciliation to the most comparable GAAP measure, we believe we are enhancing investors understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives. Items excluded from these non-GAAP measures are significant components in understanding and assessing financial performance. In addition, the instruments governing our indebtedness use EBITDA (with additional adjustments) to measure our compliance with covenants such as fixed charge coverage, lease adjusted leverage and debt incurrence. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as an alternative to, or a substitute for net income or other financial statement data presented in our consolidated financial statements, which are incorporated herein by reference, as indicators of financial performance. Some of the limitations are:

- such measures do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

such measures do not reflect changes in, or cash requirements for, our working capital needs;

such measures do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;

such measures do not reflect our tax expense or the cash requirements to pay our taxes;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and

other companies in our industry may calculate such measures differently than we do, limiting their usefulness as comparative measures.

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Due to these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using these non-GAAP measures only supplementally. As noted in the table below, Adjusted EBITDA includes adjustments for transaction costs, gains and losses on disposal of assets and stock-based compensation, among other items. It is reasonable to expect that these items will occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our restaurants and complicate comparisons of our internal operating results and operating results of other restaurant companies over time. In addition, Adjusted EBITDA includes adjustments for other items that we do not expect to regularly record following this offering, such as management fees and expense reimbursement. Each of the normal recurring adjustments and other adjustments described in this paragraph and in the reconciliation table below help management with a measure of our core operating performance over time by removing items that are not related to day-to-day operations.

The following table reconciles EBITDA and Adjusted EBITDA to the most directly comparable U.S. GAAP financial performance measure, which is net income:

	Year ended		
(in thousands)	**December 26, 2015**	**December 27, 2014**	**December 28, 2013**
Net income	$ 10,106	$ 8,986	$ 7,530
Interest expense, net	3,477	3,684	2,863
Income tax expense	5,739	5,312	4,493
Depreciation and amortization	2,682	2,904	3,030
EBITDA	$ 22,004	$ 20,886	$ 17,916
Management fees[a]	237	449	436
Management agreement termination fee[b]	3,297		
Transaction costs[c]	2,186	2,169	395
Gains and losses on disposal of assets[d]		(86)	
Stock-based compensation expense[e]	1,155	960	748
Adjusted EBITDA	$ 28,879	$ 24,378	$ 19,495

(a) Includes management fees and other out-of-pocket expenses paid to Roark Capital Management, LLC.
(b) Represents a one-time fee of $3.3 million that was paid in consideration for the termination of our management agreement with Roark Capital Management during the second quarter of 2015 in connection with our initial public offering. There are no further obligations related to management fees paid to Roark Capital Management.
(c) Represents costs and expenses related to refinancings of our credit agreement and our initial public offering; all transaction costs are included in SG&A with the exception of $172,000 that is included in Other income (expense), net.
(d) Represents non-cash gains and losses resulting from the sale of company-owned restaurants to a franchisee and associated goodwill impairment.

(e) Includes non-cash, stock-based compensation.

(5) Adjusted EBITDA margin is defined as the ratio of Adjusted EBITDA to total revenue. We present Adjusted EBITDA margin because it is used by management as a performance measurement of Adjusted EBITDA generated from total revenue. See footnote 3 above for a discussion of Adjusted EBITDA as a non-GAAP measure and a reconciliation of net income to EBITDA and Adjusted EBITDA.

(6) We define the domestic same store base to include those domestic restaurants open for at least 52 full weeks. Change in domestic same store sales reflects the change in period-over-period sales for the domestic same store base.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the following risk factors and the other information contained elsewhere and incorporated by reference in this prospectus, including our consolidated financial statements and related notes to those statements, which are incorporated by reference herein, before you decide to invest in our common stock. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business

If we fail to successfully implement our growth strategy, which includes opening new restaurants, our ability to increase our revenue and operating profits could be adversely affected.

Our growth strategy relies substantially upon new restaurant development by existing and new franchisees. While we believe there is opportunity for our brand to grow to up to approximately 2,500 domestic restaurants over the long term, we do not currently target a specific number of annual new restaurant openings over a multi-year period. Therefore, we cannot predict the time period over which we can achieve this level of domestic restaurant growth or whether we will achieve this level of growth at all. In addition, we and our franchisees face many challenges in opening new restaurants, including:

- availability of financing;
- selection and availability of suitable restaurant locations;
- competition for restaurant sites;
- negotiation of acceptable lease and financing terms;
- securing required governmental permits and approvals;
- consumer tastes in new geographic regions and acceptance of our products;
- employment and training of qualified personnel;
- impact of inclement weather, natural disasters, and other acts of nature;
- general economic and business conditions; and

the general legal and regulatory landscape in which we and our restaurants operate.

In particular, because the majority of our new restaurant development is funded by franchisee investment, our growth strategy is dependent on our franchisees (or prospective franchisees) ability to access funds to finance such development. We do not provide our franchisees with direct financing and therefore their ability to access borrowed funds generally depends on their independent relationships with various financial institutions. Some of our existing franchisees utilize loans guaranteed by the U.S. Small Business Administration, or SBA, which guarantees loans made by financial institutions to small businesses in the U.S., including franchisees. If SBA guaranteed loans are no longer available to our franchisees (or potential franchisees), their ability to obtain the requisite financing at attractive rates, or at all, could be adversely affected. Moreover, if our franchisees (or prospective franchisees) are not able to obtain financing from any source at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new restaurants, and our future growth could be adversely affected.

To the extent our franchisees are unable to open new restaurants as we anticipate, our revenue growth would come primarily from growth in comparable store sales. Our failure to add a significant number of new restaurants or grow domestic same store sales would adversely affect our ability to increase our revenue and operating income and could materially and adversely harm our business and operating results.

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Our business and results of operations depend significantly upon the success of our and our franchisees existing restaurants.

Our business and results of operations are significantly dependent upon the success of our franchisees and our company-owned restaurants. We and our franchisees may be adversely affected by:

- declining economic conditions;
- increased competition in the restaurant industry;
- changes in consumer tastes and preferences;
- demographic trends;
- customers budgeting constraints;
- customers willingness to accept menu price increases;
- adverse weather conditions;
- our reputation and consumer perception of our concepts offerings in terms of quality, price, value and service; and
- customers experiences in our restaurants.

Our company-owned restaurants and our franchisees are also susceptible to increases in certain key operating expenses that are either wholly or partially beyond our control, including:

- food, particularly bone-in chicken wings, which we do not or cannot effectively hedge;
- labor costs, including wage, workers compensation, minimum wage requirements, health care and other benefits expenses;
- rent expenses and construction, remodeling, maintenance and other costs under leases for our existing and new restaurants;

- compliance costs as a result of changes in legal, regulatory or industry standards;
- energy, water and other utility costs;
- insurance costs;
- information technology and other logistical costs; and
- expenses associated with legal proceedings and regulatory compliance.

Our business and results of operations depend in significant part on the future performance of existing and new franchise restaurants, and we are subject to a variety of additional risks associated with our franchisees.

A substantial portion of our revenue comes from royalties generated by our franchised restaurants. We anticipate that franchise royalties will represent a substantial part of our revenue in the future. As of December 26, 2015, we had 284 domestic franchisees operating 767 domestic restaurants and 7 international franchisees operating 59 international restaurants. Our largest franchisee operated 54 restaurants and our top 10 franchisees operated a total of 210 restaurants as of December 26, 2015. Accordingly, we are reliant on the performance of our franchisees in successfully operating their restaurants and paying royalties to us on a timely basis. Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect royalty payments from our franchisees, may harm the goodwill associated with our franchise, and may materially adversely affect our business and results of operations.

Our franchisees are an integral part of our business. We may be unable to successfully implement our growth strategy without the participation of our franchisees. Franchisees may fail to participate in our marketing initiatives, which could materially adversely affect their sales trends, average weekly sales and results of operations. The failure of our franchisees to focus on the fundamentals of restaurant operations, such as quality, service and cleanliness, would have a negative impact on our success. In addition, if our franchisees fail to renew their franchise agreements, our royalty revenue may decrease which in turn could materially and adversely affect our business and operating results. It also may be difficult for us to monitor our international franchisees implementation of our growth strategy due to our lack of personnel in the markets served by such franchisees.

Furthermore, a bankruptcy of any multi-unit franchisee could negatively impact our ability to collect payments due under such franchisee s franchise agreements. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise agreements pursuant to Section 365 under the United States bankruptcy code, in which case there would be no further royalty payments from such franchisee. There can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

If we fail to identify, recruit and contract with a sufficient number of qualified franchisees, our ability to open new franchised restaurants and increase our revenue could be materially adversely affected.

The opening of additional franchised restaurants depends, in part, upon the availability of prospective franchisees who meet our criteria. We may not be able to identify, recruit or contract with suitable franchisees in our target markets on a timely basis or at all. In addition, our franchisees may not ultimately be able to access the financial or management resources that they need to open the restaurants contemplated by their agreements with us, or they may elect to cease restaurant development for other reasons and state franchise laws may limit our ability to terminate or modify these license arrangements. If we are unable to recruit suitable franchisees or if franchisees are unable or unwilling to open new restaurants as planned, our growth may be slower than anticipated, which could materially adversely affect our ability to increase our revenue and materially adversely affect our business, financial condition and results of operations.

Our franchisees could take actions that could harm our business.

Our franchisees are contractually obligated to operate their restaurants in accordance with the operations, safety, and health standards set forth in our agreements with them and applicable laws. However, although we will attempt to properly train and support all of our franchisees, franchisees are independent third parties whom we do not control. The franchisees own, operate, and oversee the daily operations of their restaurants, and their employees are not our employees. Accordingly, their actions are outside of our control. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises at their approved locations, and state franchise laws may limit our ability to terminate or not renew these franchise agreements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and adequately train qualified managers and other restaurant personnel. The failure of our franchisees to operate their franchises in accordance with our standards or applicable law, actions taken by their employees or a negative publicity event at one of our franchised restaurants or involving one of our franchisees could have a material adverse effect on our reputation, our brand, our ability to attract prospective franchisees, our company-owned restaurants, and our business, financial condition or results of operations.

Food safety, food-borne illness and other health concerns may have an adverse effect on our business.

Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe, quality food products. However, food-borne illnesses, such as salmonella, E. coli or hepatitis A, and food safety issues have occurred in the food industry in the past, and could occur in the future. Any report or publicity linking our restaurants to instances of food-borne illness or other food safety issues, including food tampering or contamination, could adversely affect our brand and reputation as well as our revenue and profits. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry or fast casual restaurants generally and adversely impact our restaurants.

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In addition, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by factors outside of our control and that multiple restaurants would be affected rather than a single restaurant. We cannot assure that all food items are properly maintained during transport throughout the supply chain and that our employees and our franchisees and their employees will identify all products that may be spoiled and should not be used in our restaurants. In addition, our industry has long been subject to the threat of food tampering by suppliers and employees, such as the addition of foreign objects in the food that we sell. Reports, whether or not true, of injuries caused by food tampering have in the past severely injured the reputations and brands of restaurant chains in the quick service restaurant segment and could affect us in the future as well. If our customers become ill from food-borne illnesses, we could also be forced to temporarily close some restaurants. Furthermore, any instances of food contamination, whether or not at our restaurants, could subject our restaurants or our suppliers to a food recall pursuant to the Food and Drug Administration Food Safety Modernization Act.

Furthermore, the United States and other countries have also experienced, and may experience in the future, outbreaks of viruses, such as H1N1, avian influenza, various other forms of influenza, enterovirus, SARS and Ebola. To the extent that a virus is transmitted by human-to-human contact, our employees or customers could become infected or could choose, or be advised, to avoid gathering in public places and avoid eating in restaurant establishments such as our restaurants, which could adversely affect our business.

Interruptions in the supply of product to company-owned restaurants and franchisees could adversely affect our revenue.

In order to maintain quality-control standards and consistency among restaurants, we require through our franchise agreements that our franchisees obtain food and other supplies from preferred suppliers approved in advance. In this regard, we and our franchisees depend on a group of suppliers for food ingredients, beverages, paper goods, and distribution, including, but not limited to, four primary chicken suppliers, The Sygma Network for distribution, The Coca-Cola Company, and other suppliers. In 2015, we and our franchisees purchased products from approximately 115 approved suppliers, with approximately 10 of such suppliers providing 80%, based on dollar volume, of all products purchased. We look to approve multiple suppliers for most products, and require any single sourced supplier, such as The Coca-Cola Company, to have contingency plans in place to ensure continuity of supply. In addition, we believe that, if necessary, we could obtain readily available alternative sources of supply for each product that we currently source through a single supplier. To facilitate the efficiency of our franchisees supply chain, we have historically entered into several preferred-supplier arrangements for particular food or beverage items. In addition, our restaurants bear risks associated with the timeliness, solvency, reputation, labor relations, freight costs, price of raw materials, and compliance with health and safety standards of each supplier, including, but not limited to, risks associated with contamination to food and beverage products. We have little control over such suppliers. Disruptions in these relationships may reduce franchisee sales and, in turn, our royalty income. Overall difficulty of suppliers meeting restaurant product demand, interruptions in the supply chain, obstacles or delays in the process of renegotiating or renewing agreements with preferred suppliers, financial difficulties experienced by suppliers, or the deficiency, lack, or poor quality of alternative suppliers could adversely impact franchisee sales and our company-owned restaurant sales, which, in turn, would reduce our royalty income and revenue and could materially and adversely affect our business and operating results.

Our success depends on our ability to compete with many other restaurants.

The restaurant industry in general, and the fast casual category in particular, are intensely competitive, and we compete with many well-established restaurant companies on the basis of food taste and quality, price, service, value, location, convenience and overall customer experience. Our competitors include restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and regional restaurant companies, including restaurants offering chicken wing products, as well as dine-in, carry-out and delivery services offering other types of food.

Some of our competitors have substantially greater financial and other resources than we do, which may allow them to react to changes in the restaurant industry better than we can. Other competitors are local restaurants that in some cases have a loyal guest base and strong brand recognition within a particular market. As our competitors expand their operations or as new competitors enter the industry, we expect competition to intensify. Should our competitors increase their spending on advertising and promotions, we could experience a loss of customer traffic to our competitors. Also, if our advertising and promotions become less effective than those of our competitors, we could experience a material adverse effect on our results of operations. We and our franchisees also compete with other restaurant chains and other retail businesses for quality site locations, management and hourly employees.

Additionally, we face the risk that new or existing competitors will copy our business model, menu options, presentation or ambience, among other things. Consumer tastes, nutritional and dietary trends, traffic patterns and the type, number and location of competing restaurants often affect the restaurant business, and our competitors may react more efficiently and effectively to those conditions. In addition, many of our competitors offer lower-priced menu options or meal packages, or have loyalty programs.

You should not rely on past increases in our domestic same store sales or our AUV as an indication of our future results of operations because they may fluctuate significantly.

A number of factors have historically affected, and will continue to affect, our domestic same store sales and AUV, including, among other factors:

- competition;
- consumer trends and confidence;
- our ability to execute our business strategy effectively;
- unusually strong initial sales performance by new restaurants; and
- regional and national macroeconomic conditions.

The level of domestic same store sales is a critical factor affecting our ability to generate profits because the profit margin on domestic same store sales is generally higher than the profit margin on new restaurant sales. Domestic same store sales reflects the change in year-over-year sales for the domestic same store base. We define the domestic same store base to include those restaurants open for at least 52 full weeks.

Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to certain factors, some of which are beyond our control, resulting in a decline in our stock price.

Our quarterly operating results may fluctuate significantly because of several factors, including:

the timing of new restaurant openings;

profitability of our restaurants, especially in new markets;

changes in interest rates;

increases and decreases in average weekly sales and domestic same store sales including due to the timing and popularity of sporting and other events;

macroeconomic conditions, both nationally and locally;

changes in consumer preferences and competitive conditions;

expansion to new markets;

impairment of long-lived assets and any loss on restaurant closures;

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- increases in infrastructure costs; and

- fluctuations in commodity prices.

As a result, our quarterly and annual operating results and domestic same store sales may fluctuate significantly as a result of the factors discussed above. Accordingly, results for any one fiscal quarter are not necessarily indicative of results to be expected for any other fiscal quarter or for any fiscal year and domestic same store sales for any particular future period may decrease. The planned increase in the number of our restaurants may make our future results unpredictable and, if we fail to manage such growth effectively, our business, financial condition and results of operations may be materially adversely affected. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease.

Our expansion into new markets may present increased risks due to our unfamiliarity with those areas.

Some of our new restaurants are planned for markets where there may be limited or no market recognition of our brand. Those markets may have competitive conditions, consumer tastes and discretionary spending patterns that are different from those in our existing markets. As a result, those new restaurants may be less successful than restaurants in our existing markets. We may need to build brand awareness in that market through greater investments in advertising and promotional activity than we originally planned. Our franchisees may find it more difficult in new markets to hire, motivate and keep qualified employees who can project our vision, passion and culture. Restaurants opened in new markets may also have lower average restaurant sales than restaurants opened in existing markets. Sales at restaurants opened in new markets may take longer to ramp up and reach expected sales and profit levels, and may never do so, thereby affecting our overall profitability.

Changes in food and supply costs could adversely affect our results of operations.

The profitability of our company-owned restaurants depends in part on our ability to anticipate and react to changes in food and supply costs. Any increase in the prices of the ingredients most critical to our menu, particularly chicken, could adversely affect our operating results. Bone-in chicken wing prices in our company-owned restaurants in 2015 averaged 17% higher than in 2014 as the average price per pound increased. If there is a significant rise in the price of bone-in chicken wings, and we are unable to successfully adjust menu prices or otherwise make operational adjustments to account for the higher wing prices, our operating results could be adversely affected. For example, bone-in chicken wings accounted for approximately 29% and 25% of our costs of sales in fiscal years 2015 and 2014, respectively. A hypothetical 10% increase in the bone-in chicken wing costs for fiscal year 2015 would have increased cost of sales by approximately $0.6 million for fiscal year 2015.

Although we try to manage the impact that these fluctuations have on our operating results, we remain susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal fluctuations, weather conditions, demand, food safety concerns, product recalls and government regulations. As a result, we may not be able to anticipate or react to changing food costs by adjusting our purchasing practices or menu prices, which could cause our operating results to deteriorate. In addition, because we provide moderately-priced food, we may choose not to, or be unable to, pass along commodity price increases to our customers.

If we or our franchisees or licensees are unable to protect our customers   credit card data and other personal information, we or our franchisees could be exposed to data loss, litigation, and liability, and our reputation could be significantly harmed.

Privacy protection is increasingly demanding, and the use of electronic payment methods and collection of other personal information expose us and our franchisees to increased risk of privacy and/or security breaches as well as other risks. The majority of our restaurant sales are by credit or debit cards. In connection with credit or debit card transactions in-restaurant, we and our franchisees collect and transmit confidential information by way of secure private retail networks. Additionally, we collect and store personal information from individuals, including our customers, franchisees, and employees.

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Our franchisees have experienced security breaches in which credit and debit card information could have been stolen and we and our franchisees may experience security breaches in which credit and debit card information is stolen in the future. Although we use secure private networks to transmit confidential information, third parties may have the technology or know-how to breach the security of the customer information transmitted in connection with credit and debit card sales, and our security measures and those of technology vendors may not effectively prohibit others from obtaining improper access to this information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and are often difficult to detect for long periods of time, which may cause a breach to go undetected for an extensive period of time. Advances in computer and software capabilities, new tools, and other developments may increase the risk of such a breach. Further, the systems currently used for transmission and approval of electronic payment transactions, and the technology utilized in electronic payment themselves, all of which can put electronic payment at risk, are determined and controlled by the payment card industry, not by us, through enforcement of compliance with the Payment Card Industry-Data Security Standards, or PCI DSS. We and our franchisees must abide by the PCI DSS, as modified from time to time, in order to accept electronic payment transactions. Furthermore, the payment card industry is requiring vendors to become compatible with smart chip technology for payment cards, or EMV-Compliant, or else bear full responsibility for certain fraud losses, referred to as the EMV Liability Shift, which could adversely affect our business. To become EMV-Compliant, merchants must utilize EMV-Compliant payment card terminals at the point of sale and also obtain a variety of certifications. The EMV Liability Shift became effective on October 1, 2015. At present, our company-owned and franchised restaurants are not required to upgrade their POS systems to include such EMV-Compliant payment card terminals and as a result, face increased liability exposure, which could adversely affect our business and operating results.

In addition, our franchisees, contractors, or third parties with whom we do business or to whom we outsource business operations may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information. If a person is able to circumvent our security measures or those of third parties, he or she could destroy or steal valuable information or disrupt our operations. We may become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings relating to these types of incidents. Any such claim or proceeding could cause us to incur significant unplanned expenses, which could have an adverse impact on our financial condition, results of operations and cash flows. Further, adverse publicity resulting from these allegations could significantly harm our reputation and may have a material adverse effect on us and our restaurants.

Our business activities subject us to litigation risk that could affect us adversely by subjecting us to significant money damages and other remedies or by increasing our litigation expense.

We and our franchisees are, from time to time, the subject of (or potentially the subject of) complaints or litigation, including customer claims, personal-injury claims, environmental claims, employee allegations of improper termination and discrimination, claims related to violations of the Americans with Disabilities Act of 1990, or the ADA, religious freedom, the Fair Labor Standards Act, or the FLSA, other employment-related laws, the Occupational Safety and Health Act, or OSHA, the Employee Retirement Income Security Act of 1974, as amended, or ERISA, advertising laws and intellectual-property claims. Each of these claims may increase costs and limit the funds available to make royalty payments and reduce the execution of new franchise agreements. Litigation against a franchisee or its affiliates by third parties or regulatory agencies, whether in the ordinary course of business or otherwise, may also include claims against us by virtue of our relationship with the defendant-franchisee, whether under vicarious liability, joint employer, or other theories. In addition to decreasing the ability of a defendant-franchisee to make royalty payments in the event of such claims and diverting our management and financial resources, adverse publicity resulting from such allegations may materially and adversely affect us and our brand, regardless of whether these allegations are valid or whether we are liable. Our international operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of

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rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems, and reduced or diminished protection of intellectual property. A substantial judgment against us or one of our subsidiaries could materially and adversely affect our business and operating results.

We could also become subject to class action or other lawsuits related to the above-described or different matters in the future. Regardless, however, of whether any claim brought against us in the future is valid or whether we are liable, such a claim would be expensive to defend and may divert time, money and other valuable resources away from our operations and, thereby, hurt our business.

We and our franchisees are also subject to state and local dram shop statutes, which may subject us and our franchisees to uninsured liabilities. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Because a plaintiff may seek punitive damages, which may not be fully covered by insurance, this type of action could have an adverse impact on our financial condition and results of operations. A judgment in such an action significantly in excess of insurance coverage could adversely affect our financial condition, results of operations or cash flows. Further, adverse publicity resulting from any such allegations may adversely affect us and our restaurants taken as a whole.

We may engage in litigation with our franchisees.

Although we believe we generally enjoy a positive working relationship with the vast majority of our franchisees, the nature of the franchisor-franchisee relationship may give rise to litigation with our franchisees. In the ordinary course of business, we are the subject of complaints or litigation from franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements. We may also engage in future litigation with franchisees to enforce the terms of our franchise agreements and compliance with our brand standards as determined necessary to protect our brand, the consistency of our products and the customer experience. We may also engage in future litigation with franchisees to enforce our contractual indemnification rights if we are brought into a matter involving a third party due to the franchisee s alleged acts or omissions. In addition, we may be subject to claims by our franchisees relating to our Franchise Disclosure Document, or FDD, including claims based on financial information contained in our FDD. Engaging in such litigation may be costly and time-consuming and may distract management and materially adversely affect our relationships with franchisees and our ability to attract new franchisees. Any negative outcome of these or any other claims could materially adversely affect our results of operations as well as our ability to expand our franchise system and may damage our reputation and brand. Furthermore, existing and future franchise-related legislation could subject us to additional litigation risk in the event we terminate or fail to renew a franchise relationship.

Changes to the current law with respect to the assignment of liabilities in the franchise business model could adversely impact our profitability.

One of the legal foundations fundamental to the franchise business model has been that, absent special circumstances, a franchisor is generally not responsible for the acts, omissions or liabilities of its franchisees, whether with respect to the franchisees employees or otherwise. However, in an August 27, 2015, National Labor Relations Board, or NLRB, decision, *Browning-Ferris Industries of California, Inc.*, the NLRB adopted a broader and looser standard for determining joint employer status. Under the NLRB s new joint employer standard, a putative joint employer is no longer required to exercise direct and immediate control over workers terms and conditions of employment. Indirect or even reserved control is now potentially sufficient to establish a joint employment relationship. Although *Browning-Ferris Industries of California, Inc.* (not yet appealed) was not a case involving a franchise relationship, and while the NLRB s opinion explicitly stated it was not addressing the franchise industry, it is unclear how the

NLRB will apply the expanded joint employer definition adopted in *Browning-Ferris Industries of California, Inc.* to franchise relationships overall or to particular franchise relationships sharing certain characteristics or controls. If the NLRB s new position is applied broadly to franchise relationships, it could significantly change the way we and other franchisors conduct business and adversely impact our profitability. For example, the General Counsel of the NLRB continues to prosecute complaints in Regional Offices across the country (first issued in December 2014) charging that McDonald s and its franchisees are joint employers and seeking to hold McDonald s liable for unfair labor practices allegedly committed by its franchisees. The position taken by the NLRB General Counsel has set in motion what are expected to be lengthy hearings before the NLRB. The decision of the NLRB is subject to subsequent federal court litigation and is not expected to be resolved until a final decision in the federal appellate courts. A determination, due to the new standard adopted in *Browning-Ferris Industries of California, Inc.*, that we are a joint employer with our franchisees or that our franchisees are part of one unified system with joint and several liability under the National Labor Relations Act, statutes administered by the Equal Employment Opportunity Commission, Occupational Safety and Health Administration, or OSHA, regulations and other areas of labor and employment law could subject us and/or our franchisees to liability for the unfair labor practices, wage-and-hour law violations, employment discrimination law violations, OSHA regulation violations and other employment-related liabilities of one or more franchisees. Furthermore, this change in the law could create an increased likelihood that certain franchised networks will be required to employ unionized labor, which could impact franchisors like us through, among other things, increased labor costs, increased menu prices to offset labor costs and difficulty in attracting new franchisees. In addition, if these changes are expanded outside of the employment context, we could be held liable for other claims against franchisees such as personal injury claims by customers at franchised restaurants. Therefore, any regulatory action or court decisions expanding the vicarious liability of franchisors could impact our ability or desire to grow our franchised base and have a material adverse effect on our results of operations.

We may be impacted by negative publicity regarding other franchisors controlled by Roark.

Through common control with or common management by Roark, we are affiliated with certain other franchise brands. While we operate as a separate company and are managed entirely independent from any other franchisors controlled by Roark, our affiliate relationship requires us to disclose certain information with respect to such other franchisors to potential franchisees. Therefore, negative publicity, legal proceedings, bankruptcies or other adverse events regarding other franchised concepts controlled by Roark or negative incidents involving these other companies or concepts, even though entirely independent from us, could adversely impact our reputation and our ability to attract franchisees.

Macroeconomic conditions could adversely affect our ability to increase sales at existing restaurants or open new restaurants.

Recessionary economic cycles, higher fuel and other energy costs, lower housing values, low consumer confidence, inflation, increases in commodity prices, higher interest rates, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect discretionary consumer spending could adversely affect our revenue and profit margins and make opening new restaurants more difficult. Our customers may have lower disposable income and reduce the frequency with which they dine out during economic downturns. This could result in fewer transactions and reduced transaction size or limitations on the prices we can charge for our menu items, any of which could reduce our sales and profit margins. Also, businesses in the shopping vicinity in which some of our restaurants are located may experience difficulty as a result of macroeconomic trends or cease to operate, which could, in turn, further negatively affect customer traffic at our restaurants. All of these factors could have a material adverse impact on our results of operations and growth strategy.

In addition, negative effects on our and our franchisees existing and potential landlords due to the inaccessibility of credit and other unfavorable economic factors may, in turn, adversely affect our business and results of operations. If our or our franchisees landlords are unable to obtain financing or remain in good standing under their existing financing arrangements, they may be unable to provide construction contributions or satisfy other lease obligations owed to us or our franchisees. In addition, if our and our franchisees landlords are unable to obtain sufficient credit to continue to properly manage their retail sites, we may experience a drop

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in the level of quality of such retail centers. The development of new restaurants may also be adversely affected by negative economic factors affecting developers and potential landlords. Developers and/or landlords may try to delay or cancel recent development projects (as well as renovations of existing projects) due to instability in the credit markets and declines in consumer spending, which could reduce the number of appropriate locations available that we would consider for our new restaurants. Furthermore, other tenants at the properties in which our restaurants are located may delay their openings, fail to open or cease operations. Decreases in total tenant occupancy in the properties in which our restaurants are located may affect customer traffic at our restaurants.

If any of the foregoing affect any of our or our franchisees   landlords, developers and/or surrounding tenants, our business and results of operations may be adversely affected. To the extent our restaurants are part of a larger retail project or tourist destination, customer traffic could be negatively impacted by economic factors affecting surrounding tenants.

Because many of our restaurants are concentrated in local or regional areas, we are susceptible to economic and other trends and developments, including adverse weather conditions, in these areas.

As of December 26, 2015, 65% of our 786 domestic restaurants were spread across Texas (35%), California (24%) and Illinois (6%). Given our geographic concentrations, negative publicity regarding any of our restaurants in these areas could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, terrorist attacks, increases in energy prices, or natural or man-made disasters and more stringent state and local laws and regulations. In particular, adverse weather conditions, such as regional winter storms, floods, severe thunderstorms, earthquakes, tornadoes and hurricanes, could negatively impact our results of operations.

We and our franchisees rely on computer systems to process transactions and manage our business, and a disruption or a failure of such systems or technology could harm our ability to effectively manage our business.

Network and information technology systems are integral to our business. We utilize various computer systems, including our franchisee reporting system, by which our franchisees report their weekly sales and pay their corresponding royalty fees and required advertising fund contributions. When sales are reported by a franchisee, a withdrawal for the authorized amount is initiated from the franchisee s bank on a set date each week based on gross sales during the week ended the prior Saturday. This system is critical to our ability to accurately track sales and compute royalties and advertising fund contributions due from our franchisees.

Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, worms and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or actions by regulatory authorities.

Despite the implementation of protective measures, our systems are subject to damage and/or interruption as a result of power outages, computer and network failures, computer viruses and other disruptive software, security breaches, catastrophic events, and improper usage by employees. Such events could result in a material disruption in operations, a need for a costly repair, upgrade or replacement of systems, or a decrease in, or in the collection of, royalties and advertising fund contributions paid to us by our franchisees. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability which could materially affect our results of operations.

It is also critical that we establish and maintain certain licensing and software agreements for the software we use in our day-to-day operations. A failure to procure or maintain these licenses could have a material adverse effect on our business operations.

The prospect of a pandemic spread of avian flu could adversely impact our supply of chicken and affect our business.

If avian flu were to affect our supply of chicken, our operations may be negatively impacted, as prices may rise due to limited supply. In addition, misunderstanding by the public of information regarding the threat of avian flu could result in negative publicity regarding the risks of consumption of chicken products that could adversely affect consumer spending and confidence levels. A decrease in traffic to our restaurants as a result of this negative publicity or as a result of health concerns, whether or not warranted, could materially harm our business.

Failure to obtain and maintain required licenses and permits or to comply with alcoholic beverage or food control regulations could lead to the loss of liquor and food service licenses and, thereby, harm our business.

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure of our restaurants to obtain and maintain these licenses, permits and approvals could adversely affect our operating results. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that a restaurant s conduct violates applicable regulations. Difficulties or failure to maintain or obtain the required licenses and approvals could adversely affect our existing restaurants and delay or result in our decision to cancel the opening of new restaurants, which would adversely affect our results of operations.

Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license or permit to sell alcoholic beverages on-premises and to provide service for extended hours and on Sundays. Alcoholic beverage control regulations relate to numerous aspects of daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, trade practices, wholesale purchasing, other relationships with alcohol manufacturers, wholesalers and distributors, inventory control and handling, and storage and dispensing of alcoholic beverages. Any future failure to comply with these regulations and obtain or retain liquor licenses could adversely affect our results of operations.

Our current insurance and the insurance of our franchisees may not provide adequate levels of coverage against claims.

We currently maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. Such losses could have a material adverse effect on our business and results of operations.

Our franchise agreements require each franchisee to maintain certain insurance types and levels. Certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material and adverse effect on a franchisee s ability to satisfy obligations under the franchise agreement, including the ability to make royalty payments.

We also require franchisees to maintain general liability insurance coverage to protect against the risk of product liability and other risks and demand strict franchisee compliance with health and safety regulations. However, franchisees may receive or produce defective food or beverage products, which may materially adversely affect our brand s goodwill and our business. Further, a franchisee s failure to comply with health and safety regulations, including requirements relating to food quality or preparation, could subject them, and possibly us, to litigation. Any litigation, including the imposition of fines or damage awards, could adversely affect the ability of a franchisee to make royalty payments or could generate negative publicity or otherwise adversely affect us.

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Our business is subject to various laws and regulations and changes in such laws and regulations, and/or failure to comply with existing or future laws and regulations, could adversely affect us.

We are subject to state franchise registration requirements, the rules and regulations of the Federal Trade Commission, or the FTC, various state laws regulating the offer and sale of franchises in the United States through the provision of franchise disclosure documents containing certain mandatory disclosures, various state laws regulating the franchise relationship, and certain rules and requirements regulating franchising arrangements in foreign countries. Although we believe that our franchise disclosure documents, together with any applicable state-specific versions or supplements, and franchising procedures that we use comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer and grant new franchise arrangements, noncompliance could reduce anticipated royalty income, which in turn could materially and adversely affect our business and operating results.

We and our franchisees are subject to various existing United States federal, state, local, and foreign laws affecting the operation of the restaurants, including various health, sanitation, fire, and safety standards. Franchisees may in the future become subject to regulation (or further regulation) seeking to tax or regulate high-fat foods, to limit the serving size of beverages containing sugar, to ban the use of certain packaging materials, or to require the display of detailed nutrition information. Each of these regulations would be costly to comply with and/or could result in reduced demand for our products.

We and our franchisees also have a substantial number of hourly employees who are required to be paid pursuant to applicable federal or state minimum wage laws. The federal minimum wage has been $7.25 per hour since July 24, 2009. From time to time, various federal and state legislators have proposed changes to the minimum wage requirements, especially for fast-food workers. Certain regions such as Los Angeles, Seattle, San Francisco and New York, have approved phased-in increases that eventually will take their minimum wage to as high as $15 an hour. These and any future similar increases in other regions in states in which our restaurants operate may negatively affect our and our franchisees profit margins as we and our franchisees may be unable to increase our menu prices in order to pass future increased labor costs on to our guests. Also, reduced margins of franchisees could make it more difficult to sell franchises. If menu prices are increased by us and our franchisees to cover increased labor costs, the higher prices could adversely affect transactions which could lower sales and thereby reduce our margins and the royalties that we receive from franchisees.

There is also a potential for increased regulation of certain food establishments in the United States, where compliance with a Hazard Analysis and Critical Control Points, or the HACCP, approach may now be required. HACCP refers to a management system in which food safety is addressed through the analysis and control of potential hazards from production, procurement and handling, to manufacturing, distribution and consumption of the finished product. Many states have required restaurants to develop and implement HACCP Systems, and the United States government continues to expand the sectors of the food industry that must adopt and implement HACCP programs. For example, the Food Safety Modernization Act, or the FSMA, signed into law in January 2011, granted the U.S. Food and Drug Administration, the FDA, new authority regarding the safety of the entire food system, including through increased inspections and mandatory food recalls. Although restaurants are specifically exempted from or not directly implicated by some of these new requirements, we anticipate that the new requirements may impact our industry. Additionally, our suppliers may initiate or otherwise be subject to food recalls that may impact the availability of certain products, result in adverse publicity or require us to take actions that could be costly for us or otherwise impact our business.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance and other costs of doing business and therefore have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state, local and foreign authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil

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and criminal liability. In addition, certain laws, including the ADA, could require us or our franchisees to expend significant funds to make modifications to our restaurants if we failed to comply with applicable standards. Compliance with all of these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

We and our franchisees may experience increased costs for employee health care benefits.

Minimum employee health care coverage mandated by state or federal legislation, such as the federal healthcare reform legislation that became law in March 2010 (known as the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act of 2010, or the PPACA), could significantly increase our employee health benefit costs or require us to alter the benefits we provide to our employees. While we are assessing the potential impact the PPACA will have on our business, certain of the mandates in the legislation are not yet effective. If our or our franchisees employee health benefit costs increase, we cannot provide assurance that we will be able to offset these costs through increased revenue or reductions in other costs, which could have an adverse effect on our results of operations and financial condition.

Damage to our reputation or lack of acceptance of our brand in existing or new markets could negatively impact our business, financial condition and results of operations.

We believe we have built our reputation on the high quality and bold, distinctive and craveable flavors of our food, value and service, and we must protect and grow the value of our brand to continue to be successful in the future. Any incident that erodes consumer affinity for our brand could significantly reduce its value and damage our business. For example, our brand value could suffer and our business could be adversely affected if customers perceive a reduction in the quality of our food, value or service or otherwise believe we have failed to deliver a consistently positive experience.

We may be adversely affected by news reports or other negative publicity, regardless of their accuracy, regarding food quality issues, public health concerns, illness, safety, injury, security breaches of confidential guest or employee information, employee related claims relating to alleged employment discrimination, wage and hour violation, labor standards or health care and benefit issues or government or industry findings concerning our restaurants, restaurants operated by other foodservice providers, or others across the food industry supply chain. The risks associated with such negative publicity cannot be eliminated or completely mitigated and may materially affect our business.

Also, there has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), websites and other forms of internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content their subscribers and participants can post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning us may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects, brand or business. The harm may be immediate without affording us an opportunity for redress or correction.

Ultimately, the risks associated with any such negative publicity or incorrect information cannot be eliminated or completely mitigated and may materially adversely affect our reputation, business, financial condition and results of operations.

Opening new restaurants in existing markets may negatively affect sales at existing restaurants.

We intend to continue opening new franchised restaurants in our existing markets as a core part of our growth strategy. Expansion in existing markets may be affected by local economic and market conditions.

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Further, the customer target area of our restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which our restaurants already exist could adversely affect the sales of these existing restaurants. We and our franchisees may selectively open new restaurants in and around areas of existing restaurants. Sales cannibalization between restaurants may become significant in the future as we continue to expand our operations and could affect sales growth, which could, in turn, materially adversely affect our business, financial condition or results of operations.

Our expansion into international markets exposes us to a number of risks that may differ in each country where we have franchise restaurants.

As of January 31, 2016, we have franchised restaurants in Mexico, Singapore, Indonesia, the Philippines, and the United Arab Emirates and plan to continue to grow internationally. However, international operations are in early stages. Expansion in international markets may be affected by local economic and market conditions. Therefore, as we expand internationally, our franchisees may not experience the operating margins we expect, and our results of operations and growth may be materially and adversely affected. Our financial condition and results of operations may be adversely affected if the global markets in which our franchised restaurants compete are affected by changes in political, economic or other factors. These factors, over which neither our franchisees nor we have control, may include:

- recessionary or expansive trends in international markets;
- changing labor conditions and difficulties in staffing and managing our foreign operations;
- increases in the taxes we pay and other changes in applicable tax laws;

	530,000	
Principal payments on bank credit facilities		(448,875)
Proceeds from issuance of bank term debt	145,000	
Proceeds from financing secured by owned property	11,072	5,352
Principal payments on long-term debt	(399,885)	(336,437)
Change in zero balance cash accounts	9,642	5,251
Excess tax deduction on stock options	434	
Net proceeds from issuance of common stock	4,301	5,490
Net proceeds from issuance of preferred stock		116,885
Payments for the redemption of preferred stock		(123,533)
Payments for preferred stock dividends	(11,535)	(9,244)
Deferred financing costs paid	(2,019)	(7,156)
Net cash provided by (used in) financing activities	98,010	(262,267)
Increase (decrease) in cash and cash equivalents	72,330	(57,691)
Cash and cash equivalents, beginning of period	76,067	162,821
Cash and cash equivalents, end of period	$ 148,397	$ 105,130
Supplementary cash flow data:		
Cash paid for interest (net of capitalized amounts of $1,027 and $551, respectively)	$ 183,455	$ 174,203
Cash payments of income taxes, net	$ 1,777	$ 3,126
Equipment financed under capital leases	$ 6,888	$ 8,162
Equipment received for noncash consideration	$ 3,304	$ 0
Reduction in lease financing obligation	$ 10,691	$ 3,028

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Thirteen and Thirty-Nine Week Periods Ended December 2, 2006 and November 26, 2005
(Dollars and share information in thousands, except per share amounts)
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen and thirty-nine week periods ended December 2, 2006 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Fiscal 2006 10-K.

The statement of operations for the thirteen and thirty-nine week periods ended November 26, 2005 has been reclassified to include store facility costs, including rent, facilities depreciation and utility costs as selling, general and administrative expenses and warehousing and outbound freight costs as cost of goods sold. For the thirteen and thirty-nine week periods ended November 26, 2005, the impact of the reclassification was a decrease to cost of goods sold of $104,037 and $311,234, respectively, with a corresponding increase in selling, general and administrative expenses.

The statement of cash flows for the thirty-nine week period ended November 26, 2005 has been reclassified to reflect as separate components of cash provided by operating activities, LIFO charges, changes in deferred taxes, accounts receivable, inventories, prepaid expenses and other current assets, other assets, accounts payable and other liabilities, which were previously aggregated. Accordingly, there was no impact on amounts presented for net cash provided by (used in) operating, investing and financing activities.

2. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment. This standard requires companies to account for share-based payments to associates using the fair value method of expense recognition. Fair value for stock options can be calculated using either a closed form or open form calculation method. SFAS No. 123(R) requires companies to recognize option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures.

The Company had previously adopted the provisions of SFAS No. 123, Accounting for Stock-Based Compensation effective March 2, 2003 and had been recognizing expense on a ratable basis related to share-based payments to associates using the fair value method. The Company has adopted the provisions of SFAS 123(R) effective March 5, 2006 using the modified prospective transition method. The adoption of SFAS 123(R) did not have a material impact on its financial position and results of operations.

SFAS No. 123(R) also requires the Company to change the classification of any tax benefits realized upon exercise of stock options in excess of that which is associated with the expense recognized for

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financial reporting purposes. These amounts are presented as a financing cash inflow rather than as a reduction of income taxes paid in our consolidated statement of cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments . SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities to simplify accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. Certain of the Company s public bonds contain an early call option that meets the definition of a hybrid financial instrument. However, these instruments are not required to be bifurcated from the host contracts and therefore the provisions set forth in SFAS No. 155 are not applicable to these instruments.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets . This standard is required to be adopted as of the first fiscal year beginning after September 15, 2006. The Company may be required to recognize a servicing asset or liability related to its securitization agreements. The Company has not quantified the impact of adopting SFAS No. 156, but does not expect the adoption to have a material impact on its financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes , which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. This standard is required to be adopted by the Company as of the first fiscal year beginning after December 15, 2006. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet assessed the impact of adopting SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. The Company does not expect the adoption of SFAS No. 158 to have a material impact on its financial position or results of operations.

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In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements . This SAB provides guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. This interpretation is effective for the first fiscal year ending after November 15, 2006. The Company does not expect the adoption of this interpretation to have an impact on its financial position or results of operations.

3. Planned Acquisition

On August 23, 2006, the Company entered into a Stock Purchase Agreement (the Agreement) with The Jean Coutu Group (PJC) Inc. (Jean Coutu Group). Under the terms of the Agreement, the Company will acquire (the Acquisition) from Jean Coutu Group all of the outstanding capital stock of The Jean Coutu Group (PJC) USA, Inc. (Jean Coutu USA), a wholly owned subsidiary of Jean Coutu Group, which is engaged in the business of owning and operating retail pharmacy stores conducting business under the Eckerd and Brooks banners. As consideration for the Acquisition, the Company will issue 250,000 shares of Rite Aid common stock, will pay $1,450,000 in cash, subject to a working capital adjustment, and intends to assume $850,000 of Jean Coutu Group s 8.5% Senior Subordinated Notes due 2014 (8.5% Senior Subordinated Notes) with the cash component increasing to $2,300,000 if the notes are not assumed. The Company intends to finance the Acquisition through a combination of the issuance of new debt and the assumption of $850,000 of Jean Coutu Group s 8.5% Senior Subordinated Notes. Certain holders of the Jean Coutu Group s 8.5% Senior Subordinated Notes have claimed that the indenture governing the 8.5% Senior Subordinated Notes does not allow Rite Aid to assume the 8.5% Senior Subordinated Notes and therefore the trustee of the 8.5% Senior Subordinated Notes has indicated to Jean Coutu Group that it is not willing to execute a supplemental indenture evidencing Rite Aid s assumption of the 8.5% Senior Subordinated Notes. Consequently, Jean Coutu Group recently commenced an action seeking a declaration that the assumption of the 8.5% Senior Subordinated Notes by Rite Aid is permitted under the indenture. The Company believes that Jean Coutu Group s claim is with merit. The Company anticipates the suit being resolved prior to closing. If it is determined that the Company cannot assume the 8.5% Senior Subordinated Notes, the Company believes it will be able to fund the remaining cash component of the purchase price via the issuance of new debt.

The shares of Rite Aid common stock issuable to Jean Coutu Group in the Acquisition will represent approximately 30.2% of the total Rite Aid voting power after giving effect to the Acquisition. Upon the closing of the Acquisition, the Company will expand its Board of Directors to 14 members, with four of the seats being held by members designated by Jean Coutu Group. In connection with entering into the Stock Purchase Agreement, on August 23, 2006, the Company entered into a Stockholder Agreement (the Stockholder Agreement) with Jean Coutu Group and certain Coutu family members that will become effective upon consummation of the Acquisition and will govern, among other matters, Jean Coutu Group s ownership interest in the Company. The Stockholder Agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. The Company and Jean Coutu Group also entered into a Registration Rights Agreement giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of Rite Aid common stock to be

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issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market purchase rights under the Stockholder Agreement.

The Company and Jean Coutu Group have each made customary representations, warranties and covenants in the Stock Purchase Agreement, including, among others, Jean Coutu Group s covenant to cause Jean Coutu USA and its subsidiaries to conduct their business in the ordinary course between the execution of the Agreement and the closing of the Acquisition and to refrain from certain types of transactions during that period. Consummation of the Acquisition is subject to customary conditions, including, among others: (i) stockholder approval of the issuance of Rite Aid common stock to Jean Coutu Group, (ii) expiration or termination of the applicable antitrust waiting period, (iii) receipt of NYSE listing approval with respect to the shares of Rite Aid common stock to be issued to Jean Coutu Group, (iv) absence of any law or order prohibiting the consummation of the Acquisition, (v) no threatened or pending litigation seeking to limit Rite Aid s ownership or operation of Rite Aid s or Jean Coutu USA s assets and (vi) subject to certain exceptions, the accuracy of the representations and warranties of the parties. The Company has scheduled a special meeting of its stockholders on January 18, 2007 to obtain approval of the issuance of Rite Aid common stock to Jean Coutu Group. A definitive proxy statement describing the transaction was filed with the SEC on November 30, 2006 and has been mailed to the stockholders. Timing of the consummation of the Acquisition is dependent upon the timing of the above items. The Company expects that this transaction will close shortly after the end of the fourth quarter of fiscal 2007.

4. Loss Per Share

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

	Thirteen Week Period Ended December 2, 2006	November 26, 2005	Thirty-Nine Week Period Ended December 2, 2006	November 26, 2005
Numerator for loss per share:				
Net income (loss)	$ 1,104	$ (5,220)	$ 11,729	$ 26,633
Premium to redeem preferred stock				(5,883)
Accretion of redeemable preferred stock	(26)	(26)	(77)	(77)
Cumulative preferred stock dividends	(7,897)	(7,254)	(23,494)	(25,020)
Loss attributable to common stockholders	$ (6,819)	$ (12,500)	$ (11,842)	$ (4,347)
Denominator:				
Basic and diluted weighted average shares	524,556	525,349	523,465	523,296
Basic and diluted loss per share:	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.01)

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

	Thirteen Week Period Ended December 2, 2006	November 26, 2005	Thirty-Nine Week Period Ended December 2, 2006	November 26, 2005
Stock options	65,511	67,953	65,511	67,953
Convertible preferred stock	99,333	112,704	99,333	112,704
Convertible debt(1)	38,462	38,462	38,462	38,462
	203,306	219,119	203,306	219,119

(1) Dilutive shares related to the 4.75% convertible notes that were paid at maturity on December 1, 2006.

5. Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Thirteen Week Period Ended December 2, 2006	November 26, 2005	Thirty-Nine Week Period Ended December 2, 2006	November 26, 2005
Impairment charges	$ 689	$ 3,517	$ 12,081	$ 10,321
Store and equipment lease exit charges (credits)	4,430	(865)	12,072	15,984
	$ 5,119	$ 2,652	$ 24,153	$ 26,305

Impairment charges

Impairment charges include non-cash charges of $689 and $3,517 for the thirteen week periods ended December 2, 2006 and November 26, 2005, for the impairment of long-lived assets at 11 and 28 stores, respectively. Impairment charges include non-cash charges of $12,081 and $10,321 for the thirty-nine week periods ended December 2, 2006 and November 26, 2005, for the impairment of long-lived assets at 30 and 62 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management s intention to relocate or close the store.

Store and equipment lease exit charges

During the thirteen week periods ended December 2, 2006 and November 26, 2005, the Company recorded charges for 15 and 5 stores to be closed or relocated under long term leases in each respective period. During the thirty-nine week periods ended December 2, 2006 and November 26, 2005, the Company recorded charges for 33 and 17 stores to be closed or relocated under long term leases in each respective period. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in

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SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The Company calculates its liability for closed stores on a store-by-store basis. The calculation includes future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. This liability is discounted using a risk-free rate of interest. The Company evaluates these assumptions each quarter and adjusts the liability accordingly. The amounts of the closed store charges that relate to new closures, changes in assumptions, and interest accretion are presented in the following table.

	Thirteen Week Period Ended December 2, 2006	**November 26, 2005**	**Thirty-Nine Week Period Ended December 2, 2006**	**November 26, 2005**
Balance beginning of period	$ 201,702	$ 219,952	$ 208,455	$ 220,903
Provision for present value of noncancellable lease payments of stores designated to be closed	2,058	841	9,496	11,745
Changes in assumptions about future sublease income, terminations and changes in interest rates	975	(3,897)	(3,205)	(1,989)
Reversals of reserves for stores that management has determined will remain open	(812)		(812)	(271)
Interest accretion	2,219	2,193	7,068	6,526
Cash payments, net of sublease income	(8,965)	(9,223)	(23,825)	(27,048)
Balance-end of period	$ 197,177	$ 209,866	$ 197,177	$ 209,866

The Company s revenues and income before income taxes for the thirteen and thirty-nine week periods ended December 2, 2006 and November 26, 2005 include results from stores that have been closed as of December 2, 2006. The revenue and operating losses of these stores for the periods are presented as follows:

	Thirteen Week Period Ended December 2, 2006	**November 26, 2005**	**Thirty-Nine Week Period Ended December 2, 2006**	**November 26, 2005**
Revenues	$ 4,809	$ 36,045	$ 34,594	$ 148,934
Loss from operations	911	2,972	7,459	9,288

Included in these stores loss from operations for the thirteen week periods ended December 2, 2006 and November 26, 2005, are depreciation and amortization charges of $45 and $357 and closed store inventory liquidation charges of $866 and $1,812, respectively. Included in these stores loss from operations for the thirty-nine week periods ended December 2, 2006 and November 27, 2005, are depreciation and amortization charges of $291 and $1,461 and closed store inventory liquidation charges of

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$4,538 and $4,543, respectively. Loss from operations does not include any allocation of corporate level overhead costs. The above results are not necessarily indicative of the impact that these closures will have on revenues and operating results of the Company in the future, as the Company often transfers the business of a closed store to another Company store, thereby retaining a portion of these revenues.

6. Accounts Receivable

The Company maintains securitization agreements with several multi-seller asset-backed commercial paper vehicles (CPVs). Under the terms of the securitization agreements, the Company sells substantially all of its eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retains servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of the Company s affiliates. These agreements provide for the Company to sell, and for the SPE to purchase these receivables. The SPE then transfers an interest in these receivables to various CPVs. Transferred outstanding receivables cannot exceed $400,000.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution (Securitization Formula). Adjustments to this amount can occur on a weekly basis. At December 2, 2006 and March 4, 2006, the total outstanding receivables that have been transferred to CPVs were $370,000 and $330,000, respectively. The average amount of outstanding receivables transferred during the thirteen week periods ended December 2, 2006 and November 26, 2005 was $345,549 and $313,736, respectively. Total receivable transfers for the thirteen week periods ended December 2, 2006 and November 26, 2005 totaled approximately $1,242,000 and $1,161,000, respectively. Collections made by the Company as part of the servicing agreements on behalf of the CPVs, for the thirteen week periods ended December 2, 2006 and November 26, 2005 totaled approximately $1,197,000 and $1,106,000, respectively. The average amount of outstanding receivables transferred during the thirty-nine week periods ended December 2, 2006 and November 26, 2005 was $333,388 and $226,703, respectively. Total receivable transfers for the thirty-nine week periods ended December 2, 2006 and November 26, 2005 totaled approximately $3,473,000 and $2,572,000, respectively. Collections made by the Company as part of the servicing agreements on behalf of the CPVs, for the thirty-nine week periods ended December 2, 2006 and November 26, 2005 totaled approximately $3,433,000 and $2,377,000, respectively. At December 2, 2006 and March 4, 2006, the Company retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $210,817 and $248,274, respectively, inclusive of the allowance for uncollectible accounts, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

The Company is subject to an ongoing program fee of LIBOR plus 1.125% on the amount transferred to the CPVs under the securitization agreements and must pay a liquidity fee of 0.375% on the daily unused amount under the securitization agreements. The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Program and liquidity fees for the thirteen week periods ended December 2, 2006 and November 26, 2005 were $5,637 and $4,004 respectively. Program and liquidity fees for the thirty-nine week periods ended December 2, 2006 and November 26, 2005 were $16,065 and $8,444 respectively. Rite Aid Corporation guarantees certain performance

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obligations of its affiliates under the securitization agreements, which includes the continued servicing of such receivables, but does not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2007.

Proceeds from the collections under the receivables securitization agreements are submitted to an independent trustee on a daily basis. The trustee withholds any cash necessary to (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to the Company s corporate concentration account. At December 2, 2006 and March 4, 2006, the Company had $2,967 and $2,219 of cash respectively that is restricted for the payment of trustee fees.

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

7. Sale Leaseback Transactions

During the thirty-nine week period ended December 2, 2006, the Company sold a total of 17 owned properties to independent third parties. Net proceeds from these sales were $42,754. Concurrent with these sales, the Company entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. The Company accounted for 13 of these leases as operating leases. A gain on the sale of these stores of $2,072 was deferred and is being recorded over the minimum term of these leases. The remaining four leases were accounted for using the financing method, as these lease agreements contain a clause that allows the buyer to force the Company to repurchase the property under certain conditions. The Company recorded a capital lease obligation of $11,072 related to these four leases. Losses of $416 were recorded as losses on the sale of assets and investments for the thirty-nine week period ended December 2, 2006. Future scheduled minimum lease payments under these leases for the remainder of fiscal 2007 and the succeeding four fiscal years are as follows: 2007 $909; 2008 $3,639; 2009 $3,639; 2010 $3,639; 2011 $3,639 and $59,772 in 2012 and thereafter.

During the thirty-nine week period ended November 26, 2005, the Company sold the land and buildings on 28 owned properties to independent third parties. Net proceeds from the sale were $77,857. Concurrent with these sales, the Company entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. The Company is accounting for 27 of these leases as operating leases. A gain of $14,552 was deferred and is being recorded over the minimum lease term. The remaining one lease is accounted for using the financing method, as the lease agreements contain a clause that allows the buyer to force the Company to repurchase the properties under certain conditions. The Company recorded a capital lease obligation of $2,324 related to this lease.

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8. Goodwill and Other Intangibles

The Company evaluates goodwill for impairment on an annual basis at the end of its fiscal year. Intangible assets other than goodwill are finite-lived and amortized over their useful lives. Following is a summary of the Company s amortizable intangible assets as of December 2, 2006 and March 4, 2006.

	December 2, 2006			**March 4, 2006**		
	Gross Carrying Amount	**Accumulated Amortization**	**Weighted Average Amortization Period**	**Gross Carrying Amount**	**Accumulated Amortization**	**Weighted Average Amortization Period**
Favorable leases and other	$ 306,337	$ (202,618)	17 years	$ 306,665	$ (195,669)	18 years
Prescription files	424,056	(342,463)	12 years	408,519	(326,287)	12 years
Total	$ 730,393	$ (545,081)		$ 715,184	$ (521,956)	

The remaining weighted average amortization period for the Company s prescription file assets was 3.25 years as of December 2, 2006. Amortization expense for these intangible assets was $10,214 and $30,028 for the thirteen and thirty-nine week periods ended December 2, 2006. Amortization expense for these intangible assets was $8,361 and $23,350 for the thirteen and thirty-nine week periods ended November 26, 2005. The anticipated annual amortization expense for these intangible assets is 2007 $38,987; 2008 $36,269; 2009 $32,577; 2010 $26,689; and 2011 $18,214.

9. Income Taxes

The Company recorded income tax expense of $175 and $1,688 for the thirteen and thirty-nine week periods ended December 2, 2006 and an income tax benefit of $1,079 and income tax expense of $10,635 for the thirteen and thirty-nine week periods ended November 26, 2005.

The provision for income taxes for the thirty-nine week period ended December 2, 2006 was net of a reduction of a liability for state taxes of $7,467.

The provision for income taxes for the thirty-nine week period ended November 26, 2005 was net of the results of the receipt of a federal refund claim of $7,848 which related to the fiscal 2004 conclusion of the Internal Revenue Service examination for fiscal years 1996 through 2000.

The Company regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. Management will continue to monitor all available evidence related to the net deferred tax assets that may change the most recent assessment, including events that have occurred or are anticipated to occur. As a result of the Company s operating performance and the more favorable near term outlook for profitability, the Company released $1,231,087 of valuation allowance in the fourth quarter of fiscal 2006. The Company continues to maintain a valuation allowance against net deferred tax assets of $259,602, which relates primarily to state net operating loss carryforwards and federal capital loss carryforwards.

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The Company had an ownership change for statutory purposes during fiscal 2002, which resulted in a limitation on the future use of net operating loss carryforwards. The Company believes that this limitation does not impair the net operating loss carryforwards.

10. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at December 2, 2006 and March 4, 2006:

	December 2, 2006	March 4, 2006
Secured Debt:		
Senior secured revolving credit facility due September 2010	$ 875,000	$ 534,000
Senior secured credit facility term loan due September 2010	145,000	
12.5% senior secured notes due September 2006 ($142,025 face value less unamortized discount of $1,040)		140,985
8.125% senior secured notes due May 2010 ($360,000 face value less unamortized discount of $2,334 and $2,834)	357,666	357,166
9.5% senior secured notes due February 2011	300,000	300,000
7.5% senior secured notes due January 2015	200,000	200,000
Other	1,719	1,962
	1,879,385	1,534,113
Lease Financing Obligations	177,539	178,227
Unsecured Debt:		
4.75% convertible notes due December 2006 ($250,000 face value less unamortized discount of $1,000)		249,000
7.125% notes due January 2007	184,074	184,074
6.125% fixed-rate senior notes due December 2008	150,000	150,000
9.25% senior notes due June 2013 ($150,000 face value less unamortized discount of $1,561 and $1,741)	148,439	148,259
6.875% senior debentures due August 2013	184,773	184,773
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	1,090,286	1,339,106
Total debt	3,147,210	3,051,446
Current maturities of convertible notes, long-term debt and lease financing obligations	(197,603)	(584,196)
Long-term debt and lease financing obligations, less current maturities	$ 2,949,607	$ 2,467,250

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Credit Facility

In November 2006, the Company entered into an amendment of its senior secured credit facility to permit the closing of the Acquisition. Pursuant to the terms of the senior secured credit facility amendment, the Company established a senior secured term loan facility in the aggregate principal amount of $145,000 and borrowed the full amount thereunder. Proceeds from the borrowings under the new senior secured term loan facility (the Tranche 1 Term Loans) were used to pay amounts outstanding under the revolving credit facility, which had been used to repay, at maturity, the outstanding principal and accrued interest payable under the Company s 12.5% senior secured notes due September 2006.

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

In addition to the issuance of the Tranche 1 Term Loans, the lenders to the senior secured credit facility agreed to establish, in connection with the Acquisition, an additional senior secured term loan facility in an aggregate principal amount of $1,105,000 (the Tranche 2 Term Loans). On the closing date of the Acquisition, the Company expects to draw approximately $680,000 of the Tranche 2 Term Loans and use the proceeds to pay a portion of the consideration for the Acquisition and other Acquisition related costs. The Company expects to draw the remaining $425,000 available under Tranche 2 Term Loans on or after the date that it files its first post-closing consolidated balance sheet with the SEC. These proceeds will be used to repay outstanding borrowings under the revolving credit facility.

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

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The senior secured credit facility allows the Company to have outstanding, at any time, up to $1,800,000 in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2010, as described below). The Company has the ability to incur additional unsecured debt of up to $750,000 with a scheduled maturity date prior to December 31, 2010. The maximum amount of additional secured subordinated debt and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1,800,000. At December 2, 2006, remaining additional permitted secured subordinated debt under the senior secured credit facility was $940,000 in addition to what is available under the revolver; however, other debentures do not permit additional secured debt if the revolver is fully drawn. The amendment of the senior secured credit facility that will occur at the closing of the Acquisition will permit the incurrence of the Tranche 1 and Tranche 2 term loans discussed above without reducing the Company s ability to incur additional secured or unsecured debt under the senior secured credit facility. The senior secured credit facility allows the Company to incur an unlimited amount of unsecured debt with a maturity beyond December 31, 2010; however other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows for the repurchase of any debt with a maturity on or before December 2010, and for the repurchase of debt with a maturity after December 2010, if the Company maintains availability on the revolving credit facility of at least $100,000.

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

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

The Company s ability to borrow under the revolving credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At December 2, 2006, the Company had $875,000 of borrowings outstanding under the revolving credit facility. At December 2, 2006, the Company also had letters of credit outstanding against the revolving credit facility of $117,138, which gave the Company additional borrowing capacity of $757,862.

Other Transactions

On December 1, 2006, the Company paid at maturity the remaining outstanding principal amount of $250,000 of the Company s 4.75% convertible notes due December 2006. The Company funded this payment with borrowings under its revolving credit facility.

On September 15, 2006, the Company paid at maturity the remaining outstanding principal amount of $142,025 of the Company s 12.5% senior secured notes due September 2006. The Company funded this

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payment with borrowings under its Revolving Credit Facilities which were subsequently repaid with borrowings of the Tranche 1 Term Loans.

On July 15, 2005, the Company completed the early redemption of all of its outstanding $150,000 aggregate principal amount of 11.25% notes due July 2008 at their contractually determined early redemption price of 105.625%. The Company funded this redemption with borrowings under its receivable securitization agreements. The Company recorded a loss on debt modification of $9,186 in the thirty-nine week period ended November 26, 2005 related to this transaction.

On April 15, 2005, the Company paid at maturity the remaining outstanding principal amount of $170,500 of the Company s 7.625% senior notes due April 2005.

Other

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2007 and the succeeding five fiscal years are as follows: 2007 $184,281; 2008 $632; 2009 $150,329; 2010 $117; 2011 $1,677,764 and $956,548 in 2012 and thereafter. The Company is in compliance with restrictions and limitations included in the provisions of various loan and credit agreements.

Substantially all of Rite Aid Corporation s wholly-owned subsidiaries guarantee the obligations under the senior secured credit facility. The subsidiary guarantees are secured by a first priority lien on, among other things the inventory and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from its subsidiaries to service payments due under the senior secured credit facility. Rite Aid Corporation s direct obligations under the senior secured credit facility are unsecured. The 9.5% senior secured notes due 2011, the 8.125% senior secured notes due 2010 and the 7.5% senior secured notes due 2015 are guaranteed by substantially all of the Company s wholly-owned subsidiaries, which are the same subsidiaries that guarantee the senior secured credit facility and are secured on a second priority basis by the same collateral as the senior secured credit facility.

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

11. Stock Option and Stock Award Plans

As disclosed in Note 2, effective March 5, 2006, the Company adopted SFAS No. 123 (R), Share-Based Payment using the modified prospective transition method. Operating results for the thirteen and thirty-nine week periods ended December 2, 2006 includes $7,245 and $15,851 of compensation costs related to the Company s stock based compensation arrangements. Operating results for the thirteen and thirty-nine week periods ended November 26, 2005 includes $6,054 and $15,219 of compensation costs related to the Company s stock based compensation arrangements.

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The Company reserved 22,000 shares of its common stock for the granting of stock options and other incentive awards to officers and key associates under the 1990 Omnibus Incentive Plan (the 1990 Plan), which was approved by the shareholders. Options may be granted, with or without stock appreciation rights (SAR). The exercise of either a SAR or option automatically will cancel any related option or SAR. Under the 1990 Plan, the payment for SARs will be made in shares, cash or a combination of cash and shares at the discretion of the Compensation Committee.

In November 1999, the Company adopted the 1999 Stock Option Plan (the 1999 Plan), under which 10,000 shares of common stock are authorized for the granting of stock options at the discretion of the Board of Directors.

In December 2000, the Company adopted the 2000 Omnibus Equity Plan (the 2000 Plan) under which 22,000 shares of common stock are reserved for granting of restricted stock, stock options, phantom stock, stock bonus awards and other awards at the discretion of the Board of Directors.

In February 2001, the Company adopted the 2001 Stock Option Plan (the 2001 Plan) which was approved by the shareholders under which 20,000 shares of common stock are authorized for granting of stock options at the discretion of the Board of Directors.

In April 2004, the Board of Directors adopted the 2004 Omnibus Equity Plan, which was approved by the shareholders. Under the plan, 20,000 shares of common stock are authorized 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.

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 shares authorized for issuance for all plans is 67,983 as of December 2, 2006.

The Company has issued approximately 10,370 options to certain senior executives pursuant to their individual employment contracts. These options were not issued out of the plans listed above, but are included in the option tables herein.

Stock Options

The Company determines the fair value of each option issued on the date of grant using the Black-Scholes-Merton option pricing model. The following assumptions were used for options granted in the thirteen and thirty-nine week periods ended December 2, 2006 and November 26, 2005.

	Thirteen Week Period Ended December 2, 2006		November 26, 2005		Thirty-Nine Week Period Ended December 2, 2006		November 26, 2005	
Expected stock price volatility	54.5	%	57.7	%	56.0	%	59.0	%
Expected dividend yield	0.0	%	0.0	%	0.0	%	0.0	%
Risk free interest rate	4.50	%	4.30	%	5.00	%	4.00	%
Expected option life	5.5 years		4.0 years		5.5 years		4.0 years	

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The weighted average fair value of each option granted during the thirteen and thirty-nine week periods ended December 2, 2006 was $2.58 and $2.47, respectively. The weighted average fair value of each option granted during the thirteen and thirty-nine week periods ended November 26, 2005 was $1.84 and $1.99, respectively.

Following is a summary of stock option transactions for the thirty-nine week period ended December 2, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 4, 2006	62,718	$ 4.72		
Granted	6,779	4.43		
Exercised	(1,459)	2.94		
Cancelled	(2,528)	9.61		
Outstanding at December 2, 2006	65,510	4.54	5.50	$ 61,086
Exercisable at December 2, 2006	49,525	4.62	4.52	$ 53,015

As of December 2, 2006, there was $26,042 of total unrecognized pre-tax compensation costs related to nonvested stock options, net of forfeitures. These costs are expected to be recognized over a weighted average period of 2.67 years.

Cash received from stock option exercises for the thirteen and thirty-nine week periods ended December 2, 2006 was $1,794 and $4,292, respectively. Cash received from stock option exercises for the thirteen and thirty-nine week periods ended November 26, 2005 was $1,382 and $5,490, respectively. The income tax benefits from stock options exercised totaled $427 and $750 for the thirteen and thirty-nine week periods ended December 2, 2006.

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Restricted Stock

The Company provides restricted stock grants to associates under plans approved by the stockholders. Shares awarded under the plans vest in installments up to three years and unvested shares are forfeited upon termination of employment. Additionally, vesting of 647 shares awarded to certain senior executives is conditional upon the Company meeting specified performance targets. Following is a summary of restricted stock activity for the thirty-nine week period ended December 2, 2006.

	Shares	Weighted Average Grant Date Fair Value
Balance, March 4, 2006	5,735	$ 4.00
Granted	4,994	4.35
Vested	(1,870)	4.02
Cancelled	(737)	4.14
Balance, December 2, 2006	8,122	4.20

Compensation expense related to restricted stock grants is being amortized and recognized over a three year period. At December 2, 2006, there was $23,826 of total unrecognized pre-tax compensation costs related to nonvested restricted stock grants. These costs are expected to be recognized over a weighted average period of 2.06 years.

The total fair value of restricted stock vested during the thirteen week periods ended December 2, 2006 and November 26, 2005 was $3,135 and $3,226, respectively. The total fair value of restricted stock vested during the thirty-nine week periods ended December 2, 2006 and November 26, 2005 was $7,523 and $3,548, respectively.

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12. Retirement Plans

Net periodic pension expense recorded in the thirteen and thirty-nine week periods ended December 2, 2006 and November 26, 2005, for the Company s defined benefit plans includes the following components:

	Defined Benefit Pension Plan Thirteen Week Period Ended		Nonqualified Executive Retirement Plans		Defined Benefit Pension Plan Thirty-Nine Week Period Ended		Nonqualified Executive Retirement Plans	
	December 2, 2006	November 26, 2005	December 2, 2006	November 26, 2005	December 2, 2006	November 26, 2005	December 2, 2006	November 26, 2005
Service cost	$ 863	$ 636	$ 21	$ 19	$ 2,423	$ 2,010	$ 63	$ 57
Interest cost	1,294	975	276	305	3,906	3,327	828	914
Expected return on plan assets	(1,206)	(975)			(3,144)	(2,053)		
Amortization of unrecognized net transition obligation			21	21			63	63
Amortization of unrecognized prior service cost	192	211			546	457		
Amortization of unrecognized net loss	(2)	182	44	34	1,260	1,408	132	102
Net pension expense	$ 1,141	$ 1,029	$ 362	$ 379	$ 4,991	$ 5,149	$ 1,086	$ 1,136

During the thirty-nine week period ended December 2, 2006 the Company made contributions of $10,700 to the Defined Benefit Pension Plan and $1,223 to the Nonqualified Executive Retirement Plans. During the remainder of fiscal 2007 the Company expects to contribute approximately $381 to the Nonqualified Executive Retirement Plans.

13. Commitments and Contingencies

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

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

Overview

Net income for the thirteen week period ended December 2, 2006 was $1.1 million compared to a loss of $5.2 million for the thirteen week period ended November 26, 2005. The improvement in operating results was due primarily to an increase in revenues and the resulting gross profit and improvement in selling, general and administrative expenses (SG&A) as a percent of revenue. These items are described in further detail in the Results of Operations section below.

Net income for the thirty-nine week period ended December 2, 2006 was $11.7 million compared to $26.6 million for the thirty-nine week period ended November 26, 2005. The decrease in operating results was caused by a decrease in gross margin rate and an increase in SG&A expense. These items were partially offset by an increase in revenues and resulting gross profit, the absence of a $9.2 million charge recorded in the thirty-nine week period ended November 26, 2005 related to the early redemption of our 11.25% senior notes due July 2008 and a decrease in income tax expense. These items are described in further detail in the Results of Operations section below.

Planned Acquisition

On August 23, 2006, we entered into a Stock Purchase Agreement (the Agreement) with The Jean Coutu Group (PJC) Inc. (Jean Coutu Group). Under the terms of the Agreement, we will acquire (the Acquisition) from Jean Coutu Group all of the outstanding capital stock of The Jean Coutu Group (PJC) USA, Inc. (Jean Coutu USA), a wholly owned subsidiary of Jean Coutu Group, which is engaged in the business of owning and operating retail pharmacy stores conducting business under the Eckerd and Brooks banners. As consideration for the Acquisition, we will issue 250 million shares of Rite Aid common stock, will pay $1.45 billion in cash, subject to a working capital adjustment, and intend to assume $850 million of Jean Coutu Group s 8.5% Senior Subordinated Notes due 2014 with the cash component increasing to $2.3 billion if the notes are not assumed. We intend to finance the Acquisition through a combination of the issuance of new debt and the assumption of the $850 million of Jean Coutu Group s 8.5% Senior Subordinated Notes. Certain holders of the Jean Coutu Group s 8.5% Senior Subordinated Notes have claimed that the indenture governing the 8.5% Senior Subordinated Notes does not allow us to assume them and therefore the trustee of the 8.5% Senior Subordinated Notes has indicated to Jean Coutu Group that it is not willing to execute a supplemental indenture evidencing our assumption of the 8.5% Senior Subordinated Notes. Consequently, Jean Coutu Group has recently commenced an action seeking a declaration that our assumption of the 8.5% Senior Subordinated Notes is permitted under the indenture. We believe that Jean Coutu Group s claim is with merit. We anticipate the suit being resolved prior to closing. If it is determined that we cannot assume the long-term notes, we believe we will be able to fund the remaining cash component of the purchase price via the issuance of new debt.

The shares of Rite Aid common stock issuable to Jean Coutu Group in the Acquisition will represent approximately 30.2% of our total voting power after giving effect to the Acquisition. Upon the closing of the Acquisition, we will expand our Board of Directors to 14 members, with four of the seats being held by members designated by Jean Coutu Group. In connection with entering into the Stock Purchase Agreement, on August 23, 2006, we entered into a Stockholder Agreement (the Stockholder Agreement) with Jean Coutu Group and certain Coutu family members that will become effective upon consummation of the Acquisition and will govern, among other matters, Jean Coutu Group s ownership interest in Rite Aid. The Stockholder Agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. We also entered into a Registration Rights Agreement with Jean Coutu Group giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of our common stock to be issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market purchase rights under the Stockholder Agreement.

Rite Aid and Jean Coutu Group have each made customary representations, warranties and covenants in the Stock Purchase Agreement, including, among others, Jean Coutu Group s covenant to cause Jean Coutu USA and its subsidiaries to conduct their business in the ordinary course between the execution of the Agreement and the closing of the Acquisition and to refrain from certain types of transactions during that period. Consummation of the Acquisition is subject to customary conditions, including, among others: (i) stockholder approval of the issuance of our common stock to Jean Coutu Group, (ii) expiration or termination of the applicable antitrust waiting period, (iii) receipt of NYSE listing approval with respect to the shares of our common stock to be issued to Jean Coutu Group, (iv) absence of any law or order prohibiting the consummation of the Acquisition, (v) no threatened or pending litigation seeking to limit our ownership or operation of Rite Aid s or Jean Coutu USA s assets and (vi) subject to certain exceptions, the accuracy of the representations and warranties of the parties. We have scheduled a special meeting of our stockholders on January 18, 2007 to obtain approval of the issuance of our common stock to Jean Coutu Group. A definitive proxy statement describing the transaction was filed with the SEC on November 30, 2006 and has been mailed to our stockholders. Timing of the consummation of the Acquisition is dependent upon the timing of the above items. We expect that this transaction will close shortly after the end of the fourth quarter of fiscal 2007.

Results of Operations

Revenues and Other Operating Data

	Thirteen Week Period Ended December 2, 2006		November 26, 2005		Thirty-Nine Week Period Ended December 2, 2006		November 26, 2005	
	(dollars in thousands)							
Revenues	$ 4,320,208		$ 4,145,683		$ 12,945,650		$ 12,499,642	
Revenue growth	4.2	%	0.9	%	3.6	%	0.2	%
Same store sales growth(1)	3.4	%	1.7	%	3.6	%	0.6	%
Pharmacy sales growth (decline)	5.0	%	0.1	%	4.4	%	(0.8	)%
Same store pharmacy sales growth (decline)(1)	4.3	%	0.7	%	4.5	%	(0.5	)%
Pharmacy sales as a % of total sales	64.3	%	63.8	%	64.1	%	63.6	%
Third party sales as a % of total pharmacy sales	95.5	%	94.1	%	95.3	%	94.0	%
Front-end sales growth	2.8	%	2.4	%	2.2	%	1.9	%
Same store front-end sales growth(1)	1.9	%	3.4	%	2.1	%	2.6	%
Front-end sales as a % of total sales	35.7	%	36.2	%	35.9	%	36.4	%
Store data:								
Total stores (beginning of period)	3,315		3,345		3,323		3,356	
New stores	10		8		21		10	
Store acquisitions, net	0		2		2		5	
Closed stores	(3	)	(22	)	(24	)	(38	)
Total stores (end of period)	3,322		3,333		3,322		3,333	
Relocated stores	13		8		34		20	
Remodeled stores	4		53		18		161	

(1) Same store sales for the thirteen and thirty-nine week periods ended December 2, 2006 are calculated by comparing the thirteen and thirty-nine weeks periods ended December 2, 2006 with the thirteen and thirty-nine week periods ended December 3, 2005.

Revenues

Revenue growth was 4.2% and 3.6% for the thirteen and thirty-nine week periods ended December 2, 2006, respectively. Pharmacy sales growth was 5.0% and 4.4% in the thirteen and thirty-nine week periods ended December 2, 2006, respectively and front-end sales growth was 2.8% and 2.2% in the thirteen and thirty-nine week periods ended December 2, 2006, respectively.

Pharmacy same store sales increased by 4.3% and 4.5% in the thirteen and thirty-nine week periods ended December 2, 2006, respectively, primarily driven by an increase in price per prescription and by same store prescription growth of 2.3% and 2.1% in the thirteen and thirty-nine week periods ended December 2, 2006, respectively. In addition to favorable demographic trends, our script growth was positively impacted by Medicare Part D and by initiatives such as our focus on customer satisfaction, prescription file buys, our senior loyalty program and the new and relocated store program. Partially offsetting these items was an increase in generic sales and lower reimbursement rates, including the lower reimbursement rates from the new Medicare Part D program.

Front-end same store sales increased by 1.9% and 2.1% in the thirteen and thirty-nine week periods ended December 2, 2006, respectively, primarily as a result of strong performance in core categories, such as over-the-counter and health and beauty and an increase in sales driven by promotional activities. These items were partially offset by a decrease in photo and film sales.

We include in same store sales all stores that have been open at least one year. Relocated stores are not included in the same store sales for one year. Stores in liquidation are considered closed.

Costs and Expenses

	Thirteen Week Period Ended December 2, 2006	**November 26, 2005**	**Thirty-Nine Week Period Ended December 2, 2006**	**November 26, 2005**
	(dollars in thousands)			
Cost of goods sold	$ 3,166,165	$ 3,023,739	$ 9,456,572	$ 9,075,083
Gross profit	1,154,043	1,121,944	3,489,078	3,424,559
Gross margin	26.7 %	27.1 %	27.0 %	27.4 %
Selling, general and administrative expenses	1,079,509	1,060,054	3,247,208	3,150,392
Selling, general and administrative expenses as a percentage of revenues	25.0 %	25.6 %	25.1 %	25.2 %
Store closing and impairment charges	5,119	2,652	24,153	26,305
Interest expense	68,184	66,909	205,703	205,273
Loss on debt modifications and retirements, net				9,186
Gain on sale of assets and investments, net	(48)	(1,372)	(1,403)	(3,865)

Cost of Goods Sold

Gross margin rate was 26.7% for the thirteen week period ended December 2, 2006 compared to 27.1% for the thirteen week period ended November 26, 2005. Gross margin rate was primarily impacted by a decline in front-end gross margin rate, which was caused by a higher mix of promotional sales, reduction in vendor income due to the expiration of exclusivity contracts and a reduction in photo and film gross profit. Also negatively impacting gross margin rate was an increase in LIFO charges. Pharmacy gross profit increased due to an increase in pharmacy sales, an increase in generic prescriptions and a reduction in pharmacy shrinkage. These positive pharmacy gross profit factors were somewhat offset by a reduction in reimbursement rates, particularly from Medicare Part D prescriptions and pharmacy inventory cost reductions. Pharmacy gross profit contribution to consolidated gross margin rate was flat. Also having a positive impact on gross margin rates was a decline in warehousing costs, driven primarily by good labor control.

Gross margin rate was 27.0% for the thirty-nine week period ended December 2, 2006 compared to 27.4% for the thirty-nine week period ended November 26, 2005. Gross margin rate was primarily impacted by a decline in front-end gross margin rate, which was caused by a higher mix of promotional sales, a reduction in photo and film gross profit and an increase in freight expense, which is driven by increased fuel costs. Gross margin rate was also negatively impacted by a pharmacy gross margin rate decrease. Although pharmacy gross profit was higher due to an increase in pharmacy sales, an increase in generic prescriptions and a reduction in pharmacy shrinkage, these positive factors were offset by a reduction in reimbursement rates, particularly from Medicare Part D prescriptions. Also negatively impacting gross margin rate was an increase in LIFO charges.

We use the last-in, first-out (LIFO) method of inventory valuation, which is determined annually when inflation rates and inventory levels are finalized. Therefore, LIFO costs for interim period financial statements are estimated. Cost of sales includes LIFO charges of $8.9 million and $26.8 million for the thirteen and thirty-nine week periods ended December 2, 2006 versus LIFO charges of $7.6 million and $22.8 million for the thirteen and thirty-nine week periods ended November 26, 2005. At December 2, 2006, inventories were $530.4 million lower than the amounts that would have been reported using the first-in first-out (FIFO) method.

Selling, General and Administrative Expenses

SG&A as a percentage of revenues was 25.0% in the thirteen week period ended December 2, 2006 compared to 25.6% in the thirteen week period ended November 26, 2005. SG&A was positively impacted primarily by good labor and benefit expense control. Partially offsetting this was an increase in rent and occupancy expense from new and relocated stores and the sale and leaseback of owned stores and an increase in depreciation and amortization expense resulting from capital expenditures related to prescription file buys and new and relocated stores

SG&A as a percentage of revenues was 25.1% in the thirty-nine week period ended December 2, 2006 compared to 25.2% in the thirty-nine week period ended November 26, 2005. SG&A was positively impacted primarily by good labor and benefit expense control. This was offset primarily by an increase in rent and occupancy expense from new and relocated stores and the sale and leaseback of owned stores, an increase in depreciation and amortization expense resulting from capital expenditures related to prescription file buys and new and relocated stores, and a decrease in income from litigation settlements.

Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Thirteen Week Period Ended December 2, 2006	November 26, 2005	Thirty-Nine Week Period Ended December 2, 2006	November 26, 2005
	(dollars in thousands)			
Impairment charges	$ 689	$ 3,517	$ 12,081	$ 10,321
Store and equipment lease exit charges (credits)	4,430	(865)	12,072	15,984
	$ 5,119	$ 2,652	$ 24,153	$ 26,305

Impairment Charges: Impairment charges include non-cash charges of $0.7 million and $3.5 million in the thirteen week periods ended December 2, 2006 and November 26, 2005, respectively, for the impairment of long- lived assets at 11 and 28 stores, respectively. Impairment charges include non-cash charges of $12.1 million and $10.3 million for the thirty-nine week periods ended December 2, 2006 and November 26, 2005, respectively, for the impairment of long-lived assets at 30 and 62 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management s intention to relocate or close the store.

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Store and Equipment Lease Exit Charges: During the *thirteen week periods ended* December 2, 2006 *and November 26, 2005, we recorded charges for 15 stores and 5 stores, respectively, to be closed or relocated under long-term leases. During the thirty-nine week periods ended* December 2, 2006 *and November 26, 2005, we recorded charges for 33 and 17 stores, respectively, to be closed or relocated under long-term leases. Charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . We calculate our liability for closed stores on a store-by-store basis. The calculation includes the future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or favorable lease terminations. This liability is discounted using a risk free rate of interest. We evaluate these assumptions each quarter and adjust the liability accordingly.*

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

Interest Expense

Interest expense was $68.2 million and $205.7 million for the thirteen and *thirty-nine* week periods ended December 2, 2006, compared to $66.9 million and $205.3 million for the thirteen and *thirty-nine* week periods ended *November 26, 2005*. The increase in interest expense for the thirteen week period ended December 2, 2006 was due to an increase in interest rates on our revolving credit facility and a slightly higher level of borrowings.

The weighted average interest rates on our indebtedness for the thirty-nine week period ended December 2, 2006 and November 26, 2005 were 7.5% and 7.4%, respectively.

Income Taxes

We recorded income tax expense of $0.2 million and $1.7 million for the thirteen and thirty-nine week periods ended December 2, 2006 and an income tax benefit of $1.1 million and income tax expense of $10.6 million for the thirteen and thirty-nine week periods ended November 26, 2005, respectively. The income tax expense for the thirty-nine week period ended December 2, 2006 was net of a reduction of a liability for state taxes of $7.5 million. The income tax expense for the thirty-nine week period ended November 26, 2005 was net of the results of the receipt of a federal refund claim of $7.8 million which related to the fiscal 2004 conclusion of the Internal Revenue Service examination for the fiscal years 1996 through 2000.

We expect to pay minimal cash taxes as we have approximately $2.3 billion of federal net operating losses and $4.0 billion of state net operating losses available to offset future income.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We will continue to monitor all available evidence related to the net deferred tax assets that may change the most recent assessment, including events that have occurred or are anticipated to occur. At the end of fiscal 2006, management concluded that the majority of the net deferred tax assets would be utilized. Thus, pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, management released $1,231.1 million of the valuation allowance. We continue to maintain a valuation allowance against net deferred tax assets of $259.6 million, which relates primarily to state net operating loss carryforwards and federal capital loss carryforwards.

Liquidity and Capital Resources

General

We have five primary sources of liquidity: (i) cash and cash equivalents, (ii) cash provided by operating activities, (iii) cash provided by our accounts receivable securitization program, (iv) the revolving credit facility and (v) sale-leasebacks of owned property. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt, to provide funds for capital expenditures and to provide funds for payment and repurchase of our publicly traded debt.

Credit Facility

In November 2006, we entered into an amendment of our senior secured credit facility to permit the closing of the Acquisition. Pursuant to the terms of the senior secured facility amendment, we established a senior secured term loan facility in the aggregate principal amount of $145.0 million and borrowed the full amount thereunder. Proceeds from the borrowings under the new senior secured term loan facility (the Tranche 1 Term Loans) were used to pay amounts outstanding under the revolving credit facility, which had been used to repay, at maturity, the outstanding principal and accrued interest payable under our 12.5% senior secured notes due September 2006.

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

In addition to the issuance of the Tranche 1 Term Loans, the lenders to the senior secured credit facility agreed to establish, in connection with the Acquisition, an additional senior secured term loan facility in an aggregate principal amount of $1.105 billion (the Tranche 2 Term Loans). On the closing date of the Acquisition, we expect to draw approximately $680.0 million of the Tranche 2 Term Loans and use the proceeds to pay a portion of the consideration for the Acquisition and other Acquisition related costs. We expect to draw the remaining $425.0 million available under Tranche 2 Term Loans on or after the date that we file our first post-closing consolidated balance sheet with the SEC. These proceeds will be used to repay outstanding borrowings under the revolving credit facility.

In addition to the Tranche 1 term loans described above, our senior credit facility consists of a $1.75 billion revolving credit facility. Borrowings under the revolving credit facility currently bear interest at LIBOR plus 1.50%, if we choose to make LIBOR borrowings, or at Citibank s base rate plus 0.50%. The interest rate can fluctuate depending on the amount of revolver availability, as specified in the senior secured credit facility. We are required to pay fees of 0.25% per annum on the daily unused amount of the revolving credit facility. The amounts drawn on the revolving credit facility become due and payable in September 2010.

The senior secured credit facility allows us to have outstanding, at any time, up to $1.8 billion in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2010, as described below). We have the ability to incur additional unsecured debt of up to $750.0 million with a scheduled maturity date prior to December 31, 2010. The maximum amount of additional secured subordinated debt and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1.8 billion. At December 2, 2006, remaining additional permitted secured subordinated debt under the senior secured credit facility was $940.0 million in addition to what is available under the revolver; however, other debentures do not permit additional secured debt if the revolver is fully drawn. The amendment of our senior secured credit facility that will occur at the closing of the Acquisition will permit the issuance of the Tranche 1 and Tranche 2 term loans discussed above without reducing our ability to incur additional secured or unsecured debt under the senior secured credit facility. The senior secured credit facility allows us to incur an unlimited amount of unsecured debt with a maturity beyond December 31, 2010, however other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows for the repurchase of any debt with a maturity on or before December 2010, and for the repurchase of debt with a maturity after December 2010, if we maintain availability on the revolving credit facility of at least $100.0 million.

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

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

Our ability to borrow under the revolving credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At December 2, 2006, we had $875.0 million of borrowings outstanding under the revolving credit facility. At December 2, 2006, we also had letters of credit outstanding against the revolving credit facility of $117.1 million, which gave us additional borrowing capacity of $757.9 million.

Other Transactions

On December 1, 2006, we paid at maturity the remaining outstanding principal amount of $250.0 million of our 4.75% convertible notes due December 2006. We funded this payment with borrowings under our revolving credit facility.

On September 15, 2006, we paid at maturity the remaining outstanding principal amount of $142.0 million of our 12.5% senior secured notes due September 2006. We funded this payment with borrowings under our Revolving Credit Facilities which were subsequently repaid with borrowings of the Tranche 1 term loans.

On July 15, 2005, we completed the early redemption of all of our outstanding $150.0 million aggregate principal amount of 11.25% notes due July 2008 at their contractually determined early redemption price of 105.625%. We funded this redemption with borrowings under our receivable securitization agreements. We recorded a loss on debt modification of $9.2 million in the thirty-nine week period ended November 26, 2005 related to this transaction.

On April 15, 2005, we paid at maturity the remaining outstanding principal amount of $170.5 million of our 7.625% senior notes due April 2005.

Other

The aggregate annual principal payments of long-term debt for the remainder of fiscal 2007, and the succeeding five fiscal years are as follows: 2007 $184.3 million; 2008 $0.6 million; 2009 $150.3 million; 2010 $0.1 million; 2011 $1.7 billion and $956.5 million in 2012 and thereafter. We are in compliance with restrictions and limitations included in the provisions of our various loan and credit agreements.

Substantially all of Rite Aid Corporation s wholly owned subsidiaries guarantee the obligations under the senior secured credit facility. The subsidiary guarantees are secured by a first priority lien on, among other things the inventory and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from its subsidiaries to service payments due under the senior secured credit facility. Rite Aid Corporation s direct obligations under the senior secured credit facility are unsecured. The 9.5% senior secured notes due 2011, the 8.125% senior secured notes due 2010 and the 7.5% senior secured notes due 2015 are guaranteed by substantially all of our wholly-owned subsidiaries, which are the same subsidiaries that guarantee the senior secured credit facility and are secured on a second priority basis by the same collateral as the senior secured credit facility.

The subsidiary guarantees related to our senior secured credit facility and second priority bond issuances are full and unconditional and joint and several, and there are no restrictions on the ability of the parent to obtain funds from its subsidiaries. Also, the parent company has no independent assets or operations and subsidiaries not guaranteeing the senior secured credit facility and bond issuances are minor. Accordingly, condensed consolidating financial information for the parent and subsidiaries is not presented.

Sale Leaseback Transactions

During the *thirty-nine* week period ended December 2, 2006, we sold a total of 17 owned properties to independent third parties. Net proceeds from these sales were $42.8 million. Concurrent with these sales, we entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. We accounted for 13 of these leases as operating leases. A gain on the sale of these stores of $2.1 million was deferred and is being recorded over the minimum term of these leases. The remaining four leases were accounted for using the financing method, as these lease agreements contain a clause that allows the buyer to force us to repurchase the property under certain conditions. We recorded a capital lease obligation of $11.1 million related to these four leases. Losses of $0.4 million were recorded as losses on the sale of assets and investments for the period ended December 2, 2006. Future scheduled minimum lease payments under these leases for the remainder of fiscal 2007 and the succeeding four fiscal years are as follows: 2007 $0.9 million; 2008 $3.6 million; 2009 $3.6 million; 2010 $3.6 million; 2011 $3.6 million and $59.8 million in 2012 and thereafter.

During the *thirty-nine* week period ended November 26, 2005, we sold a total of 28 owned properties to independent third parties. Proceeds from these sales were approximately $77.9 million. Concurrent with these sales, we entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. We account for 27 of these leases as operating leases. A gain of $14.6 million was deferred and is being recorded over the minimum lease term. We account for the remaining lease as a capital lease, as the lease agreement contains a clause that allows the buyer to force us to repurchase the property under certain conditions. We recorded a capital lease obligation of $2.3 million related to this lease.

Off Balance Sheet Obligations

We maintain receivables securitization agreements with several multi-seller asset-backed commercial paper vehicles (CPVs). Under the terms of the securitization agreements, we sell substantially all of our eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retain servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of our affiliates. These agreements provide for us to sell, and for the SPE to purchase these receivables. The SPE then transfers an interest in these receivables to various CPVs. Transferred outstanding receivables can not exceed $400.0 million.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution (Securitization Formula). Adjustments to this amount can occur on a weekly basis. At December 2, 2006 and March 4, 2006, the total of outstanding receivables that had been transferred to the CPVs were $370.0 million and $330.0 million, respectively. The average amount of outstanding receivables transferred during the thirteen week periods ended December 2, 2006 and November 26, 2005 was $345.5 million and $313.7 million, respectively. Total receivable transfers for the thirteen week periods ended December 2, 2006 and November 26, 2005 totaled approximately $1,242.0 million and $1,161.0 million, respectively. Collections made by us as part of the servicing arrangement on behalf of the CPVs, for the thirteen week periods ended December 2, 2006 and November 26, 2005 totaled approximately $1,197.0 million and $1,106.0 million, respectively. The average amount of outstanding receivables transferred during the thirty-nine week periods ended December 2, 2006 and November 26, 2005 was $333.4 million and $226.7 million, respectively. Total receivable transfers for the thirty-nine week periods ended December 2, 2006 and November 26, 2005 totaled approximately $3,473.0 million and $2,572.0 million, respectively. Collections made by us as part of the servicing agreements on behalf of the CPVs, for the thirty-nine week periods ended December 2, 2006 and November 26, 2005 totaled approximately $3,433.0 million and $2,377.0 million, respectively. At December 2, 2006 and March 4, 2006, we retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $210.8 million and $248.2 million, respectively, inclusive of the allowance for uncollectible accounts, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

We are subject to an ongoing program fee of LIBOR plus 1.125% on the amount transferred to the CPVs under the securitization agreements and must pay a liquidity fee of 0.375% on the daily unused amount under the securitization agreements. The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Program and liquidity fees for the thirteen and thirty-nine weeks ended December 2, 2006 were $5.6 million and $16.1 million, respectively. Program and liquidity fees for the thirteen and thirty-nine weeks ended November 26, 2005 were $4.0 million and $8.4 million, respectively. We guarantee certain performance obligations of our affiliates under the securitization agreements, which includes continued servicing of such receivables, but do not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2007.

Proceeds from the collections under the receivables securitization agreements are submitted to an independent trustee on a daily basis. The trustee withholds any cash necessary to (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to our corporate concentration account. At December 2, 2006 and March 4, 2006, we had $3.0 million and $2.2 million of cash, respectively, that was restricted for the payment of trustee fees.

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

As of December 2, 2006, we had no material off balance sheet arrangements, other than the receivables securitization agreements described above.

Financing for the Planned Acquisition

On the closing date of the acquisition, we intend to: (i) assume the Jean Coutu Group 8.5% Senior Subordinated Notes due 2014, (ii) issue and sell one or more tranches of notes in an aggregate amount of

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$870 million, which may be increased by the $850 million aggregate principal amount of Jean Coutu Group 8.5% Senior Subordinated Notes due 2014 if not assumed by us and (iii) borrow approximately $680 million of the $1.105 billion of Tranche 2 Term Loans available to us under our senior secured credit facility. Depending on the timing of the transaction as well as the actual fees and expenses, the Company may also borrow additional amounts under its existing revolving credit facility. Under the terms of the commitment letter, Citicorp has also agreed to provide Rite Aid up to a $1.720 billion senior secured bridge facility if Rite Aid is unable to sell the full amount of notes required by the commitment letter and/or assume all of the Jean Coutu Group s 8.5% Senior Subordinated Notes due 2014.

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

Our operating activities provided $182.7 and $336.8 million of cash in the thirty-nine week periods ended December 2, 2006 and November 26, 2005. Operating cash flow for the thirty-nine week period ended December 2, 2006 was provided by net income of $11.7 million, proceeds of $40.0 million from the sale of certain of our third party receivables and increases in accounts payable, which partially offset increases in inventory. Operating cash flow for the thirty-nine week period ended November 26, 2005 was provided primarily by net income of $26.6 million, proceeds of $195.0 million from the sale of certain of our third party receivables and increases in accounts payable, which were partially offset by increases in inventory.

Cash used in investing activities was $208.4 and $132.2 million for the thirty-nine week period ended December 2, 2006 and November 26, 2005 due to expenditures for property, plant and equipment and intangible assets, offset by proceeds from sale-leaseback transactions and proceeds from asset dispositions.

Cash provided by financing activities was $98.0 million for the thirty-nine week period ended December 2, 2006 due to the impact of borrowings under our revolving credit facility and issuance of our Tranche 1 Term Loans, offset by the payment at maturity of our 12.5% senior secured notes due September 2006 and our 4.75% convertible notes due December 2006 and by preferred stock cash dividend payments. Cash used in financing activities was $262.3 million for the thirty-nine week period ended November 26, 2005 due to the impact of scheduled debt payments, the early redemption of our 11.25% senior note due July 2008,and preferred stock cash dividend payments.

Capital Expenditures

During the thirty-nine week period ended December 2, 2006, we spent $247.8 million on capital expenditures, consisting of $134.7 million related to new store construction, store relocation and store remodel projects, $89.8 million related to technology enhancements, improvements to distribution centers and other corporate requirements and $23.8 million related to the purchase of prescription files from independent pharmacists. We plan to make total capital expenditures of approximately $450.0 to $500.0 million during fiscal 2007, consisting of approximately 65% related to new store construction, store relocation, store remodel and store improvement projects, 25% related to technology enhancements, improvements to distribution centers and other corporate requirements and approximately 10% related to the purchase of prescription files from independent pharmacies. These projected capital expenditures included expenditures for systems technology and distribution center enhancements at the stores and facilities to be acquired from Jean Coutu, USA. We expect that these capital expenditures will be financed primarily with cash flow from operations and proceeds from sale-leaseback transactions.

During the thirty-nine week period ended November 26, 2005, we spent $225.8 million on capital expenditures, consisting of $133.1 million related to new store construction, store relocation and store remodel projects, $58.2 million related to technology enhancements, improvements to distribution centers and other corporate requirements and $34.6 million related to the purchase of prescription files from independent pharmacists.

Future Liquidity

We are highly leveraged. Our high level of indebtedness: (i) limits our ability to obtain additional financing; (ii) limits our flexibility in planning for, or reacting to, changes in our business and the industry; (iii) places us at a competitive disadvantage relative to our competitors with less debt; (iv) renders us more vulnerable to general adverse economic and industry conditions; and (v) requires us to dedicate a substantial portion of our cash flow to service our debt. In addition, the acquisition of Jean Coutu, USA will require us to incur significantly more debt, as described in Financing for the Planned Acquisition. Based upon our current levels of operations, planned improvements in our operating performance and the opportunities that we believe the acquisition of Jean Coutu USA provides, we believe that cash flow from operations together with available borrowings under the senior secured credit facility, sales of accounts receivable under our securitization agreements, borrowings that have been committed to by our lenders related to the Acquisition and other sources of liquidity will be adequate to fund the Acquisition and to meet our requirements for working capital, debt service and capital expenditures including capital expenditures related to the Acquisition, for the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance, funding requirements related to the Acquisition and other relevant circumstances. Should we determine, at any time, that it is necessary to obtain additional short-term liquidity, we will evaluate our alternatives and take appropriate steps to obtain sufficient additional funds. The restrictions on the incurrence of additional indebtedness in our senior secured credit facility and several of our bond indentures may limit our ability to obtain additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or if obtained, would be on terms acceptable to us.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment. This standard requires companies to account for share-based payments to associates using the fair value method of expense recognition. Fair value for stock options can be calculated using either a closed form or open form calculation method. SFAS No. 123(R) requires companies to recognize option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures.

We had previously adopted the provisions of SFAS No. 123, Accounting for Stock-Based Compensation effective March 2, 2003 and had been recognizing expense on a ratable basis related to share-based payments to associates using the fair value method. We have adopted the provisions of SFAS 123(R) effective March 5, 2006 using the modified prospective transition method. The adoption of SFAS 123(R) did not have a material impact on our financial position or results of operations.

SFAS No. 123(R) also requires us to change the classification of any tax benefits realized upon exercise of stock options in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts are presented as a financing cash inflow rather than as a reduction of income taxes paid in our consolidated statement of cash flows.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets . This standard is required to be adopted as of the first fiscal year beginning after September 15, 2006. We may be required to recognize a servicing asset or liability related to our securitization agreements. We have not quantified the impact of adopting SFAS No. 156, but do not expect the adoption to have a material impact on our financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes , which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. This standard is required to be adopted by us as of the first fiscal year beginning after December 15, 2006. We are in the process of determining the effect, if any, the adoption of FIN 48 will have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have not yet assessed the impact of adopting SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. We have determined that the adoption of SFAS 158 will not have a material impact on our financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements . This SAB provides guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. This interpretation is effective for the first fiscal year ending after November 15, 2006. We do not expect the adoption of this interpretation to have a material impact on our financial position or results of operations.

Critical Accounting Policies and Estimates

For a discussion of the critical accounting policies that require the use of significant judgments and estimates by management, refer to Management s Discussion and Analysis of Financial Condition Critical Accounting Policies and Estimates included in our fiscal 2006 10-K report.

Factors Affecting Our Future Prospects

For a discussion of risks related to our financial condition, operations and industry, refer to Risk Factors Factors Affecting our Future Prospects and Management s Discussion and Analysis of Financial Condition and Results of Operations Overview included in our fiscal 2006 10-K and Item 1A.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. The major market risk exposure is changing interest rates. Increases in interest rates would increase our interest expense. Since the end of fiscal 2006, our primary risk exposure has not changed. 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 December 2, 2006.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value at December 2, 2006
	(dollars in thousands)							
Long-term debt, Including current portion								
Fixed rate	$ 184,281	$ 632	$ 150,329	$ 117	$ 657,764	$ 956,548	$ 1,949,671	$ 1,689,868
Average Interest Rate	7.13 %	8.00 %	6.13 %	8.00 %	8.78 %	7.64 %	7.86 %	
Variable Rate	$	$	$	$	$ 1,020,000	$	$ 1,020,000	$ 1,020,000
Average Interest Rate	0.00 %	0.00 %	0.00 %	0.00 %	6.82 %	0.00 %	6.82 %	

As of December 2, 2006, 34.3% of our total debt is exposed to fluctuations in variable interest rates.

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

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

ITEM 4. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not applicable

ITEM 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed below and in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 4, 2006, which could materially affect our business, financial condition or future results. Furthermore, on November 30, 2006, the Company filed with the Securities and Exchange Commission a definitive proxy statement in connection with the proposed transaction with the Jean Coutu Group discussed in Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. The proxy statement has been mailed to our stockholders. You should read the proxy statement because it contains important information and risks to consider in connection with the proposed transaction including the risks set forth below:

Although we expect that the acquisition of the Brooks and Eckerd drugstore chains will result in benefits to Rite Aid, we may not realize those benefits because of integration difficulties.

Integrating the operations of the Brooks and Eckerd drugstore chains successfully or otherwise realizing any of the anticipated benefits of the acquisition of the Brooks and Eckerd drugstore chains, including anticipated cost savings and additional revenue opportunities, involve a number of potential challenges. The failure to meet these integration challenges could seriously harm our results of operations and the market price of Rite Aid common stock may decline as a result.

Realizing the benefits of the acquisition will depend in part on the integration of information technology, operations and personnel. These integration activities are complex and time-consuming and we may encounter unexpected difficulties or incur unexpected costs, including:

- diversion of management attention from ongoing business concerns to integration matters;
- difficulties in consolidating and rationalizing information technology platforms and administrative infrastructures;
- difficulties in integrating the Brooks and Eckerd store operations to serve the combined customer base of Rite Aid and the Brooks and Eckerd drugstore chains;
- difficulties in combining corporate cultures, maintaining employee morale and retaining key employees; and
- challenges in demonstrating to customers of Rite Aid and to customers of the Brooks and Eckerd drugstore chains that the acquisition will not result in adverse changes in customer service standards or business focus.

Moreover, the Brooks and Eckerd chains are not fully integrated with one another and in many instances operate using different systems. As a result, following the acquisition, we will be undertaking to integrate not one but two drugstore chains into our operations. Complications in integrating these two drugstore chains could increase our integration costs and make it more difficult to achieve a successful integration following the acquisition.

We may not successfully integrate the operations of the Brooks and Eckerd drugstore chains in a timely manner and we may not realize the anticipated net reductions in costs and expenses and other benefits and synergies of the acquisition of the Brooks and Eckerd drugstore chains to the extent, or in the timeframe, anticipated. In addition to the integration risks discussed above, our ability to realize these net

reductions in costs and expenses and other benefits and synergies could be adversely impacted by practical or legal constraints on our ability to combine operations.

The market price of Rite Aid common stock may decline as a result of the acquisition of the Brooks and Eckerd drugstore chains if the integration-related costs are greater than expected.

We expect to spend approximately $450 million of integration-related capital expenditures in the first 12 months after completion of the transaction and to incur $87 million of integration-related non-recurring expenses during that 12-month period. If the integration-related expenses and capital expenditure requirements are greater than anticipated, the market price of Rite Aid common stock may decline.

The anticipated per share dilution and accretion and net reductions in costs and expenses from the acquisition of the Brooks and Eckerd drugstore chains are based on projections, which are uncertain.

The anticipated dilution of $0.03 to $0.07 per diluted share and net reductions in costs and expenses of approximately $35 million during the first 12 months following the closing are based on projections that are uncertain. The anticipated accretion of $0.09 to $0.15 per diluted share and net reduction in costs and expenses of approximately $150 million between 12 and 24 months following the closing are also based on projections that are uncertain. These projections are based on assumptions and on preliminary information, which may prove to be inaccurate. There can be no assurance that we will realize the dilution or accretion per diluted share or the net reductions in costs and expenses from the acquisition to the extent, or in the time frame, anticipated. The market price of Rite Aid common stock may decline if the estimates are not realized or we do not achieve the perceived benefits of the acquisition as rapidly or to the extent anticipated.

Following the completion of the acquisition of the Brooks and Eckerd drugstore chains, for so long as Jean Coutu Group (and, if applicable, certain members of the Coutu family) maintain certain levels of Rite Aid stock ownership, Jean Coutu Group (and, if applicable, certain members of the Coutu family) will exercise significant influence over Rite Aid.

When the acquisition of the Brooks and Eckerd drugstore chains is completed, Jean Coutu Group will own approximately 30.2% of the voting power of Rite Aid. As a result, Jean Coutu Group (and, if applicable, certain members of the Coutu family) generally will have the ability to significantly influence the outcome of any matter submitted for the vote of Rite Aid stockholders. The stockholder agreement provides that Jean Coutu Group (and, if applicable, certain members of the Coutu family) will designate four of the fourteen members of the Rite Aid board of directors, subject to adjustment based on its ownership position in Rite Aid. Accordingly, Jean Coutu Group generally will be able to significantly influence the outcome of all matters that come before the Rite Aid board of directors. As a result of its significant interest in Rite Aid, Jean Coutu Group may have the power, subject to applicable law (including the fiduciary duties of the directors designated by Jean Coutu Group), to significantly influence actions that might be favorable to Jean Coutu Group, but not necessarily favorable to other Rite Aid stockholders. In addition, the ownership position and governance rights of Jean Coutu Group could discourage a third party from proposing a change of control or other strategic transaction concerning Rite Aid. As a result, the common stock of Rite Aid could trade at a price that does not reflect a takeover premium to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as that of Jean Coutu Group.

Rite Aid will incur significant indebtedness in connection with the acquisition of the Brooks and Eckerd drugstore chains and the resulting debt service obligations may significantly limit our ability to execute our business strategy and increase the risk of default under our debt obligations.

We intend to borrow or assume an aggregate of approximately $2.4 billion in connection with our financing for the acquisition of the Brooks and Eckerd drugstore chains. It is a condition to the completion of the acquisition that we shall have received the proceeds of the financing in an amount sufficient to consummate the acquisition. Although we currently expect that such financing will be available on commercially reasonable terms, there can be no assurance of this. If Rite Aid is unable to consummate a permanent debt financing, Rite Aid may enter into a bridge facility of up to $870 million ($1.720 billion if we do not assume the $850 million of Jean Coutu Group 8.5% Senior Subordinated Notes) that is likely to be on terms substantially more restrictive and is likely to be more costly than the terms of the contemplated financing. In addition, in connection with the acquisition, we intend to assume $850 million of Jean Coutu Group s 8.5% Senior Subordinated Notes. The indenture governing the Jean Coutu Group 8.5% Senior Subordinated Notes sets forth conditions that must be satisfied in connection with our assumption of the 8.5% Senior Subordinated Notes, including satisfaction of a minimum consolidated fixed charge coverage ratio as defined in the indenture. Whether the consolidated fixed charge ratio will be met will not be known until the time of the closing is set and the ratio can be calculated. In addition, certain holders of the Jean Coutu Group s 8.5% Senior Subordinated Notes have claimed that the indenture governing the 8.5% Senior Subordinated Notes does not allow us to assume the 8.5% Senior Subordinated Notes and therefore the trustee of the 8.5% Senior Subordinated Notes has indicated to Jean Coutu Group that it is not willing to execute a supplemental indenture evidencing our assumption of the 8.5% Senior Subordinated Notes. Jean Coutu Group has commenced an action seeking a declaration that assumption of the 8.5% Senior Subordinated Notes by us is permitted under the indenture. We believe that Jean Coutu Group s position has merit but final resolution in their favor is uncertain. If we do not assume the $850 million of Jean Coutu Group 8.5% Senior Subordinated Notes, we will need to raise additional funds, which could further exacerbate the risks described in the next paragraph.

Following the completion of the acquisition, our ability to meet our cash requirements, including our debt service obligations, will be dependent upon our ability to substantially improve our operating performance, which will be subject to general economic and competitive conditions and to financial, business and other factors affecting our operations, many of which are or may be beyond our control. In addition, some of these debt service obligations have interest payments that are subject to variable interest rates and are therefore dependent upon future interest rates which are beyond our control. We cannot provide assurance that our business will generate sufficient cash flows from operations to fund these cash requirements and debt service obligations. If our operating results, cash flow or capital resources prove inadequate, or if interest rates increase significantly, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt and other obligations. If we are unable to service our debt, we could be forced to reduce or delay planned expansions and capital expenditures, sell assets, restructure or refinance our debt or seek additional equity capital, and we may be unable to take any of these actions on satisfactory terms or in a timely manner. Further, 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. 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 to successfully undertake any of these actions could have a material adverse effects on us.

In addition, the degree to which we may be leveraged as a result of the indebtedness incurred in connection with the acquisition or otherwise could materially and adversely affect our ability to obtain financing for working capital, capital expenditures, acquisitions, debt service requirements or other purposes, could make us more vulnerable to general adverse economic, regulatory and industry conditions, could limit our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, could place us at a competitive disadvantage compared to our competitors that have less debt or could require us to dedicate a substantial portion of our cash flow to service our debt.

The announcement and pendency of the transaction may cause disruptions in the business of the Brooks and Eckerd drugstore chains, which could have an adverse effect on their business, financial condition or results of operations and, post-closing, Rite Aid s business, financial condition or results of operations.

The announcement and pendency of the transaction could cause disruptions of the business of the Brooks and Eckerd drugstore chains. Specifically:

- current and prospective employees of the Brooks and Eckerd drugstore chains may experience uncertainty about their future roles with Rite Aid, which might adversely affect the ability of the Brooks and Eckerd drugstore chains to attract and retain key personnel;

- current and prospective customers of the Brooks and Eckerd drugstore chains may experience uncertainty about the ability of the Brooks and Eckerd stores to meet their needs, which might cause customers to make purchases or fill their prescriptions elsewhere.

These disruptions could be exacerbated by a delay in the completion of the transaction and could have an adverse effect on the business, financial condition or results of operations of the Brooks and Eckerd drugstore chains prior to the completion of the transaction and on Rite Aid following the completion of the transaction.

The acquisition of the Brooks and Eckerd drugstore chains is subject to the receipt of consents and approvals from government entitles that may not be received or that may impose conditions that could have an adverse effect on Rite Aid following the completion of the acquisition.

We cannot complete the acquisition unless we receive various consents, orders, approvals and clearances from antitrust and other authorities in the United States. While we believe that we will receive the requisite regulatory approvals from these authorities, there can be no assurance of this. In addition, these authorities may impose conditions on the completion of the acquisition of the Brooks and Eckerd drugstore chains or require changes to the terms of the acquisition. For example, the authorities may require divestiture of certain assets as a condition to the closing of the acquisition. We are not obligated to agree to divest assets in order to obtain regulatory approval of the proposed acquisition if such divestiture would be materially adverse to Rite Aid and its subsidiaries taken as a whole or would materially impair the overall benefits expected, as of the date the stock purchase agreement was executed, to be realized from the acquisition of the Brooks and Eckerd drugstore chains. However, pursuant to the stock purchase agreement, we have agreed that any proposed divestiture or release of assets representing, or the imposition of conditions affecting, store-level adjusted EBITDA (as defined in the stock purchase agreement) of up to an aggregate of $60 million before advertising and corporate administration expenses, for the most recently completed fiscal year, is not materially adverse to Rite Aid and its subsidiaries taken as a whole and would not materially impair the overall benefits expected to be realized from the acquisition of the Brooks and Eckerd drugstore chains. While we do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the acquisition or imposing additional costs on or limiting the revenues of Rite Aid following the acquisition, any of which may have an adverse effect on us following the acquisition.

Some of our executive officers and directors have interests in the transaction other than their interests as Rite Aid stockholders generally.

In considering the recommendation of Rite Aid s board of directors with respect to the transaction, you should be aware that some of our executive officers and directors have interests in the transaction other than their interest as Rite Aid stockholders generally, pursuant to individual agreements and Rite Aid s Supplemental Executive Retirement Plan. These interests are different from your interests as a Rite Aid stockholder.

The issuance of 250 million shares of Rite Aid common stock to the Jean Coutu Group, as proposed, would constitute a change in control of Rite Aid for purposes of certain of Rite Aid s plans and agreements. Pursuant to individual award agreements or employment agreements, unvested stock options held by our non-employee directors and by one executive officer will become fully vested as a result of the transaction. As of October 31, 2006, our non-employee directors held unvested stock options to purchase an aggregate of 1,049,995 shares of Rite Aid common stock at a weighted average exercise price of $4.15 per share. As of October 31, 2006, the one executive officer held unvested stock options to purchase 43,750 shares at an exercise price of $2.58 per share.

Also, executive officers of Rite Aid, other than Mary Sammons, our President and Chief Executive Officer, participate in a supplemental executive retirement plan. The issuance of 250 million shares of Rite Aid common stock to the Jean Coutu Group will constitute a change in control under the plan and cause accounts under the plan to become fully vested. As of October 31, 2006, the aggregate unvested account balance under the plan for the six executive officers who participate in the plan was $1,455,243.

If the market price of Rite Aid common stock increases prior to the completion of the acquisition of the Brooks and Eckerd drugstore chains, the market value of Rite Aid common stock to be issued in connection with the acquisition will increase correspondingly and, therefore, we may pay more than we intended for the Brooks and Eckerd drugstore chains.

The number of shares of Rite Aid common stock to be issued to Jean Coutu Group in connection with the acquisition of the Brooks and Eckerd drugstore chains is fixed and will not be adjusted in the event of any increase or decrease in the market price of Rite Aid common stock before the closing of the acquisition. As a result, the market value of the shares to be issued to Jean Coutu Group, as reflected in the market price of Rite Aid common stock, may be substantially higher at the time of the acquisition than the market value at the time we received fairness opinions from Citigroup Global Markets Inc. and Rothschild Inc. and the Rite Aid board of directors approved the acquisition. The market price of Rite Aid common stock may fluctuate due to, among other things, changes in our business, operations or prospects, market assessments of the likelihood of completion of the acquisition, the timing of the completion of the acquisition, general market and economic conditions and other factors. As of August 23, 2006, the date prior to the public announcement of the proposed acquisition of Jean Coutu USA, the market price of Rite Aid common stock was $4.68 per share and the prior one-month average closing price was $4.41 per share.

Conflicts of interest may arise between Rite Aid and Jean Coutu Group, which may be resolved in a manner that adversely affects our business, financial condition or results of operations.

After Rite Aid s acquisition of the Brooks and Eckerd drugstore chains, Jean Coutu Group will continue its Canadian operations but will no longer have any operations in the United States; Rite Aid currently has no operations in Canada. Despite the lack of geographic overlap after the transaction, conflicts of interest may arise between Rite Aid and Jean Coutu Group in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by Jean Coutu Group of its interests in Rite Aid and the exercise by Jean Coutu Group of its influence over the management and affairs of Rite Aid.

After the acquisition of the Brooks and Eckerd drugstore chains, a number of the directors on the Rite Aid board of directors will be persons who are also officers or directors of Jean Coutu Group or its subsidiaries. Service as a director or officer of both Rite Aid and Jean Coutu Group or its other subsidiaries could create conflicts of interest if such directors or officers are faced with decisions that could have materially different implications for Rite Aid and for Jean Coutu Group. Apart from the conflicts of interest policy contained in Rite Aid s Code of Ethics and Business Conduct and applicable to Rite Aid directors, the parties have not established any formal procedures for Rite Aid and Jean Coutu Group to resolve potential or actual conflicts of interest between them. There can be no assurance that any of the foregoing conflicts will be resolved in a manner that does not adversely affect the business, financial condition or results of operations of Rite Aid.

Following the completion of the acquisition of the Brooks and Eckerd drugstore chains, we will be dependent on Jean Coutu Group for certain transitional services pursuant to a transition services agreement. The failure of Jean Coutu Group to perform its obligations under the transition services agreement could adversely affect our business, financial condition or results of operations.

Our ability to effectively monitor and control the operations of the Brooks and Eckerd drugstore chains we are acquiring depends to a large extent on the proper functioning of our information technology and business support systems. Following the completion of the acquisition, we will be initially dependent upon Jean Coutu Group to continue to provide certain information technology, network and support services to Jean Coutu USA for a period of time after the completion of the acquisition to facilitate the transition of the Brooks and Eckerd drugstore chains. The terms of these arrangements will be governed by a transition services agreement to be entered into as of the closing of the acquisition. Rite Aid and Jean Coutu Group are obligated to negotiate in good faith the transition services agreement. If, however, we fail to reach a satisfactory agreement with respect to certain services or Jean Coutu Group falls to perform its obligations under the transition services agreement, we may not be able to perform such services ourselves or obtain such services from third parties at all or on terms favorable to us. In addition, upon termination of the transition services agreement, if we are unable to develop the necessary systems, resources and controls necessary to allow us to provide the services currently being provided by Jean Coutu Group or to obtain such services from third parties, it could adversely affect our business, financial condition or results of operations.

Subject to certain limitations, Jean Coutu Group may sell Rite Aid common stock at any time following the completion of the acquisition of the Brooks and Eckerd drugstore chains, which could cause our stock price to decrease.

The shares of Rite Aid common stock that Jean Coutu Group will receive following the completion of the acquisition of the Brooks and Eckerd drugstore chains are restricted, but Jean Coutu Group may sell these shares following the acquisition under certain circumstances, including pursuant to a registered underwritten public offering under the Securities Act or in accordance with Rule 144 under the Securities Act. We have entered into a registration rights agreement with Jean Coutu Group, which will give Jean Coutu Group the right to require us to register all or a portion of its shares at any time after Rite Aid files with SEC its annual report for the fiscal year ending March 3, 2007. The sale of a substantial number of our shares by Jean Coutu Group or our other stockholders within a short period of time could cause our stock price to decrease, make it more difficult for us to raise funds through future offerings of Rite Aid common stock or acquire other businesses using Rite Aid common stock as consideration.

You will experience a reduction in percentage ownership and voting power with respect to Rite Aid common stock as a result of the acquisition of the Brooks and Eckerd drugstore chains.

In connection with the acquisition of the Brooks and Eckerd drugstore chains, we will issue to Jean Coutu Group 250 million shares of Rite Aid common stock. Therefore, following the completion of the acquisition, holders of Rite Aid common stock will experience a substantial reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in Rite Aid common stock and effective voting power prior to the acquisition.

If the amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock is approved and the transaction is completed, we will be able to issue more shares of our

common stock than currently authorized. As a result, such future issuances of our common stock could have a dilutive effect on the earnings per share and voting power of current stockholders.

If the amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock is approved by stockholders and the transaction is completed, we will be able to issue more shares of our common stock than currently authorized. Current Rite Aid stockholders do not have preemptive rights with respect to our common stock. If the Rite Aid board of directors elects to issue additional shares of common stock in the future, whether in public offerings, in connection with mergers and acquisitions, or otherwise, such additional issuances could dilute the earnings per share and voting power of current stockholders.

If the amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock is approved and the transaction is completed, our ability to issue a greater number of authorized shares could have an anti-takeover affect under some circumstances.

If the amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock is approved by stockholders and the transaction is completed, our ability to issue a greater number of authorized shares could have an anti-takeover effect under some circumstances. For example, in an event to obtain control of Rite Aid, it may be possible for us to seek to impede the takeover attempt by issuing shares of our common stock, which could dilute the voting power of the other outstanding shares and increase the potential cost to acquire control of Rite Aid. Therefore, the increase in the number of authorized shares may render more difficult or discourage an attempt to acquire control of Rite Aid. By potentially discouraging an unsolicited takeover attempt, the increase in the number of authorized shares of our common stock may also limit the opportunity for stockholders to dispose of their shares at a higher price generally available in takeover attempts or that may be available under a merger or acquisition proposal. The increase in the number of authorized shares may also have the effect of permitting Rite Aid management, including the board of directors, to retain its position, and place it in a better position to resist changes that stockholders may wish to make if they are dissatisfied with the conduct of the business.

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

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

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

As noted elsewhere in the document, we have scheduled a special meeting of our stockholders on January 18, 2007 to obtain the approval of the issuance of our common stock to Jean Coutu Group, and we have filed a definitive proxy statement with the SEC describing the transaction.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

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

Exhibit Numbers	Description	Incorporation By Reference To
2.1	Stock Purchase Agreement, dated as of August 23, 2006, between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 2 to Form 8-K, filed on August 24, 2006
3.1	Restated Certificate of Incorporation dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation dated February 22, 1999	Exhibit 3(ii) to Form 8-K, filed on November 2, 1999
3.3	Certificate of Amendment to the Restated Certificate of Incorporation dated June 27, 2001	Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
3.4	7.0% Series E Mandatory Convertible Preferred Stock Certificate of Designation dated January 25, 2005	Exhibit 3.1 to Form 8-K, filed on February 1, 2005
3.5	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.6	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.7	5.50% Series I Mandatory Convertible Preferred Stock Certificate of Designation dated August 2, 2005	Exhibit 3.1 to Form 8-K, filed on August 24, 2005
3.8	By-laws, as amended and restated	Exhibit 3.1 to Form 8-K, filed on December 19, 2005
4.1	Indenture, dated August 1, 1993 by and between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company s 6.70% Notes due 2001, 7.125% Notes due 2007, 7.70% Notes due 2027, 7.625% Notes due 2005 and 6.875% Notes due 2013	Exhibit 4A to Registration Statement on Form S-3, File No. 333-63794, filed on June 3, 1993
4.2	Supplemental Indenture dated as of February 3, 2000, between Rite Aid Corporation, as issuer, and U.S. Bank Trust National Association as successor to Morgan Guaranty Trust Company of New York, to the Indenture dated as of August 1, 1993, relating to the Company s 6.70% Notes due 2001, 7.125% Notes due 2007, 7.70% Notes due 2027, 7.625% Notes due 2005 and 6.875% Notes due 2013	Exhibit 4.1 to Form 8-K filed on February 7, 2000

4.3	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company s 5.50% Notes due 2000, 6% Notes due 2005, 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company s 5.50% Notes due 2000, 6% Notes due 2005, 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K filed on February 7, 2000
4.5	Indenture, dated as of February 12, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company s 9½% Senior Secured Notes due 2011	Exhibit 4.1 to Form 8-K, filed on March 5, 2003
4.6	Indenture, dated as of April 22, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company s 8.125% Senior Secured Notes due 2010	Exhibit 4.11 to Form 10-K, filed on May 2, 2003
4.7	Indenture, dated as of May 20, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company s 9.25% Senior Notes due 2013	Exhibit 4.12 to Form 10-Q, filed on July 3, 2003
4.8	Indenture, dated as of January 11, 2005, among Rite Aid Corporation, the subsidiary guarantors described therein, and BNY Midwest Trust Company, as trustee, related to the Company s 7.5% Senior Secured Notes due January 15, 2005	Exhibit 99.2 to Form 8-K, filed on January 13, 2005
10.1	Stockholder Agreement, dated as of August 23, 2006, between Rite Aid Corporation, The Jean Coutu Group (PJC) Inc. and certain individual members of the Coutu Family	Exhibit 10.1 to Form 8-K, filed on August 24, 2006
10.2	Registration Rights Agreement, dated as of August 23, 2006, between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 10.2 to Form 8-K, filed on August 24, 2006
11	Statement regarding computation of earnings per share. (See Note 4 to the condensed consolidated financial statements)	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934.	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934.	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

SIGNATURES

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

Date: January 10, 2007	RITE AID CORPORATION	
	By:	/s/ ROBERT B. SARI Robert B. Sari *Executive Vice President and General Counsel*
Date: January 10, 2007	By:	/s/ KEVIN TWOMEY Kevin Twomey *Chief Financial Officer and Executive Vice President*