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RITE AID CORP
Form DEFA14A
December 21, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant []
Check the appropriate box:
 [] Preliminary Proxy Statement
 [] Confidential, for Use of the Commission Only (as permitted by Rule
14a-6(e)(2))
 [] Definitive Proxy Statement
 [X] Definitive Additional Materials
 [] Soliciting Material Pursuant to ss.240.14a-12

RITE AID CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Filed by Rite Aid Corporation Pursuant to Rule 14a-6(b)
Under the Securities Exchange Act of 1934

On December 21, 2006, Rite Aid Corporation issued the following press release announcing the company's financial results for its third quarter ended December 2, 2006.

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FOR IMMEDIATE RELEASE

RITE AID ANNOUNCES THIRD QUARTER RESULTS

REPORTS THIRD QUARTER NET LOSS OF \$.01 PER DILUTED SHARE
COMPARED TO NET LOSS OF \$.02 PER DILUTED SHARE IN PRIOR YEAR

REPORTS THIRD QUARTER ADJUSTED EBITDA OF \$160.8 MILLION
COMPARED TO ADJUSTED EBITDA OF \$141.3 MILLION IN PRIOR YEAR

Confirms Fiscal 2007 Guidance

CAMP HILL, PA, December 21, 2006 - Rite Aid Corporation (NYSE: RAD) today announced financial results for its third quarter ended December 2, 2006.

Revenues for the 13-week third quarter were \$4.32 billion versus revenues of \$4.15 billion in the prior year third quarter. Revenues increased 4.2 percent.

Same store sales increased 3.4 percent during the third quarter as compared to the year-ago like period, consisting of a 4.3 percent increase in pharmacy same store sales and a 1.9 percent increase in front-end same store sales. The number of prescriptions filled in comparable drugstores increased 2.3 percent. Prescription sales accounted for 64.3 percent of total sales, and third party prescription sales represented 95.5 percent of pharmacy sales.

Net income for the third quarter was \$1.1 million but a loss of \$.01 per diluted share because of the negative impact of preferred stock dividends. This was an improvement over last year's third quarter net loss of \$5.2 million or \$.02 per diluted share. The improvement was primarily due to a \$19.5 million increase in adjusted EBITDA (which is reconciled to net income (loss) on the attached table), partially offset primarily by a \$4.7 million increase in depreciation and amortization expense.

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Adjusted EBITDA was \$160.8 million or 3.7 percent of revenues for the third quarter compared to \$141.3 million or 3.4 percent of revenues for the like period last year. The \$19.5 million increase was primarily the result of increased revenue and improvement in the ratio of expenses to revenue partially offset by a decrease in the gross margin rate.

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In the third quarter, the company opened 10 stores, relocated 13 stores, closed 3 stores and remodeled 4 stores. Stores in operation at the end of the quarter totaled 3,322.

"We are pleased with our third quarter. A strong increase in pharmacy sales and continued prescription count growth showed once again that our emphasis on customer satisfaction and increased operational focus on pharmacy are delivering results. Our team also continued to do a good job of controlling expenses," said Mary Sammons, president and chief executive officer. "At the same time we continued to improve our existing business, we also made tremendous progress on our plans for the smooth integration of the Brooks and Eckerd drugstore chains into Rite Aid."

On August 24, 2006, Rite Aid announced that it had entered into a definitive agreement to acquire approximately 1,850 Brooks and Eckerd drugstores and six distribution centers, primarily on the East Coast and in the Mid-Atlantic states, from The Jean Coutu Group. The transaction, which is subject to review under the Hart-Scott Rodino Act, Rite Aid stockholder approval and other customary closing conditions, is expected to close shortly after the end of Rite Aid's fourth quarter, which ends March 3, 2007.

Special Stockholder Meeting Set for January 18, 2007

Other events in the quarter included the company's announcement that the special meeting of Rite Aid stockholders in connection with the pending acquisition of the Brooks and Eckerd chains will be held January 18, 2007. Among the proposals to be voted on by stockholders is the issuance of 250 million shares of Rite Aid common stock to The Jean Coutu Group as part of the purchase price.

Also during the quarter the company announced that as expected it had received a request for additional information from the Federal Trade Commission (FTC) as part of its regulatory review of the pending acquisition under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Rite Aid said it is currently in the process of responding to what is commonly called the second request.

"This acquisition is a unique opportunity for Rite Aid and for our stockholders, and we encourage all that are eligible as of the record date to vote," Sammons said. "The acquisition will significantly expand the size of our company with good stores in attractive locations and give us the scale we need to compete more effectively. Greater scale will make Rite Aid better able to take advantage of the many opportunities for growth in our industry as well as better enable us to withstand both industry and competitive challenges to our business."

Company Confirms Fiscal 2007 Guidance

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Rite Aid confirmed its fiscal 2007 guidance for sales, same store sales, net income (loss), adjusted EBITDA and capital expenditures. Sales are expected to be between \$17.40 billion and \$17.65 billion, with same store sales expected to improve 2 percent to 4 percent over fiscal 2006. Net income (loss) for fiscal 2007 is expected to be between a net loss of \$5 million and net income of \$40 million or a loss per diluted share of \$.07 to net income per diluted share of \$.02. Adjusted EBITDA (which is reconciled to net income (loss) on the attached table) is expected to be between \$650 million and \$725 million. Capital expenditures, excluding proceeds from sale and leaseback transactions, are expected to be between \$450 million and \$500 million. Proceeds from sale and leaseback transactions are expected to be between \$50 million and \$100 million.

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Conference Call Broadcast

Rite Aid will hold an analyst call at 10:30 a.m. Eastern time today with remarks by Rite Aid's management team. The call will be simulcast via the internet and can be accessed through the websites www.riteaid.com in the conference call section of investor information and www.StreetEvents.com. A playback of the call will be available on both sites starting at 2 p.m. Eastern Time today. A playback of the call will also be available by telephone for 48 hours beginning at 2 p.m. Eastern time today until 2 p.m. Eastern time on December 23. The playback number is 1-800-642-1687 from within the U.S. and Canada or 1-706-645-9291 from outside the U.S. and Canada with the seven-digit reservation number 4438396.

Rite Aid Corporation is one of the nation's leading drugstore chains with annual revenues of \$17.3 billion and more than 3,300 stores in 27 states and the District of Columbia. Information about Rite Aid, including corporate background and press releases, is available through the company's website at www.riteaid.com.

This press release may contain forward-looking statements, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied in such forward-looking statements include our high level of indebtedness, our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility and other debt agreements, our ability to improve the operating performance of our existing stores in accordance with our long term strategy, our ability to hire and retain pharmacists and other store personnel, the efforts of private and public third-party payors to reduce prescription drug reimbursements and encourage mail order, competitive pricing pressures, continued consolidation of the drugstore industry, changes in state or federal legislation or regulations, the outcome of lawsuits and governmental investigations, general economic conditions and inflation, interest rate movements, access to capital, the ability of Rite Aid to consummate the transaction with Jean Coutu Group and realize the benefits of such transaction and our ability to assume the senior subordinated notes. Consequently, all of the forward-looking statements made in this press release are qualified by these and other factors, risks and uncertainties. Readers are also directed to consider other risks and uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission. Forward-looking statements can be identified through

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the use of words such as "may", "will", "intend", "plan", "project", "expect", "anticipate", "could", "should", "would", "believe", "estimate", "contemplate", and "possible".

See the 8-K furnished to the Securities and Exchange Commission on December 21, 2006 for definition, purpose and reconciliation of a non-GAAP financial measure referred to herein to the most comparable GAAP financial measure.

Additional Information and Where to Find It

Rite Aid has filed with the Securities and Exchange Commission a proxy statement in connection with the proposed transaction with the Jean Coutu Group. The proxy statement has been mailed to the stockholders of Rite Aid. STOCKHOLDERS OF RITE AID ARE ADVISED TO READ THE PROXY STATEMENT BECAUSE IT CONTAINS IMPORTANT INFORMATION. Such proxy statement and other relevant documents may also be obtained, free of charge, on the Securities and Exchange Commission's website (<http://www.sec.gov>) or by contacting our Secretary, Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011.

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Participants in the Solicitation

Rite Aid and certain persons may be deemed to be participants in the solicitation of proxies relating to the proposed transaction. The participants in such solicitation may include Rite Aid's executive officers and directors. Further information regarding persons who may be deemed participants is available in Rite Aid's proxy statement filed with the Securities and Exchange Commission in connection with the transaction.

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[BALANCE SHEET]

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(unaudited)

December 2, 200

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 148,397
Accounts receivable, net	321,821
Inventories, net	2,468,422

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Prepaid expenses and other current assets	113,248

Total current assets	3,051,888
Property, plant and equipment, net	1,697,347
Goodwill	656,037
Other intangibles, net	185,312
Deferred tax assets	1,387,412
Other assets	154,221

Total assets	\$7,132,217
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current maturities of convertible notes, long-term debt and lease financing obligations	\$ 197,603
Accounts payable	923,796
Accrued salaries, wages and other current liabilities	715,496

Total current liabilities	1,836,895
Long-term debt, less current maturities	2,784,954
Lease financing obligations, less current maturities	164,653
Other noncurrent liabilities	720,440

Total liabilities	5,506,942
Commitments and contingencies	
Stockholders' equity:	
Preferred stock - Series E	120,000
Preferred stock - Series G	127,683
Preferred stock - Series H	125,503
Preferred stock - Series I	116,415
Common stock	532,331
Additional paid-in capital	3,104,658
Accumulated deficit	(2,477,294)
Accumulated other comprehensive loss	(24,021)

Total stockholders' equity	1,625,275

Total liabilities and stockholders' equity	\$ 7,132,217
	=====

[IS- 13 WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(unaudited)

Thirteen Weeks
ended
December 2,
2006

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Revenues	\$ 4,320,208
Costs and expenses:	
Cost of goods sold	3,166,165
Selling, general and administrative expenses	1,079,509
Store closing and impairment charges	5,119
Interest expense	68,184
Gain on sale of assets and investments, net	(48)

	4,318,929

Income (loss) before income taxes	1,279
Income tax expense (benefit)	175

Net income (loss)	\$ 1,104
	=====
Basic and diluted loss per share:	
Numerator for loss per share:	
Net income (loss)	\$ 1,104
Accretion of redeemable preferred stock	(26)
Cumulative preferred stock dividends	(7,897)

Loss attributable to common stockholders - basic and diluted	\$ (6,819)
	=====
Denominator:	
Basic and diluted weighted average shares	524,556
Basic and diluted loss per share	\$ (0.01)

[IS-39WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(unaudited)

	Thirty-nine Weeks ended December 2, 2006	Th

Revenues	\$ 12,945,650	
Costs and expenses:		
Cost of goods sold	9,456,572	
Selling, general and administrative expenses	3,247,208	
Store closing and impairment charges	24,153	
Interest expense	205,703	
Loss on debt modifications and retirements, net	--	

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Gain on sale of assets and investments, net	(1,403)

	12,932,233

Income before income taxes	13,417
Income tax expense	1,688

Net income	\$ 11,729
	=====
Basic and diluted loss per share:	
Numerator for loss per share:	
Net income	\$ 11,729
Premium to redeem preferred stock	--
Accretion of redeemable preferred stock	(77)
Cumulative preferred stock dividends	(23,494)

Loss attributable to common stockholders - basic and diluted	\$ (11,842)
	=====
Denominator:	
Basic and diluted weighted average shares	523,465
Basic and diluted loss per share	\$ (0.02)

[EBITDA-13 WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES
 SUPPLEMENTAL INFORMATION
 RECONCILIATION OF NET INCOME (LOSS) TO ADJUSTED EBITDA
 (In thousands)

	Thirteen Week
	ended December
	2006

Reconciliation of net income (loss) to adjusted EBITDA:	
Net income (loss)	\$ 1
Adjustments:	
Interest expense	68
Recurring income tax expense (benefit)	
Depreciation and amortization	67
LIFO charges (a)	8
Store closing and impairment charges	5
Stock-based compensation expense	7
Gain on sale of assets and investments, net	
Litigation settlements, net (b)	(1
Legal and accounting expenses (c)	
Incremental acquisition costs (d)	

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Closed store liquidation expense (e)		1
Other		
	Adjusted EBITDA	\$ 160
	Percent of revenues	3

Notes:

- (a) Represents non-cash charges to value our inventories under the last-in first-out ("LIFO") method.
- (b) Represents net impact of non-recurring litigation.
- (c) Charges consist primarily of fees paid for legal services related to defending against litigation related to prior management's business practices and to defend prior management.
- (d) Represents incremental costs related to the acquisition of Jean Coutu USA.
- (e) Represents costs to liquidate inventory at stores that are in the process of closing.

[EBITDA-39 WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES
 SUPPLEMENTAL INFORMATION
 RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA
 (In thousands)

		Thirty-nine W ended Decembe 2006
Reconciliation of net income to adjusted EBITDA:		
Net income	\$	11
Adjustments:		
Interest expense		205
Recurring income tax expense		1
Income tax benefit from favorable tax settlement		
Depreciation and amortization		201
LIFO charges (a)		26
Store closing and impairment charges		24
Stock-based compensation expense		15
Gain on sale of assets and investments, net		(1,
Loss on debt modifications and retirements, net (b)		(1,
Litigation settlements, net (c)		(1,
Legal and accounting expenses (d)		
Incremental acquisition costs (e)		
Closed store liquidation expense (f)		7
Other		2

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Adjusted EBITDA

\$ 495

Percent of revenues

===== 3

Notes:

- (a) Represents non-cash charges to value our inventories under the last-in first-out ("LIFO") method.
- (b) Represents loss related to debt modifications and retirements, net
- (c) Represents net impact of non-recurring litigation.
- (d) Charges consist primarily of fees paid for legal services related to defending against litigation related to prior management's business practices and to defend prior management.
- (e) Represents incremental costs related to the acquisition of Jean Coutu USA.
- (f) Represents costs to liquidate inventory at stores that are in the process of closing.

[CASH FLOW-13 WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

OPERATING ACTIVITIES:

Net income (loss)	\$ 1,10
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	67,80
Store closing and impairment charges	5,11
LIFO charges	8,94
Gain on sale of assets and investments, net	(4
Stock-based compensation expense	7,24
Changes in deferred taxes	1,06
Changes in operating assets and liabilities:	
Net proceeds from accounts receivable securitization	45,00
Accounts receivable	(14,16
Inventories	(53,07
Prepaid expenses and other current assets	(2,01

Thirteen W
ended
December
2006

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Other assets	(9,14)
Income taxes receivable/payable	(1,25)
Accounts payable	(22,53)
Other liabilities	10,75
Net cash provided by operating activities	44,80
INVESTING ACTIVITIES:	
Expenditures for property, plant and equipment	(86,81)
Intangible assets acquired	(6,03)
Proceeds from sale-leaseback transactions	20
Proceeds from dispositions of assets and investments	2,54
Net cash used in investing activities	(90,09)
FINANCING ACTIVITIES:	
Net proceeds from revolver	340,00
Principal payments on bank credit facilities	-
Proceeds from issuance of bank term debt	145,00
Principal payments on long-term debt	(394,71)
Change in zero balance cash accounts	10,51
Excess tax deduction on stock options	32
Net proceeds from the issuance of common stock	1,79
Net proceeds from the issuance of preferred stock	-
Payments for preferred stock	(3,84)
Deferred financing costs	(2,01)
Net cash provided by financing activities	97,05
Increase in cash and cash equivalents	51,76
Cash and cash equivalents, beginning of period	96,63
Cash and cash equivalents, end of period	\$ 148,39

[CASH FLOW-39 WEEKS]

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

Thirty-nine
Weeks ended
December 2,
2006

OPERATING ACTIVITIES:	
Net income	\$ 11,72
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	201,22
Store closing and impairment charges	24,15
LIFO charges	26,83
Gain on sale of assets and investments, net	(1,40)

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Stock-based compensation expense	15,85
Loss on debt modifications and retirements, net	-
Changes in deferred taxes	5,30
Changes in operating assets and liabilities:	
Net proceeds from accounts receivable securitization	40,00
Accounts receivable	(6,87)
Inventories	(153,85)
Prepaid expenses and other current assets	(68)
Other assets	(7,65)
Income taxes receivable/payable	(7,27)
Accounts payable	54,34
Other liabilities	(18,95)

Net cash provided by operating activities	182,74
INVESTING ACTIVITIES:	
Expenditures for property, plant and equipment	(224,00)
Intangible assets acquired	(23,81)
Proceeds from sale-leaseback transactions	31,68
Proceeds from dispositions of assets and investments	7,71

Net cash used in investing activities	(208,42)
FINANCING ACTIVITIES:	
Net proceeds from revolver	341,00
Principal payments on bank credit facilities	-
Proceeds from issuance of bank term debt	145,00
Proceeds from financing secured by owned property	11,07
Principal payments on long-term debt	(399,88)
Change in zero balance cash accounts	9,64
Excess tax deduction on stock options	43
Net proceeds from the issuance of common stock	4,30
Net proceeds from the issuance of preferred stock	-
Payments for the redemption of preferred stock	-
Payments for preferred stock dividends	(11,53)
Deferred financing costs paid	(2,01)

Net cash provided by (used in) financing activities	98,01

Increase (decrease) in cash and cash equivalents	72,33
Cash and cash equivalents, beginning of period	76,06

Cash and cash equivalents, end of period	\$ 148,39
	=====

[GUIDANCE]

RITE AID CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
RECONCILIATION OF NET (LOSS) INCOME GUIDANCE TO ADJUSTED EBITDA GUIDANCE
(In thousands)

Guidance

Low

Year Ending
March 3,

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2007

Reconciliation of net (loss) income to adjusted EBITDA:

Net (loss) income	\$ (5,000)
Adjustments:	
Interest expense	280,000
Income tax (benefit) expense, net	(5,000)
Depreciation and amortization	275,000
LIFO charge	30,000
Store closing, liquidation, and impairment charges	50,000
Stock-based compensation expense	25,000

Adjusted EBITDA	\$ 650,000
	=====
Diluted (loss) income per share	\$ (0.07)