

WALGREENS BOOTS ALLIANCE, INC.

FORM 10-Q (Quarterly Report)

Filed 04/05/17 for the Period Ending 02/28/17

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CIK	0001618921
Symbol	WBA
SIC Code	5912 - Drug Stores and Proprietary Stores
Fiscal Year	08/31

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended February 28, 2017

or

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

For the transition period from _____ to _____

Commission File Number
001-36759

WALGREENS BOOTS ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

47-1758322
(I.R.S. Employer Identification No.)

108 Wilmot Road, Deerfield, Illinois
(Address of principal executive offices)

60015
(Zip Code)

(847) 315-2500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of March 31, 2017 was 1,080,950,894.

WALGREENS BOOTS ALLIANCE, INC.

FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2017

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Condensed Financial Statements (Unaudited)	
a)	Balance Sheets	3
b)	Statement of Equity	4
c)	Statements of Earnings	5
d)	Statements of Comprehensive Income	6
e)	Statements of Cash Flows	7
f)	Notes to Financial Statements	9
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	49
Item 4.	Controls and Procedures	49

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	50
Item 1A.	Risk Factors	50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 5.	Other Information	51
Item 6.	Exhibits	51

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Condensed Financial Statements (Unaudited)

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)
(In millions, except shares and per share amounts)

	<u>February 28, 2017</u>	<u>August 31, 2016</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 11,822	\$ 9,807
Accounts receivable, net	5,674	6,260
Inventories	9,230	8,956
Other current assets	783	860
Total Current Assets	<u>27,509</u>	<u>25,883</u>
Non-Current Assets:		
Property, plant and equipment, net	13,528	14,335
Goodwill	15,214	15,527
Intangible assets, net	9,650	10,302
Equity method investments (see Note 4)	6,164	6,174
Other non-current assets	440	467
Total Non-Current Assets	<u>44,996</u>	<u>46,805</u>
Total Assets	<u>\$ 72,505</u>	<u>\$ 72,688</u>
Liabilities and Equity		
Current Liabilities:		
Short-term borrowings	\$ 1,153	\$ 323
Trade accounts payable (see Note 17)	11,264	11,000
Accrued expenses and other liabilities	4,935	5,484
Income taxes	326	206
Total Current Liabilities	<u>17,678</u>	<u>17,013</u>
Non-Current Liabilities:		
Long-term debt	17,758	18,705
Deferred income taxes	2,339	2,644
Other non-current liabilities	4,309	4,045
Total Non-Current Liabilities	<u>24,406</u>	<u>25,394</u>
Commitments and Contingencies (see Note 9)		
Equity:		
Preferred stock \$.01 par value; authorized 32 million shares, none issued	—	—
Common stock \$.01 par value; authorized 3.2 billion shares; issued 1,172,513,618 at February 28, 2017 and August 31, 2016	12	12
Paid-in capital	10,162	10,111
Employee stock loan receivable	—	(1)
Retained earnings	28,987	27,684
Accumulated other comprehensive (loss) income	(3,809)	(2,992)
Treasury stock, at cost; 91,818,244 shares at February 28, 2017 and 89,527,027 at August 31, 2016	(5,285)	(4,934)
Total Walgreens Boots Alliance, Inc. Shareholders' Equity	<u>30,067</u>	<u>29,880</u>
Noncontrolling interests	354	401
Total Equity	<u>30,421</u>	<u>30,281</u>
Total Liabilities and Equity	<u>\$ 72,505</u>	<u>\$ 72,688</u>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF EQUITY
(UNAUDITED)
For the six months ended February 28, 2017
(In millions, except shares)

Equity attributable to Walgreens Boots Alliance, Inc.

	Common Stock Shares	Common Stock Amount	Treasury Stock Amount	Paid-In Capital	Employee Stock Loan Receivable	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Noncontrolling Interests	Total Equity
August 31, 2016	1,082,986,591	\$ 12	\$ (4,934)	\$ 10,111	\$ (1)	\$ (2,992)	\$ 27,684	\$ 401	\$ 30,281
Net earnings	—	—	—	—	—	—	2,114	15	2,129
Other comprehensive income (loss), net of tax	—	—	—	—	—	(817)	—	(43)	(860)
Dividends declared (\$0.750 per share)	—	—	—	—	—	—	(811)	(6)	(817)
Treasury stock purchases	(5,600,000)	—	(457)	—	—	—	—	—	(457)
Employee stock purchase and option plans	3,308,783	—	106	10	1	—	—	—	117
Stock-based compensation	—	—	—	52	—	—	—	—	52
Noncontrolling interests in businesses acquired	—	—	—	(11)	—	—	—	(13)	(24)
February 28, 2017	1,080,695,374	\$ 12	\$ (5,285)	\$ 10,162	\$ —	\$ (3,809)	\$ 28,987	\$ 354	\$ 30,421

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(UNAUDITED)
(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	\$ 29,446	\$ 30,184	\$ 57,947	\$ 59,217
Cost of sales	21,885	22,317	43,270	43,931
Gross Profit	7,561	7,867	14,677	15,286
Selling, general and administrative expenses	6,124	6,007	11,810	11,958
Equity earnings in AmerisourceBergen	42	—	59	—
Operating Income	1,479	1,860	2,926	3,328
Other expense	(15)	(496)	(14)	(553)
Earnings Before Interest and Income Tax Provision	1,464	1,364	2,912	2,775
Interest expense, net	172	140	345	278
Earnings Before Income Tax Provision	1,292	1,224	2,567	2,497
Income tax provision	246	301	466	468
Post tax earnings from other equity method investments	16	9	28	20
Net Earnings	1,062	932	2,129	2,049
Net earnings attributable to noncontrolling interests	2	2	15	9
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	\$ 1,060	\$ 930	\$ 2,114	\$ 2,040
Net earnings per common share:				
Basic	\$ 0.98	\$ 0.86	\$ 1.96	\$ 1.88
Diluted	\$ 0.98	\$ 0.85	\$ 1.94	\$ 1.87
Dividends declared per share	\$ 0.375	\$ 0.360	\$ 0.750	\$ 0.720
Weighted average common shares outstanding:				
Basic	1,079.7	1,080.2	1,080.9	1,084.6
Diluted	1,085.5	1,088.4	1,086.9	1,093.5

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In millions)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Comprehensive Income				
Net Earnings	\$ 1,062	\$ 932	\$ 2,129	\$ 2,049
Other comprehensive income (loss), net of tax:				
Pension/postretirement obligations	5	(2)	(4)	1
Unrealized gain on cash flow hedges	1	1	2	2
Unrecognized loss on available-for-sale investments	—	(88)	(1)	(87)
Share of other comprehensive loss of equity method investments	(4)	—	(5)	—
Currency translation adjustments	3	(1,156)	(852)	(1,606)
Total Other Comprehensive Income (Loss)	5	(1,245)	(860)	(1,690)
Total Comprehensive Income (Loss)	1,067	(313)	1,269	359
Comprehensive income (loss) attributable to noncontrolling interests	5	(33)	(28)	(27)
Comprehensive Income (Loss) Attributable to Walgreens Boots Alliance, Inc.	\$ 1,062	\$ (280)	\$ 1,297	\$ 386

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

	Six Months Ended	
	February 28, 2017	February 29, 2016
Cash Flows from Operating Activities :		
Net earnings	\$ 2,129	\$ 2,049
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	831	824
Change in fair value of warrants and related amortization	—	586
Deferred income taxes	(226)	(171)
Stock compensation expense	52	60
Equity earnings from equity method investments	(87)	(20)
Other	184	196
Changes in operating assets and liabilities:		
Accounts receivable, net	189	(152)
Inventories	(507)	(553)
Other current assets	17	33
Trade accounts payable	789	160
Accrued expenses and other liabilities	(309)	(79)
Income taxes	154	92
Other non-current assets and liabilities	166	60
Net cash provided by operating activities	<u>3,382</u>	<u>3,085</u>
Cash Flows from Investing Activities :		
Additions to property, plant and equipment	(639)	(657)
Proceeds from sale leaseback transactions	436	60
Proceeds from sale of businesses	—	43
Proceeds from sale of other assets	22	85
Business and intangible asset acquisitions, net of cash received	(52)	(86)
Other	36	3
Net cash used for investing activities	<u>(197)</u>	<u>(552)</u>
Cash Flows from Financing Activities :		
Proceeds and payments from short-term borrowings, net	76	61
Payments of long-term debt	(9)	(81)
Stock purchases	(457)	(1,152)
Proceeds related to employee stock plans	116	129
Cash dividends paid	(817)	(787)
Other	(31)	(29)
Net cash used for financing activities	<u>(1,122)</u>	<u>(1,859)</u>
Effect of exchange rate changes on cash and cash equivalents	(48)	(88)
Changes in Cash and Cash Equivalents :		

[Table of Contents](#)

Net increase in cash and cash equivalents	2,015	586
Cash and cash equivalents at beginning of period	9,807	3,000
Cash and cash equivalents at end of period	<u>\$ 11,822</u>	<u>\$ 3,586</u>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Accounting Policies

Basis of Presentation

The Consolidated Condensed Financial Statements of Walgreens Boots Alliance, Inc. (“Walgreens Boots Alliance” or the “Company”) included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. The Consolidated Condensed Financial Statements include all subsidiaries in which the Company holds a controlling interest. Investments in less than majority-owned subsidiaries in which the Company does not have a controlling interest, but does have significant influence, are accounted for as equity method investments. All intercompany transactions have been eliminated.

The Consolidated Condensed Balance Sheet as of February 28, 2017, the Consolidated Condensed Statement of Equity for the six months ended February 28, 2017, and the Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Income and the Consolidated Condensed Statements of Cash Flows for the three and six months ended February 28, 2017 and February 29, 2016 are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited Consolidated Condensed Financial Statements should be read in conjunction with the audited financial statements and the notes thereto included in the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

In the opinion of the Company, the unaudited Consolidated Condensed Financial Statements for the interim periods presented include all adjustments (consisting only of normal recurring adjustments) necessary to present a fair statement of the results for such interim periods. The influence of certain holidays, seasonality, foreign currency rates, changes in vendor, payer and customer relationships and terms and other factors on the Company’s operations, net earnings for any period may not be comparable to the same period in previous years. With respect to the Company’s Retail Pharmacy USA segment, the positive impact on gross margins and gross profit dollars typically has been significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a “generic conversion.” In any given year, the number of major brand name drugs that undergo a conversion from branded to generic status can increase or decrease, which can have a significant impact on the Company’s Retail Pharmacy USA segment’s sales, gross margin and gross profit dollars making the Company’s operations or net earnings for any period incomparable.

To improve comparability, certain classification changes were made to prior periods to conform to current year classifications. These reclassifications were made in the fourth quarter of fiscal 2016.

On October 27, 2015, Walgreens Boots Alliance entered into an Agreement and Plan of Merger with Rite Aid Corporation (“Rite Aid”) and Victoria Merger Sub, Inc., a wholly-owned subsidiary of Walgreens Boots Alliance (as amended as described below, the “Merger Agreement”), pursuant to which the Company agreed, subject to the terms and conditions thereof, to acquire Rite Aid, a drugstore chain in the United States with 4,547 stores in 31 states and the District of Columbia as of November 26, 2016. The Merger Agreement was amended by Amendment No. 1 (the “Amendment”) on January 29, 2017. Under the terms of the Amendment, the parties agreed to reduce the price for each share of Rite Aid common stock to be paid by Walgreens Boots Alliance upon closing to a maximum of \$7.00 per share and a minimum of \$6.50 per share. In addition, Walgreens Boots Alliance will be required to divest up to 1,200 Rite Aid stores and certain additional related assets if required to obtain regulatory approval. The exact price per share will be determined based on the number of required store divestitures, with the price set at \$7.00 per share if 1,000 stores or fewer are required for divestiture and at \$6.50 per share if 1,200 stores are required for divestiture. If the required divestitures fall between 1,000 and 1,200 stores, then there will be a pro-rata adjustment of the price per share. Additionally, Walgreens Boots Alliance and Rite Aid agreed to extend the end date under the Merger Agreement to July 31, 2017 in order to allow the parties additional time to obtain regulatory approval. The transaction is subject to approval by the holders of Rite Aid’s common stock, the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other customary closing conditions.

On December 20, 2016, Walgreens Boots Alliance and Rite Aid announced that they have entered into an agreement to sell 865 Rite Aid stores and certain assets related to store operations to Fred’s, Inc. (“Fred’s”) for \$950 million in an all-cash transaction. The transaction is subject to Federal Trade Commission (“FTC”) approval, the approval and completion of the pending acquisition of Rite Aid by Walgreens Boots Alliance pursuant to the Merger Agreement, and other customary closing conditions. If the FTC requires divestiture of more than the 865 Rite Aid stores currently contemplated by the purchase

agreement and Walgreens Boots Alliance agrees to sell such stores, the purchase agreement requires Fred's to purchase such additional stores.

Note 2. Restructuring

On April 8, 2015, the Walgreens Boots Alliance Board of Directors approved a plan to implement a new restructuring program (the "Cost Transformation Program") as part of an initiative to reduce costs and increase operating efficiencies. The Cost Transformation Program implemented and built on the cost-reduction initiative previously announced by the Company on August 6, 2014 and included plans to close stores across the U.S.; reorganize corporate and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the Cost Transformation Program focus primarily on the Retail Pharmacy USA segment. From inception through February 28, 2017, the Company incurred pre-tax charges of \$1.4 billion (\$563 million related to asset impairment charges, \$542 million in real estate costs and \$282 million in severance and other business transition and exit costs) related to the Cost Transformation Program. All charges related to the Cost Transformation Program have been recorded within selling, general and administrative expenses. Restructuring charges are recognized as the costs are incurred in accordance with GAAP.

Restructuring costs by segment are as follows (in millions):

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Walgreens Boots Alliance, Inc.
Three Months Ended February 28, 2017				
Asset impairments	\$ 65	\$ 1	\$ 1	\$ 67
Real estate costs	240	—	—	240
Severance and other business transition and exit costs	11	18	4	33
Total restructuring costs	<u>\$ 316</u>	<u>\$ 19</u>	<u>\$ 5</u>	<u>\$ 340</u>
Three Months Ended February 29, 2016				
Asset impairments	\$ —	\$ —	\$ —	\$ —
Real estate costs	—	—	—	—
Severance and other business transition and exit costs	25	3	—	28
Total restructuring costs	<u>\$ 25</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 28</u>
Six Months Ended February 28, 2017				
Asset impairments	\$ 111	\$ 3	\$ 1	\$ 115
Real estate costs	249	—	—	249
Severance and other business transition and exit costs	28	22	7	57
Total restructuring costs	<u>\$ 388</u>	<u>\$ 25</u>	<u>\$ 8</u>	<u>\$ 421</u>
Six Months Ended February 29, 2016				
Asset impairments	\$ 25	\$ —	\$ —	\$ 25
Real estate costs	52	—	—	52
Severance and other business transition and exit costs	33	8	—	41
Total restructuring costs	<u>\$ 110</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 118</u>

The changes in Accrued expenses related to the Cost Transformation Program include the following (in millions):

	Asset Impairments	Real estate costs	Severance and other business transition and exit costs	Total
Balance at August 31, 2016	\$ —	\$ 248	\$ 27	\$ 275
Restructuring Costs	115	249	57	421
Payments	—	(28)	(29)	(57)
Other - non cash	(115)	—	(13)	(128)
Currency translation adjustments	—	—	(1)	(1)
Balance at February 28, 2017	\$ —	\$ 469	\$ 41	\$ 510

Note 3. Operating Leases

Initial lease term for premises in the U.S. is typically 15 to 25 years, followed by additional terms containing renewal options at five -year intervals, and may include rent escalation clauses. Non-U.S. leases are typically for shorter terms and may include cancellation clauses or renewal options. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. The Company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, some leases provide for contingent rentals based upon a portion of sales.

The Company continuously evaluates its real estate portfolio in conjunction with its capital needs. The Company has entered into several sale-leaseback transactions. For the six months ended February 28, 2017 and February 29, 2016 , the Company recorded proceeds from sale-leaseback transactions of \$436 million and \$60 million , respectively. The Company has determined it no longer has continuing involvement related to these transactions and in accordance with the accounting standards related to sale-leaseback transactions has recognized any loss on sale immediately, any gain on sale was deferred and amortized over the life of the lease. Gains and losses are recorded within selling, general and administrative expenses in the Consolidated Condensed Statements of Earnings.

The Company provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. During the three and six months ended February 28, 2017 , the Company recorded charges of \$247 million and \$264 million for facilities that were closed or relocated under long-term leases, including stores closed through the Company's restructuring activities. This compares to \$9 million and \$75 million for the three and six months ended February 29, 2016 . These charges are reported in selling, general and administrative expenses in the Consolidated Condensed Statements of Earnings.

The changes in reserve for facility closings and related lease termination charges include the following (in millions):

	For the six months ended February 28, 2017	For the twelve months ended August 31, 2016
Balance at beginning of period	\$ 466	\$ 446
Provision for present value of non-cancellable lease payments on closed facilities	258	134
Assumptions about future sublease income, terminations and changes in interest rates	(10)	(34)
Interest accretion	16	27
Cash payments, net of sublease income	(59)	(107)
Balance at end of period	\$ 671	\$ 466

As of February 28, 2017 , the Company remains secondarily liable on 71 leases. The maximum potential undiscounted future payments are \$335 million as of February 28, 2017 .

Note 4. Equity Method Investments

Equity method investments as of February 28, 2017 and August 31, 2016 , are as follows (in millions, except percentages):

	February 28, 2017		August 31, 2016	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
AmerisourceBergen	\$ 4,982	26%	\$ 4,964	24%
Others	1,182	12% - 50%	1,210	12% - 50%
Total	\$ 6,164		\$ 6,174	

AmerisourceBergen Investment

As of February 28, 2017 and August 31, 2016, the Company owned 56,854,867 AmerisourceBergen Corporation (“AmerisourceBergen”) common shares, representing approximately 26% and 24% of the outstanding AmerisourceBergen common stock, respectively. The Company accounts for its equity investment in AmerisourceBergen using the equity method of accounting, with the net earnings attributable to the Company’s investment being classified within the operating income of its Pharmaceutical Wholesale segment. Due to the timing and availability of financial information of AmerisourceBergen, the Company accounts for this equity method investment on a financial reporting lag of two months. Equity earnings from AmerisourceBergen is reported as a separate line in the Consolidated Condensed Statements of Earnings. The level 1 fair market value of the Company’s equity investment in AmerisourceBergen common stock at February 28, 2017 is \$5.2 billion.

The Company’s investment in AmerisourceBergen carrying value exceeded its proportionate share of the net assets of AmerisourceBergen by \$4.4 billion. This premium of \$4.4 billion was recognized as part of the carrying value in the Company’s equity investment in AmerisourceBergen. The difference was primarily related to goodwill and the fair value of AmerisourceBergen intangible assets.

Other Investments

The Company’s other equity method investments include its investments in Guangzhou Pharmaceuticals Corporation and Nanjing Pharmaceutical Corporation Limited, the Company’s pharmaceutical wholesale investments in China; and the equity method investment retained through the sale of a majority interest in Option Care Inc. in fiscal 2015. The Company reported \$16 million and \$9 million of post-tax equity earnings from equity method investments other than AmerisourceBergen for the three months ended February 28, 2017 and February 29, 2016, respectively. The Company reported \$ 28 million and \$20 million of post-tax equity earnings from equity method investments other than AmerisourceBergen for the six months ended February 28, 2017 and February 29, 2016, respectively.

Note 5. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill by reportable segment consist of the following (in millions):

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Walgreens Boots Alliance, Inc.
August 31, 2016	\$ 9,036	\$ 3,369	\$ 3,122	\$ 15,527
Currency translation adjustments	—	(146)	(167)	(313)
February 28, 2017	\$ 9,036	\$ 3,223	\$ 2,955	\$ 15,214

The carrying amount and accumulated amortization of intangible assets consist of the following (in millions):

	<u>February 28, 2017</u>	<u>August 31, 2016</u>
Gross Amortizable Intangible Assets		
Customer relationships and loyalty card holders	\$ 1,764	\$ 1,867
Purchased prescription files	718	932
Favorable lease interests and non-compete agreements	542	619
Trade names and trademarks	509	532
Purchasing and payer contracts	61	94
Total gross amortizable intangible assets	<u>3,594</u>	<u>4,044</u>
Accumulated amortization		
Customer relationships and loyalty card holders	\$ 328	\$ 275
Purchased prescription files	415	600
Favorable lease interests and non-compete agreements	344	388
Trade names and trademarks	129	105
Purchasing and payer contracts	39	71
Total accumulated amortization	<u>1,255</u>	<u>1,439</u>
Total amortizable intangible assets, net	<u>\$ 2,339</u>	<u>\$ 2,605</u>
Indefinite lived Intangible Assets		
Trade names and trademarks	\$ 5,323	\$ 5,604
Pharmacy licenses	1,988	2,093
Total indefinite lived intangible assets	<u>\$ 7,311</u>	<u>\$ 7,697</u>
Total intangible assets, net	<u>\$ 9,650</u>	<u>\$ 10,302</u>

Amortization expense for intangible assets was \$94 million and \$189 million for the three and six months ended February 28, 2017, and \$124 million and \$216 million for the three and six months ended February 29, 2016, respectively.

Estimated annual amortization expense for intangible assets recorded at February 28, 2017 is as follows (in millions):

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Estimated annual amortization expense	\$ 357	\$ 326	\$ 295	\$ 236	\$ 194

Note 6. Borrowings

Borrowings consist of the following (all amounts are presented in millions of U.S. dollars and debt issuances are denominated in U.S. dollars, unless otherwise noted)

	February 28, 2017	August 31, 2016
Short-Term Borrowings ⁽¹⁾		
1.750% unsecured notes due November 2017 ⁽⁵⁾⁽⁷⁾	\$ 748	\$ —
Unsecured Pound Sterling variable rate term loan due 2019	90	63
Other ⁽²⁾	315	260
Total short-term borrowings	<u>\$ 1,153</u>	<u>\$ 323</u>
Long-Term Debt ⁽¹⁾		
Unsecured Pound Sterling variable rate term loan due 2019	\$ 1,711	\$ 1,833
<i>\$6 Billion Note Issuance ⁽⁵⁾⁽⁷⁾</i>		
1.750% unsecured notes due 2018	1,247	1,246
2.600% unsecured notes due 2021	1,494	1,493
3.100% unsecured notes due 2023	745	744
3.450% unsecured notes due 2026	1,886	1,885
4.650% unsecured notes due 2046	590	590
<i>\$8 Billion Note Issuance ⁽⁵⁾⁽⁷⁾</i>		
1.750% unsecured notes due 2017	—	746
2.700% unsecured notes due 2019	1,245	1,244
3.300% unsecured notes due 2021	1,243	1,242
3.800% unsecured notes due 2024	1,987	1,987
4.500% unsecured notes due 2034	494	494
4.800% unsecured notes due 2044	1,492	1,492
<i>£700 Million Note Issuance ⁽¹⁾⁽⁵⁾⁽⁷⁾</i>		
2.875% unsecured Pound Sterling notes due 2020	495	521
3.600% unsecured Pound Sterling notes due 2025	371	391
<i>€750 Million Note Issuance ⁽¹⁾⁽⁵⁾⁽⁷⁾</i>		
2.125% unsecured Euro notes due 2026	790	830
<i>\$4 Billion Note Issuance ⁽⁶⁾⁽⁷⁾</i>		
3.100% unsecured notes due 2022	1,194	1,194
4.400% unsecured notes due 2042	492	492
<i>\$1 Billion Note Issuance ⁽⁶⁾⁽⁷⁾</i>		
5.250% unsecured notes due 2019 ⁽³⁾	249	249
Other ⁽⁴⁾	33	32
Total long-term debt, less current portion	<u>\$ 17,758</u>	<u>\$ 18,705</u>

(1) All notes are presented net of unamortized discount and debt issuance costs, where applicable, and foreign currency denominated borrowings have been translated using the spot rates at February 28, 2017 and August 31, 2016, respectively.

(2) Other short-term borrowings represent a mix of fixed and variable rate borrowings with various maturities and working capital facilities denominated in various foreign currencies.

(3) Includes interest rate swap fair market value adjustments. See Note 8, Fair Value Measurements for additional fair value disclosures.

(4) Other long-term debt represents a mix of fixed and variable rate borrowings in various foreign currencies with various maturities.

(5) Notes are unsubordinated debt obligations of Walgreens Boots Alliance and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance from time to time outstanding.

- (6) Notes are senior debt obligations of Walgreens and rank equally with all other unsecured and unsubordinated indebtedness of Walgreens. On December 31, 2014, Walgreens Boots Alliance fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens Boots Alliance and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance.
- (7) The fair value & carrying value of the \$6 billion, \$8 billion, £0.7 billion, €0.75 billion, \$4 billion and \$1 billion note issuances as of February 28, 2017 was \$6.0 billion & \$6.0 billion, \$7.4 billion & \$7.2 billion, \$0.9 billion & \$0.9 billion, \$0.8 billion & \$0.8 billion, \$1.7 billion & \$1.7 billion and \$0.3 billion & \$0.2 billion, respectively. The fair values of the notes outstanding are Level 1 fair value measures and determined based on quoted market price and translated at the February 28, 2017 spot rate, as applicable.

Backstop Commitment Letter, Backstop Credit Agreement and 2017 Term Loan Credit Agreements

In connection with Amendment No. 1 to the Merger Agreement, on January 31, 2017, the Company entered into (i) a \$5.0 billion backstop facility commitment letter (the "Backstop Commitment Letter") and (ii) a \$5.0 billion unsecured bridge term loan facility (the "Backstop Credit Agreement"). Upon entry into the Backstop Credit Agreement, the Backstop Commitment Letter and the commitments contemplated thereby terminated.

On February 22, 2017, the Company entered into (a) a \$4.8 billion unsecured term loan facility with the lenders party thereto (the "Syndicated Credit Agreement") and (b) a \$1.0 billion unsecured term loan facility with Sumitomo Mitsui Banking Corporation, as lender and administrative agent (the "Sumitomo Credit Agreement" and, together with the Syndicated Credit Agreement, the "2017 Term Loan Credit Agreements"). In connection therewith, as of such date the commitments available under the Backstop Credit Agreement were reduced to zero and such agreement terminated in accordance with its terms.

The Syndicated Credit Agreement is a two-tranche unsecured term loan facility (each tranche in an amount of \$2.4 billion), with the first tranche maturing October 27, 2019 and the second tranche maturing October 27, 2021, provided that the Company may increase the commitments available under either of the tranches of the Syndicated Credit Agreement at any time prior to the funding date thereunder by up to \$450 million, subject to obtaining commitments from existing lenders and/or new lenders selected by the Company and reasonably acceptable to Bank of America, N.A., as administrative agent.

The Sumitomo Credit Agreement is a two-tranche unsecured term loan facility (each tranche in an amount of \$500 million), with the first tranche maturing on the first anniversary of the funding date thereunder and the second tranche maturing on the earlier of the first anniversary of the funding date thereunder and March 30, 2018.

Walgreens Boots Alliance will be the borrower under each of the 2017 Term Loan Credit Agreements. The obligations of the lenders party to each of the 2017 Term Loan Credit Agreements to fund the loans thereunder become effective upon the date of closing of the transactions contemplated by the Merger Agreement. The ability of the Company to request the funding of loans under each of the 2017 Term Loan Credit Agreements is subject to the satisfaction (or waiver) of certain customary "limited conditions" set forth therein and will terminate upon the occurrence of certain events set forth therein. Commitments to provide loans under each of the 2017 Term Loan Credit Agreements will expire on the earliest of (a) the date of consummation of the acquisition by Walgreens Boots Alliance (the "Acquisition") of all the issued and outstanding equity interests of Rite Aid (provided that loans may be funded on such date), (b) prior to the consummation of the Acquisition, the termination of the Merger Agreement by Walgreens Boots Alliance or with the written consent of Walgreens Boots Alliance in accordance with its terms (other than with respect to provisions therein that expressly survive termination), (c) 11:59 p.m., New York time, on July 31, 2017; provided that Walgreens Boots Alliance may extend such date to October 31, 2017 on prior written notice to the respective Administrative Agent and lenders thereunder, and (d) the date of termination in whole of the lender's commitments under each applicable 2017 Term Loan Credit Agreement in accordance with the terms thereof.

As of February 28, 2017, there were no borrowings under either of the 2017 Term Loan Credit Agreements.

2017 Revolving Credit Agreement

On February 1, 2017, the Company entered into a \$1.0 billion revolving credit facility (the "2017 Revolving Credit Agreement") with the lenders from time to time party thereto. The Company will be the borrower under the 2017 Revolving Credit Agreement, which terminates on the earlier of (a) 364 days following the effective date thereof, subject to the extension thereof pursuant to provisions specified in the Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate commitment pursuant to the Revolving Credit Agreement. The ability of the Company to request the making of loans under the 2017 Revolving Credit Agreement is subject to the satisfaction (or waiver) of certain customary conditions set forth therein (including a separate set of customary "limited conditions" applicable to any loans made for the sole purpose of financing the Acquisition). As of February 28, 2017, there were no borrowings under the 2017 Revolving Credit Agreement.

\$6.0 billion Note Issuance

On June 1, 2016, Walgreens Boots Alliance received net proceeds (after deducting underwriting discounts and offering expenses) of \$6.0 billion from a public offering of five series of U.S. dollar notes with varying maturities and interest rates. Total issuance costs relating to the notes, including underwriting discounts and offering expenses, were \$30 million. In the event that the merger contemplated by the Agreement and Plan of Merger dated as of October 27, 2015 among the Company, Rite Aid Corporation (“Rite Aid”) and Victoria Merger Sub, Inc., a wholly-owned subsidiary of the Company (as amended pursuant to Amendment No. 1 thereto, dated as of January 29, 2017, the “Merger Agreement”) is not consummated on or prior to June 1, 2017 (the first anniversary of the issuance date of the notes) or if the Merger Agreement is terminated at any time on or prior to June 1, 2017, then Walgreens Boots Alliance will be required to redeem the notes due 2018, the notes due 2021 and the notes due 2023 (but not the notes due 2026 or notes due 2046) on the date described in the applicable note at a redemption price equal to 101% of the aggregate principal amount of the notes to be redeemed, plus accrued and unpaid interest from and including the date of initial issuance, or the most recent date to which interest has been paid, whichever is later, to, but excluding, the date of redemption.

The notes issued on June 1, 2016 contain redemption terms which allow or require the Company to redeem the notes at defined redemption prices plus accrued and unpaid interest at redemption dates set forth in the applicable series of notes. Interest on the notes issued on June 1, 2016 is payable semi-annually.

Bridge Credit Agreement, 2015 Term Loan Credit Agreement and 2016 Term Loan Credit Agreement

In connection with the pending acquisition of Rite Aid, on December 18, 2015, the Company entered into a 364 -day unsecured bridge term loan facility with initial aggregate commitments of \$7.8 billion (as amended, the “Bridge Credit Agreement”) and a \$5.0 billion unsecured term loan facility (as amended, the “2015 Term Loan Credit Agreement”) and on August 30, 2016, the Company entered into a \$1.0 billion senior unsecured term loan facility (the “2016 Term Loan Credit Agreement”). On January 27, 2017, each of the Bridge Credit Agreement, the 2015 Term Loan Credit Agreement, and the 2016 Term Loan Credit Agreement terminated in accordance with its terms.

Debt covenants

The Company’s credit facilities contain a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60 :1.00. The credit facilities contain various other customary covenants. In the case of the 2017 Term Loan Credit Agreements, such covenants are not in effect until the loans under each such credit facility are funded.

Other Borrowings

The Company periodically borrows under its commercial paper program. There were no commercial paper borrowings outstanding as of February 28, 2017 or August 31, 2016, respectively. The Company had no activity under its commercial paper program for the six months ended February 28, 2017. The Company had average daily short-term borrowings of \$20 million of commercial paper outstanding at a weighted average interest rate of 0.62% for the six month period ended February 29, 2016.

Note 7. Financial Instruments

The Company uses derivative instruments to manage its exposure to interest rate and foreign currency exchange risks.

The notional amounts, fair value and balance sheet presentation of derivative instruments outstanding as of February 28, 2017 and August 31, 2016 are as follows (in millions):

	February 28, 2017		August 31, 2016		Location in Consolidated Condensed Balance Sheets
	Notional ⁽¹⁾	Fair Value	Notional ⁽¹⁾	Fair Value	
Derivatives designated as fair value hedges:					
Interest rate swaps	250	1	—	—	Other non-current liabilities
Interest rate swaps	—	—	250	3	Other non-current assets
Derivatives not designated as hedges:					
Foreign currency forwards	253	2	1,177	16	Other current assets
Foreign currency forwards	1,052	11	41	—	Other current liabilities
Basis swaps	2	1	—	—	Other current liabilities
Basis swaps	—	—	2	1	Other current assets

⁽¹⁾ Amounts are presented in U.S. dollar equivalents, as applicable.

The Company uses interest rate swaps to manage the interest rate exposure associated with some of its fixed-rate borrowings and designates them as fair value hedges. The Company uses forward starting interest rate swaps to hedge its interest rate exposure of some of its anticipated debt issuances.

The Company utilizes foreign currency forward contracts and other foreign currency derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of the Company or its subsidiaries. The Company has significant non-U.S. dollar denominated net investments and uses foreign currency denominated financial instruments, specifically foreign currency derivatives and foreign currency denominated debt, to hedge its foreign currency risk.

Fair Value Hedges

The Company holds interest rate swaps converting \$250 million of its 5.250% fixed rate notes to a floating interest rate based on the six-month LIBOR in arrears plus a constant spread. All swap termination dates coincide with the notes maturity date, January 15, 2019. These swaps were designated as fair value hedges.

The gains and losses due to changes in fair value on the swaps and on the hedged notes attributable to interest rate risk were not material.

The changes in fair value of the Company's debt that was swapped from fixed to variable rate and designated as fair value hedges are included in long-term debt on the Consolidated Condensed Balance Sheets (see Note 6, Borrowings). At February 28, 2017 and August 31, 2016, the cumulative fair value adjustments resulted in a decrease in long-term debt of \$1 million and an increase of \$3 million, respectively. No material gains or losses were recorded from ineffectiveness during the three and six months ended February 28, 2017.

Derivatives not Designated as Hedges

The Company enters into derivative transactions that are not designated as accounting hedges. These derivative instruments are economic hedges of foreign currency risks. The gains and (losses) due to changes in fair value of these derivative instruments were recognized in earnings as follows (in millions):

	Location in Consolidated Condensed Statements of Earnings	Three Months Ended		Six Months Ended	
		February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Foreign currency forwards	Selling, general and administrative expense	\$ (2)	\$ (23)	\$ 47	\$ (25)
Foreign currency forwards	Other income (expense)	\$ (15)	\$ 33	\$ (14)	\$ 33

Derivatives Credit Risk

Counterparties to derivative financial instruments expose the Company to credit-related losses in the event of counterparty nonperformance, and the Company regularly monitors the credit worthiness of each counterparty.

Derivatives Offsetting

The Company does not offset the fair value amounts of derivative instruments subject to master netting agreements in the Consolidated Condensed Balance Sheets.

Note 8. Fair Value Measurements

The Company measures certain assets and liabilities in accordance with ASC Topic 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In addition, it establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs other than quoted prices in active markets.

Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value on a recurring basis are as follows (in millions):

	<u>February 28, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets :				
Restricted cash ⁽¹⁾	\$ 170	\$ 170	\$ —	\$ —
Money market funds ⁽²⁾	10,106	10,106	—	—
Available-for-sale investments ⁽³⁾	28	28	—	—
Foreign currency forwards ⁽⁴⁾	2	—	2	—
Liabilities :				
Foreign currency forwards ⁽⁴⁾	11	—	11	—
Basis swaps ⁽⁴⁾	1	—	1	—
Interest rate swaps ⁽⁵⁾	1	—	1	—
	<u>August 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets :				
Restricted cash ⁽¹⁾	\$ 185	\$ 185	\$ —	\$ —
Money market funds ⁽²⁾	9,133	9,133	—	—
Available-for-sale investments ⁽³⁾	32	32	—	—
Interest rate swaps ⁽⁵⁾	3	—	3	—
Foreign currency forwards ⁽⁴⁾	16	—	16	—
Liabilities :				
Basis swaps ⁽⁴⁾	1	—	1	—

(1) Restricted cash consists of deposits restricted under agency agreements and cash restricted by law and other obligations.

(2) Money market funds are valued at the closing price reported by the fund sponsor.

(3) Fair values of quoted investments are based on current bid prices as of the balance sheet dates.

(4) The fair value of basis swaps and forward currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using observable market rates.

(5) The fair value of interest rate swaps is calculated by discounting the estimated future cash flows based on the applicable observable yield curves. See Note 7, Financial Instruments for additional information.

There were no transfers between levels for the three and six months ended February 28, 2017 .

The Company reports its debt instruments under the guidance of ASC Topic 825, Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated financial statements. Unless otherwise noted, the fair value for all notes was determined based upon quoted market prices and therefore categorized as Level 1. See Note 6, Borrowings for further information. The carrying values of accounts receivable and trade accounts payable approximated their respective fair values due to their short-term nature.

Note 9. Commitments and Contingencies

The Company is involved in legal proceedings and is subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of the Company's business, including the matters described below. Legal proceedings, in general, and securities and class action litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, the Company is also involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property and other matters. Gain contingencies, if any, are recognized when they are realized. The results of legal proceedings are often uncertain and difficult to predict, and the costs incurred in litigation can be substantial, regardless of the outcome. The Company believes that its defenses and assertions in pending legal proceedings have merit, and does not believe that any of these pending matters, after consideration of applicable reserves and rights to indemnification, will have a material adverse effect on the Company's consolidated financial position. However, substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, the Company could from time to time incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and/or its cash flows in the period in which the amounts are paid.

On a quarterly basis, the Company assesses its liabilities and contingencies for outstanding legal proceedings and reserves are established on a case-by-case basis for those legal claims for which management concludes that it is probable that a loss will be incurred and that the amount of such loss can be reasonably estimated. Substantially all of these contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. With respect to litigation and other legal proceedings where the Company has determined that a loss is reasonably possible, the Company is unable to estimate the amount or range of reasonably possible loss due to the inherent difficulty of predicting the outcome of and uncertainties regarding such litigation and legal proceedings. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Therefore, it is possible that an unfavorable resolution of one or more pending litigation or other contingencies could have a material adverse effect on the Company's consolidated financial statements in a future fiscal period. Management's assessment of current litigation and other legal proceedings, including the corresponding accruals, could change because of the discovery of facts with respect to legal actions or other proceedings pending against the Company which are not presently known. Adverse rulings or determinations by judges, juries, governmental authorities or other parties could also result in changes to management's assessment of current liabilities and contingencies. Accordingly, the ultimate costs of resolving these claims may be substantially higher or lower than the amounts reserved.

On December 29, 2014, a putative shareholder filed a derivative action in federal court in the Northern District of Illinois against certain current and former directors and officers of Walgreen Co., and Walgreen Co. as a nominal defendant, arising out of certain public statements the Company made regarding its former fiscal 2016 goals. The action asserts claims for breach of fiduciary duty, waste and unjust enrichment. On April 10, 2015, the defendants filed a motion to dismiss. On May 18, 2015, the case was stayed in light of a securities class action that was filed on April 10, 2015. After a ruling issued on September 30, 2016 in the securities class action, which is described below, on November 3, 2016, the Court entered a stipulation and order extending the stay until the securities case is fully resolved.

On April 10, 2015, a putative shareholder filed a securities class action in federal court in the Northern District of Illinois against Walgreen Co. and certain former officers of Walgreen Co. The action asserts claims for violation of the federal securities laws arising out of certain public statements the Company made regarding its former fiscal 2016 goals. On June 16, 2015, the Court entered an order appointing a lead plaintiff. Pursuant to the Court's order, lead plaintiff filed an amended complaint on August 17, 2015, and defendants moved to dismiss the amended complaint on October 16, 2015. Lead plaintiff filed a response to the motion to dismiss on December 22, 2015, and defendants filed a reply in support of the motion on February 5, 2016. On September 30, 2016, the Court issued an order granting in part and denying in part defendants' motion to dismiss. Defendants filed their answer to the amended complaint on November 4, 2016 and filed an amended answer on January 16, 2017. The Court has granted defendants' request to bifurcate class certification and merits discovery.

As of February 28, 2017, the Company was aware of two putative class action lawsuits filed by purported Rite Aid stockholders against Rite Aid and its board of directors, Walgreens Boots Alliance and Victoria Merger Sub, Inc. for claims arising out of the transactions contemplated by the original Merger Agreement (prior to its amendment on January 29, 2017) (such transactions, the “Rite Aid Transactions”). One action was filed in the State of Pennsylvania in the Court of Common Pleas of Cumberland County (the “Pennsylvania action”), and one action was filed in the United States District Court for the Middle District of Pennsylvania (the “federal action”). The Pennsylvania action primarily alleged that the Rite Aid board of directors breached its fiduciary duties in connection with the Rite Aid Transactions by, among other things, agreeing to an unfair and inadequate price, agreeing to deal protection devices that preclude other bidders from making successful competing offers for Rite Aid, and failing to disclose all allegedly material information concerning the proposed merger, and also alleged that Walgreens Boots Alliance and Victoria Merger Sub, Inc. aided and abetted these alleged breaches of fiduciary duty. The federal action alleged, among other things, that Rite Aid and its board of directors disseminated an allegedly false and misleading proxy statement in connection with the Rite Aid Transactions. The plaintiffs in the federal action also filed a motion for preliminary injunction seeking to enjoin the Rite Aid shareholder vote relating to the Rite Aid Transactions. That motion was denied, and the Rite Aid shareholders approved the Rite Aid Transactions at a special meeting on February 4, 2016. In the federal action, plaintiffs agreed to stay the litigation until after the Rite Aid Transactions have closed, but on March 17, 2017, moved to lift the stay to allow plaintiffs to file an amended complaint. The Company has filed a response opposing this motion. The Company was also named as a defendant in eight putative class action lawsuits filed in the Court of Chancery of the State of Delaware (the “Delaware actions”). Those actions were consolidated, and plaintiffs filed a motion for preliminary injunction seeking to enjoin the Rite Aid shareholder vote relating to the Rite Aid Transactions. That motion was denied, and on April 15, 2016, the plaintiffs in the Delaware actions agreed to a settlement in principle related to this matter for an immaterial amount. The Delaware actions all have been dismissed.

Note 10. Retirement Benefits

The Company sponsors several retirement plans, including defined benefit plans, defined contribution plans and a postretirement health plan.

Effective September 1, 2016, for UK and U.S. benefit plans previously using the yield curve approach to establish discount rates, the Company changed the method used to calculate the service cost and interest cost components of net periodic benefit costs for pension and postretirement benefit plans and will measure these costs by applying the specific spot rates along the yield curve to the plans’ projected cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by improving the correlation between projected cash flows and the corresponding spot yield curve rates. The change does not affect the measurement of the Company’s pension and other postretirement benefit obligations for those plans and is accounted for as a change in accounting estimate, which is applied prospectively.

Defined Benefit Pension Plans (non-U.S. plans)

The Company has various defined benefit pension plans outside the United States. The principal defined benefit pension plan is the Boots Pension Plan, which covers certain employees in the United Kingdom (the “Boots Plan”). The Boots Plan is a funded final salary defined benefit plan providing pensions and death benefits to members. The Boots Plan was closed to future accrual effective July 1, 2010, with pensions calculated based on salaries up until that date. The Boots Plan is governed by a trustee board, which is independent of the Company. The plan is subject to a full funding actuarial valuation on a triennial basis.

Components of net periodic pension costs for the defined benefit pension plans (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Service costs	\$ —	\$ —	\$ 2	\$ 2
Interest costs	43	77	86	159
Expected returns on plan assets	(36)	(62)	(73)	(127)
Curtailments	2	—	2	—
Total net periodic pension costs	\$ 9	\$ 15	\$ 17	\$ 34

The Company made cash contributions to its defined benefit pension plans of \$9 million for the six months ended February 28, 2017, which primarily related to committed funded payments. The Company plans to contribute an additional \$54 million to its defined benefit pension plans in fiscal 2017.

Defined Contribution Plans

The principal retirement plan for U.S. employees is the Walgreen Profit-Sharing Retirement Trust, to which both the Company and participating employees contribute. The Company's contribution, which has historically related to adjusted FIFO earnings before interest and taxes and a portion of which is in the form of a guaranteed match, is determined annually at the discretion of the Walgreens Boots Alliance Board of Directors (or Compensation Committee thereof). The profit-sharing provision was an expense of \$49 million and \$106 million for the three and six months ended February 28, 2017 compared to an expense of \$53 million and \$111 million in the three and six months ended February 29, 2016 .

The Company also has other contract based as well as statutory defined contribution schemes, including the Alliance Healthcare & Boots Retirement Savings Plan, to which both the Company and participating employees contribute. The cost recognized in the Consolidated Condensed Statements of Earnings for the three and six months ended February 28, 2017 was \$28 million and \$56 million compared to a cost of \$34 million and \$69 million in the three and six months ended February 29, 2016 .

Postretirement Healthcare Plan

The Company provides certain health insurance benefits to retired U.S. employees who meet eligibility requirements, including age, years of service and date of hire. The costs of these benefits are accrued over the service life of the employee.

Note 11. Earnings Per Share

The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares. There were 6.7 million outstanding options to purchase common shares that were anti-dilutive and excluded from the second quarter earnings per share calculation as of February 28, 2017 compared to 3.2 million as of February 29, 2016 . Anti-dilutive shares excluded from the year to date earnings per share calculation were 5.4 million compared to 2.2 million for the periods ended February 28, 2017 and February 29, 2016 , respectively.

Note 12. Depreciation and Amortization

The Company has recorded the following depreciation and amortization expense in the Consolidated Condensed Statements of Earnings (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Depreciation expense	\$ 332	\$ 346	\$ 666	\$ 644
Intangible asset and other amortization	81	96	165	180
Total depreciation and amortization expense	\$ 413	\$ 442	\$ 831	\$ 824

Note 13. Supplemental Cash Flow Disclosures

Interest paid was \$375 million and \$302 million for the six months ended February 28, 2017 and February 29, 2016 , respectively. Cash paid for income taxes was \$537 million and \$481 million in the six months ended February 28, 2017 and February 29, 2016 , respectively.

Note 14. Accumulated Other Comprehensive Income (Loss)

The following is a summary of net changes in accumulated other comprehensive income by component and net of tax for the three and six months ended February 28, 2017 and February 29, 2016 (in millions):

	Pension/ post-retirement obligations	Unrecognized gain (loss) on available-for-sale investments	Unrealized gain (loss) on cash flow hedges	Share of OCI of equity method investments	Currency translation adjustment	Total
Balance at November 30, 2016	\$ (221)	\$ 1	\$ (36)	\$ (2)	\$ (3,552)	\$ (3,810)
Other comprehensive income (loss) before reclassification adjustments	6	—	—	(7)	(1)	(2)
Amounts reclassified from accumulated OCI	—	—	1	—	—	1
Tax benefit (provision)	(1)	—	—	3	—	2
Net other comprehensive income (loss)	5	—	1	(4)	(1)	1
Balance at February 28, 2017	\$ (216)	\$ 1	\$ (35)	\$ (6)	\$ (3,553)	\$ (3,809)

	Pension/ post-retirement obligations	Unrecognized gain (loss) on available-for-sale investments	Unrealized gain (loss) on cash flow hedges	Share of OCI of equity method investments	Currency translation adjustment	Total
Balance at August 31, 2016	\$ (212)	\$ 2	\$ (37)	\$ (1)	\$ (2,744)	\$ (2,992)
Other comprehensive income (loss) before reclassification adjustments	(5)	(1)	—	(8)	(809)	(823)
Amounts reclassified from accumulated OCI	—	—	3	—	—	3
Tax benefit (provision)	1	—	(1)	3	—	3
Net other comprehensive income (loss)	(4)	(1)	2	(5)	(809)	(817)
Balance at February 28, 2017	\$ (216)	\$ 1	\$ (35)	\$ (6)	\$ (3,553)	\$ (3,809)

	Pension/ post-retirement obligations	Unrecognized gain (loss) on available-for-sale investments	Unrealized gain (loss) on cash flow hedges	Share of OCI of equity method investments	Currency translation adjustment	Total
Balance at November 30, 2015	\$ 32	\$ 260	\$ (39)	\$ —	\$ (911)	\$ (658)
Other comprehensive income (loss) before reclassification adjustments	(4)	(139)	—	—	(1,121)	(1,264)
Amounts reclassified from accumulated OCI	—	—	2	—	—	2
Tax benefit (provision)	2	51	(1)	—	—	52
Net other comprehensive income (loss)	(2)	(88)	1	—	(1,121)	(1,210)
Balance at February 29, 2016	\$ 30	\$ 172	\$ (38)	\$ —	\$ (2,032)	\$ (1,868)

	Pension/ post-retirement obligations	Unrecognized gain (loss) on available-for-sale investments	Unrealized gain (loss) on cash flow hedges	Share of OCI of equity method investments	Currency translation adjustment	Total
Balance at August 31, 2015	\$ 29	\$ 259	\$ (40)	\$ —	\$ (462)	\$ (214)
Other comprehensive income (loss) before reclassification adjustments	(1)	(144)	—	—	(1,570)	(1,715)
Amounts reclassified from accumulated OCI	—	—	3	—	—	3
Tax benefit (provision)	2	57	(1)	—	—	58
Net other comprehensive income (loss)	1	(87)	2	—	(1,570)	(1,654)
Balance at February 29, 2016	\$ 30	\$ 172	\$ (38)	\$ —	\$ (2,032)	\$ (1,868)

Note 15. Segment Reporting

The Company has three reportable segments: Retail Pharmacy USA, Retail Pharmacy International, and Pharmaceutical Wholesale. The operating segments have been identified based on the financial data utilized by the Company’s Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company’s operating segments, which have been aggregated as described below. The chief operating decision maker uses adjusted operating income to assess segment profitability. The chief operating decision maker does not use total assets by segment to make decisions regarding resources, therefore the total asset disclosure by segment has not been included.

- The Retail Pharmacy USA segment consists of retail drugstores and convenient care clinics and the provision of specialty pharmacy services. Revenues for the segment are principally derived from the sale of prescription drugs and a wide assortment of general merchandise, including non-prescription drugs, beauty products, photo finishing, seasonal merchandise, greeting cards and convenience foods.
- The Retail Pharmacy International segment consists primarily of pharmacy-led health and beauty stores and optical practices. Stores are located in the United Kingdom, Mexico, Chile, Thailand, Norway, the Republic of Ireland, the Netherlands and Lithuania. Revenues for the segment are principally derived from the sale of prescription drugs and retail health, beauty, toiletries and other consumer products.
- The Pharmaceutical Wholesale segment consists of pharmaceutical wholesaling and distribution businesses and an equity method investment in AmerisourceBergen reported on a two-month lag. Wholesale operations are located in France, the United Kingdom, Germany, Turkey, Spain, the Netherlands, Egypt, Norway, Romania, Czech Republic and Lithuania. Revenues for the segment are principally derived from wholesaling and distribution of a comprehensive offering of brand-name pharmaceuticals (including specialty pharmaceutical products) and generic pharmaceuticals, health and beauty products, home healthcare supplies and equipment, and related services to pharmacies and other healthcare providers.

Results for each reportable segment include the allocation of procurement rebates and corporate-related overhead costs. The “Eliminations” column includes intersegment sales and the profit on these intersegment sales to the extent the inventory has not been subsequently sold externally.

To improve comparability, certain classification changes were made to prior period Sales, Cost of sales and Selling, general and administrative expenses. These changes had no impact on Operating Income or Adjusted Operating Income. The reclassifications were made in the fourth quarter of fiscal 2016.

The following table reflects results of operations of the Company’s reportable segments (in millions):

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Three Months Ended February 28, 2017					
Sales to external customers	\$ 21,814	\$ 3,101	\$ 4,531	\$ —	\$ 29,446
Intersegment sales	—	—	499	(499)	—
Sales	<u>\$ 21,814</u>	<u>\$ 3,101</u>	<u>\$ 5,030</u>	<u>\$ (499)</u>	<u>\$ 29,446</u>
Adjusted Operating Income	<u>\$ 1,552</u>	<u>\$ 242</u>	<u>\$ 226</u>	<u>\$ (4)</u>	<u>\$ 2,016</u>
Three Months Ended February 29, 2016					
Sales to external customers	\$ 21,500	\$ 3,627	\$ 5,057	\$ —	\$ 30,184
Intersegment sales	—	1	570	(571)	—
Sales	<u>\$ 21,500</u>	<u>\$ 3,628</u>	<u>\$ 5,627</u>	<u>\$ (571)</u>	<u>\$ 30,184</u>
Adjusted Operating Income	<u>\$ 1,632</u>	<u>\$ 335</u>	<u>\$ 155</u>	<u>\$ (2)</u>	<u>\$ 2,120</u>
Six Months Ended February 28, 2017					
Sales to external customers	\$ 42,473	\$ 6,063	\$ 9,411	\$ —	\$ 57,947
Intersegment sales	—	—	1,036	(1,036)	—
Sales	<u>\$ 42,473</u>	<u>\$ 6,063</u>	<u>\$ 10,447</u>	<u>\$ (1,036)</u>	<u>\$ 57,947</u>
Adjusted Operating Income	<u>\$ 2,841</u>	<u>\$ 455</u>	<u>\$ 450</u>	<u>\$ (4)</u>	<u>\$ 3,742</u>
Six Months Ended February 29, 2016					
Sales to external customers	\$ 41,870	\$ 7,086	\$ 10,261	\$ —	\$ 59,217
Intersegment sales	—	1	1,162	(1,163)	—
Sales	<u>\$ 41,870</u>	<u>\$ 7,087</u>	<u>\$ 11,423</u>	<u>\$ (1,163)</u>	<u>\$ 59,217</u>
Adjusted Operating Income	<u>\$ 2,875</u>	<u>\$ 650</u>	<u>\$ 321</u>	<u>\$ (7)</u>	<u>\$ 3,839</u>

The following table reconciles adjusted operating income to operating income (in millions):

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Three Months Ended February 28, 2017					
Adjusted Operating Income	\$ 1,552	\$ 242	\$ 226	\$ (4)	\$ 2,016
Cost transformation					(340)
Acquisition-related amortization					(82)
LIFO provision					(49)
Adjustments to equity earnings in AmerisourceBergen					(37)
Acquisition-related costs					(29)
Operating Income					<u>\$ 1,479</u>
Three Months Ended February 29, 2016					
Adjusted Operating Income	\$ 1,632	\$ 335	\$ 155	\$ (2)	\$ 2,120
Cost transformation					(28)
Acquisition-related amortization					(101)
LIFO provision					(68)
Acquisition-related costs					(33)
Asset impairment					(30)
Operating Income					<u>\$ 1,860</u>
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Six Months Ended February 28, 2017					
Adjusted Operating Income	\$ 2,841	\$ 455	\$ 450	\$ (4)	\$ 3,742
Cost transformation					(421)
Acquisition-related amortization					(164)
LIFO provision					(107)
Adjustments to equity earnings in AmerisourceBergen					(78)
Acquisition-related costs					(46)
Operating Income					<u>\$ 2,926</u>
Six Months Ended February 29, 2016					
Adjusted Operating Income	\$ 2,875	\$ 650	\$ 321	\$ (7)	\$ 3,839
Cost transformation					(118)
Acquisition-related amortization					(182)
LIFO provision					(114)
Acquisition-related costs					(67)
Asset impairment					(30)
Operating Income					<u>\$ 3,328</u>

Note 16. New Accounting Pronouncements

Adoption of New Accounting Pronouncements

Simplifying the Test for Goodwill Impairment

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU requires the Company to perform its annual, or applicable interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge must be recognized at the amount by which the carrying amount exceeds the fair value of the reporting unit; however, the charge recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects resulting from any tax deductible goodwill should be considered when measuring the goodwill impairment loss, if applicable. This ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 (fiscal 2021). The Company early adopted this guidance on a prospective basis during the quarter ended February 28, 2017. The adoption did not have any impact on the Company’s results of operations, cash flows or financial position.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business in order to assist companies in the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amended guidance also removes the existing evaluation of a market participant’s ability to replace missing elements and narrows the definition of output to achieve consistency with other topics. This ASU is effective for fiscal years beginning after December 15, 2016 (fiscal 2018), and interim periods within those fiscal years. The Company early adopted this guidance on a prospective basis during the quarter ended February 28, 2017. The adoption did not have any impact on the Company’s results of operations, cash flows or financial position.

Interests Held Through Related Parties Under Common Control

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This ASU amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (“VIE”) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. This ASU is effective for fiscal years beginning after December 15, 2016 (fiscal 2018), and interim periods within those fiscal years, with early adoption permitted. The Company early adopted this guidance on a modified retrospective basis during the quarter ended February 28, 2017. The adoption did not have any impact on the Company’s results of operations, cash flows or financial position.

New Accounting Pronouncements Not Yet Adopted

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017 (fiscal 2019), and interim periods within those fiscal years, with early adoption permitted. The new guidance must be applied on a retrospective basis. The Company is evaluating the effect this ASU will have on its consolidated statement of cash flows.

Tax Accounting for Intra-entity Asset Transfers

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Topic 740, Income Taxes, prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. To more faithfully represent the economics of intra-entity asset transfers, the amendments in this ASU require that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this ASU do not change GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, Consolidation, or for an intra-entity transfer of inventory. This ASU is effective for fiscal years beginning after December 15, 2017 (fiscal 2019), including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the classification of certain specific cash flow issues including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. This ASU is effective for fiscal years beginning after December 15, 2017 (fiscal 2019), and interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is evaluating the effect this ASU will have on its consolidated statement of cash flows.

Recognition of Breakage for Prepaid Stored-value Products

In March 2016, the FASB issued ASU 2016-04, Liabilities-Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. This ASU addresses diversity in practice related to the de-recognition of a prepaid store-value product liability. The ASU amends the guidance on extinguishing financial liabilities for certain prepaid store-value products. If an entity selling prepaid store-value products expects to be entitled to an amount that will not be redeemed, the entity will recognize the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder to the extent that it is probable that a significant reversal of the breakage amount will not subsequently occur. The ASU is effective for annual periods beginning after December 15, 2017 (fiscal 2019), and interim periods within those fiscal years, with early adoption permitted, including adoption before the effective date of ASU 2015-14, Revenue from Contracts with Customers (described below). The amendments in this ASU should be applied either using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective or retrospectively to each period presented. The Company is evaluating the effect the ASU will have on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. This ASU increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. At the lease commencement date, lessee recognizes a lease liability and right-of-use asset, which is initially measured at the present value of future lease payments. Under the finance lease approach, interest on the lease liability is recognized separately from amortization of the right-of-use asset. Repayments of the principal portion of the lease liability will be classified as financing activities and payments of interest on the lease liability and variable lease payments will be classified as operating activities in the statement of cash flows. Under the operating lease approach, the cost of the lease is calculated on a straight-line basis over the life of the lease term. All cash payments are classified as operating activities in the statement of cash flows. For sale and leaseback transactions, in order for a sale to occur, the transfer of the asset must meet all criteria in Topic 606. Any consideration paid for the asset is accounted for as a financing transaction. For transactions previously accounted for as a sale and leaseback, the transition guidance in Topic 842 does not require an entity to assess whether the transaction would have qualified as a sale and a leaseback in accordance with Topic 842. Additionally, gains recorded under sale and leaseback transactions are recognized at the transaction date and no longer deferred over the lease term. This ASU is effective for annual periods beginning after December 15, 2018 (fiscal 2020). In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented (fiscal 2018) using a modified retrospective approach which includes a number of optional practical expedients that entities may elect to apply. The Company has begun evaluating and planning for the adoption and implementation of this ASU, including assessing the overall impact. This ASU will have a material impact on the Company's financial position. The impact on the Company's results of operations is being evaluated. The impact of this ASU is non-cash in nature and will not affect the Company's cash position.

Classification and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU requires equity investments (except those under the equity method of accounting or those that result in the consolidation of an investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This simplifies the impairment assessment of equity investments previously held at cost. Separate presentation of financial assets and liabilities by measurement category is required. This ASU is effective prospectively for annual periods beginning after December 15, 2017 (fiscal 2019). Early application is permitted, for fiscal years or interim periods that have not yet been issued as of the beginning of the fiscal year of adoption. The Company is evaluating the effect of adopting this new accounting guidance.

Revenue Recognition on Contracts with Customers

In May 2015, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU removes inconsistencies, complexities and allows transparency and comparability of revenue transactions across entities, industries,

jurisdictions and capital markets by providing a single comprehensive principles-based model with additional disclosures regarding uncertainties. The principles-based revenue recognition model has a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017 (fiscal 2019) and is the date on which the Company expects to adopt the new guidance. Subsequently, the FASB has also issued additional accounting standards updates to clarify the guidance in ASU 2014-09, all of which must be adopted concurrently. In transition, the ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is evaluating the effect of adopting this new accounting guidance.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU simplifies current accounting treatments by requiring entities to measure most inventories at “the lower of cost and net realizable value” rather than using lower of cost or market. This guidance does not apply to inventories measured using last-in, first-out method or the retail inventory method. This ASU is effective prospectively for annual periods beginning after December 15, 2016 and interim periods thereafter (fiscal 2018) with early adoption permitted. Upon transition, entities must disclose the accounting change. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company’s results of operations, cash flows or financial position.

Note 17. Related Parties

The Company has a long-term pharmaceutical distribution agreement with AmerisourceBergen pursuant to which the Company sources branded and generic pharmaceutical products from AmerisourceBergen principally for its U.S. operations.

Related party transactions (in millions):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Purchases, net	\$ 10,602	\$ 10,481	\$ 21,238	\$ 20,804
			February 28, 2017	August 31, 2016
Trade accounts payable, net			\$ 4,207	\$ 3,456

Additionally, AmerisourceBergen receives sourcing services for generic pharmaceutical products.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and the consolidated financial statements, accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations and other disclosures contained in the Walgreens Boots Alliance, Inc. Annual Report on Form 10-K for the fiscal year ended August 31, 2016. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under “Cautionary Note Regarding Forward-Looking Statements” and in Item 1A “Risk Factors” in our Form 10-K for the fiscal year ended August 31, 2016. References herein to the “Company”, “we”, “us”, or “our” refer to Walgreens Boots Alliance, Inc. and its subsidiaries, except as otherwise indicated or the context otherwise requires.

INTRODUCTION AND SEGMENTS

Walgreens Boots Alliance, Inc. (“Walgreens Boots Alliance”) and its subsidiaries are a global pharmacy-led health and wellbeing enterprise. Its operations are conducted through three reportable segments:

- Retail Pharmacy USA;
- Retail Pharmacy International; and
- Pharmaceutical Wholesale

See Note 15, Segment Reporting for further information.

On October 27, 2015, Walgreens Boots Alliance entered into an Agreement and Plan of Merger with Rite Aid Corporation (“Rite Aid”) and Victoria Merger Sub, Inc., a wholly-owned subsidiary of Walgreens Boots Alliance (as amended as described below, the “Merger Agreement”), pursuant to which the Company agreed, subject to the terms and conditions thereof, to acquire Rite Aid, a drugstore chain in the United States with 4,547 stores in 31 states and the District of Columbia as of November 26, 2016. The Merger Agreement was amended by Amendment No. 1 (the “Amendment”) on January 29, 2017. Under the terms of the Amendment, the parties agreed to reduce the price for each share of Rite Aid common stock to be paid by Walgreens Boots Alliance upon closing to a maximum of \$7.00 per share and a minimum of \$6.50 per share. In addition, Walgreens Boots Alliance will be required to divest up to 1,200 Rite Aid stores and certain additional related assets if required to obtain regulatory approval. The exact price per share will be determined based on the number of required store divestitures, with the price set at \$7.00 per share if 1,000 stores or fewer are required for divestiture and at \$6.50 per share if 1,200 stores are required for divestiture. If the required divestitures fall between 1,000 and 1,200 stores, then there will be a pro-rata adjustment of the price per share. Additionally, Walgreens Boots Alliance and Rite Aid agreed to extend the end date under the Merger Agreement to July 31, 2017 in order to allow the parties additional time to obtain regulatory approval. The transaction is subject to approval by the holders of Rite Aid’s common stock, the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other customary closing conditions.

On December 20, 2016, Walgreens Boots Alliance and Rite Aid announced that they have entered into an agreement to sell 865 Rite Aid stores and certain assets related to store operations to Fred’s, Inc. (“Fred’s”) for \$950 million in an all-cash transaction. The transaction is subject to Federal Trade Commission (“FTC”) approval, the approval and completion of the pending acquisition of Rite Aid by Walgreens Boots Alliance pursuant to the Merger Agreement, and other customary closing conditions. If the FTC requires divestiture of more than the 865 Rite Aid stores currently contemplated by the purchase agreement and Walgreens Boots Alliance agrees to sell such stores, the purchase agreement requires Fred’s to purchase such additional stores.

On April 3, 2017, Walgreens Boots Alliance announced that Walgreens and pharmacy benefit manager Prime Therapeutics LLC have closed their transaction to form a combined central specialty pharmacy and mail services company, as part of the strategic alliance first announced in August 2016. The company, AllianceRx Walgreens Prime, will be consolidated by Walgreens Boots Alliance in its financial statements.

AMERISOURCEBERGEN CORPORATION RELATIONSHIP

As of February 28, 2017, the Company owned 56,854,867 AmerisourceBergen common shares representing approximately 26% of the outstanding AmerisourceBergen common stock, and had designated one member of AmerisourceBergen’s board of directors. As of February 28, 2017, the Company can acquire up to an additional 8,398,752 AmerisourceBergen shares in the open market and thereafter designate another member of AmerisourceBergen’s board of directors, subject in each case to applicable legal and contractual requirements. The amount of permitted open market purchases is subject to increase or decrease in certain circumstances.

Effective March 18, 2016, the Company accounted for the investment in AmerisourceBergen using the equity method of accounting, subject to a two-month reporting lag, with the net earnings attributable to the investment being classified within the operating income of the Pharmaceutical Wholesale segment. See Note 4, Equity Method Investments, to the Consolidated Condensed Financial Statements for further information.

RESTRUCTURING PROGRAMS

On April 8, 2015, the Walgreens Boots Alliance Board of Directors approved a plan to implement a new restructuring program (the “Cost Transformation Program”) as part of an initiative to reduce costs and increase operating efficiencies. The Cost Transformation Program implements and builds on the planned three-year, \$1.0 billion cost-reduction initiative previously announced by Walgreens on August 6, 2014 and includes a number of elements designed to help achieve profitable growth through increased cost efficiencies. In April 2015, the Company announced that it had identified additional opportunities for cost savings that increased the total expected cost savings of the Cost Transformation Program by \$500 million to a targeted \$1.5 billion by the end of fiscal 2017, with significant areas of focus including plans to close approximately 200 stores across the U.S.; reorganize divisional and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the Cost Transformation Program focus primarily on the Company’s Retail Pharmacy USA segment. The Company achieved \$1.5 billion in savings from its previously announced Cost Transformation Program ahead of schedule. As of the date of this report, the Company expects to close a total of approximately 260 stores. The program is on track to be completed by the end of fiscal 2017. Accordingly, full program benefits will be recognized in subsequent periods.

As of the date of this report, the Company estimates that the Cost Transformation Program will recognize cumulative pre-tax charges to its financial results in accordance with generally accepted accounting principles in the United States of America (“GAAP”) of approximately \$1.8 billion (which is consistent with the upper end of the expected range of pre-tax charges at the

time the Cost Transformation Program was launched in April 2015). These charges include costs associated with lease obligations and other real estate payments, asset impairments and employee termination and other business transition and exit costs. As of the date of this report, the Company expects to incur pre-tax charges of approximately \$675 million for real estate costs, including lease obligations (net of estimated sublease income); \$725 million for asset impairment charges relating primarily to asset write-offs from store closures, information technology, inventory and other non-operational real estate asset write-offs; and \$400 million for employee severance and other business transition and exit costs. The Company estimates that approximately 60% of the cumulative pre-tax charges will result in cash expenditures over time, primarily related to historical and future lease and other real estate payments and employee separation costs. See Note 2. Restructuring, to the Consolidated Financial Statements for additional information.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors. See “Cautionary Note Regarding Forward-Looking Statements” below.

EXECUTIVE SUMMARY

The following table presents certain key financial statistics for the three and six months ended February 28, 2017 and February 29, 2016, respectively.

	(in millions, except per share amounts)			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	\$ 29,446	\$ 30,184	\$ 57,947	\$ 59,217
Gross Profit ⁽²⁾	7,561	7,867	14,677	15,286
Selling, general and administrative expenses ⁽²⁾	6,124	6,007	11,810	11,958
Operating Income	1,479	1,860	2,926	3,328
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	2,016	2,120	3,742	3,839
Earnings Before Interest and Income Tax Provision	1,464	1,364	2,912	2,775
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	1,060	930	2,114	2,040
Adjusted Net Earnings Attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ⁽¹⁾	1,476	1,423	2,677	2,555
Net earnings per common share – diluted	0.98	0.85	1.94	1.87
Adjusted net earnings per common share – diluted (Non-GAAP measure) ⁽¹⁾	1.36	1.31	2.46	2.34

	Percentage Increases (Decreases) from Prior Year			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	(2.4)	13.6	(2.1)	28.4
Gross Profit ⁽²⁾	(3.9)	15.0	(4.0)	25.9
Selling, general and administrative expenses ⁽²⁾	1.9	7.9	(1.2)	19.3
Operating Income	(20.5)	35.1	(12.1)	36.9
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	(4.9)	15.2	(2.5)	29.8
Earnings Before Interest and Income Tax Provision	7.3	(47.3)	4.9	(27.7)
Net Earnings Attributable to Walgreens Boots Alliance, Inc.	14.0	(54.5)	3.6	(29.5)
Adjusted Net Earnings Attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ⁽¹⁾	3.7	14.4	4.8	28.2
Net earnings per common share – diluted	15.3	(56.0)	3.7	(35.1)
Adjusted net earnings per common share – diluted (Non-GAAP measure) ⁽¹⁾	3.8	11.0	5.1	18.2

Percent to Sales

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Gross Margin ⁽²⁾	25.7	26.1	25.3	25.8
Selling, general and administrative expenses ⁽²⁾	20.8	19.9	20.4	20.2

(1) See “--Non-GAAP Measures” below for a reconciliation to the most directly comparable financial measure calculated in accordance with generally accepted accounting principles in the United States (“GAAP”).

(2) To improve comparability, certain classification changes were made to prior period Sales, Cost of sales and Selling, general and administrative expenses. These changes had no impact on Operating Income or Adjusted Operating Income. The reclassifications were made in the fourth quarter of fiscal 2016.

WALGREENS BOOTS ALLIANCE RESULTS OF OPERATIONS

Net earnings attributable to Walgreens Boots Alliance for the three months ended February 28, 2017 increased 14.0% to \$1,060 million compared with the prior year period, while diluted net earnings per share increased 15.3% to \$ 0.98 compared with the prior year period. The increase s in net earnings and net earnings per diluted share for the three month period ended February 28, 2017 primarily reflect the reduction in the fair value of the Company’s AmerisourceBergen warrants in the year-ago quarter, partially offset by higher costs related to the Cost Transformation Program in the quarter. The year-ago quarter included an extra day due to the leap year. Net earnings and net earnings per diluted share were negatively impacted by 3.0 percentage points and 2.3 percentage points, respectively, as a result of currency translation.

Net earnings attributable to Walgreens Boots Alliance for the six months ended February 28, 2017 increased 3.6% to \$2.1 billion compared with the prior year period, while net earnings per diluted share increased 3.7% to \$1.94 compared with the prior year period. The increase s in net earnings and net earnings per diluted share for the six month period ended February 28, 2017 primarily reflect the reduction in the fair value of the Company’s AmerisourceBergen warrants in the year-ago period, partially offset by higher costs related to the Cost Transformation Program in the period and higher interest expense. The year-ago period included an extra day due to the leap year. Net earnings and net earnings per diluted share were negatively impacted by 2.9 percentage points and 3.3 percentage points, respectively, as a result of currency translation.

Other expense for the three and six months ended February 28, 2017 was an expense of \$15 million and \$14 million , respectively, as compared to an expense of \$496 million and \$553 million in the three and six months ended February 29, 2016 , respectively. The decrease in other expense primarily reflect the reduction in the fair value of the AmerisourceBergen warrants in the prior year periods, which resulted in an expense of \$529 million and \$586 million for the three and six months ended February 29, 2016 , respectively.

Interest was a net expense of \$172 million and \$345 million for the three and six months ended February 28, 2017 , respectively, compared to \$140 million and \$278 million in the three and six months ended February 29, 2016 , respectively. The increases mainly reflect the interest expense associated with the debt financing for the pending acquisition of Rite Aid.

The effective tax rate for the three months ended February 28, 2017 was 19.0% compared to 24.6% for the three months ended February 29, 2016 . The decrease in the effective tax rate was primarily attributable to a lower estimated annual tax rate and incremental net discrete tax benefits. The lower estimated annual tax rate was mostly a result of forecast changes in the geographic mix of the Company’s pre-tax earnings, increased benefits associated with the U.S. taxation of its non-U.S. operations and a reduced negative impact of certain permanent book-tax differences. The incremental discrete tax benefits result from adopting ASU 2016-09 and the recognition of previously unrecognized tax benefits associated with multiple tax jurisdictions and related to multiple years.

The effective tax rate for the six months ended February 28, 2017 was 18.2% compared to 18.7% for the six months ended February 29, 2016 . The decrease in the effective tax rate was primarily attributable to a lower estimated annual tax rate partially offset by reduced net discrete tax benefits. The lower estimated annual tax rate was mostly a result of forecast changes in the geographic mix of the Company’s pre-tax earnings, increased benefits associated with the U.S. taxation of its non-U.S. operations and a reduced negative impact of certain permanent book-tax differences. The reduced discrete tax benefits included the deferred tax benefit of tax rate changes enacted in the United Kingdom of \$77 million for the six months ended February 28, 2017 , compared to \$178 million for the six months ended February 29, 2016 . This was partially offset by the

discrete tax benefits of adopting ASU 2016-09 and the recognition of previously unrecognized tax benefits associated with multiple tax jurisdictions and related to multiple years.

Walgreens Boots Alliance Adjusted Net Earnings Per Diluted Share (Non-GAAP measure)

Adjusted net earnings attributable to Walgreens Boots Alliance for the three months ended February 28, 2017 increased 3.7% to \$1.5 billion , compared with the year-ago quarter. Adjusted net earnings per diluted share increased 3.8% to \$1.36 , compared with the year-ago quarter. Adjusted net earnings and adjusted net earnings per diluted share were negatively impacted by 2.5 percentage points and 2.3 percentage points, respectively, as a result of currency translation.

Excluding the impact of currency translation, the increase in adjusted net earnings and adjusted net earnings per diluted share for the three months ended February 28, 2017 was primarily due to a reduced income tax provision. The year-ago quarter included an extra day due to the leap year.

Adjusted net earnings attributable to Walgreens Boots Alliance for the six months ended February 28, 2017 , increased 4.8% to \$2.7 billion , compared with the year-ago period. Adjusted net earnings per diluted share increased 5.1% to \$2.46 , compared with the year-ago period. Adjusted net earnings and adjusted net earnings per diluted share were negatively impacted by 2.3 percentage points and 2.6 percentage points, respectively, as a result of currency translation.

Excluding the impact of currency translation, the increase in adjusted net earnings and adjusted net earnings per diluted share for the six months ended February 28, 2017 was primarily due to a reduced income tax provision. The year-ago period included an extra day due to the leap year. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

RESULTS OF OPERATIONS BY SEGMENT

Retail Pharmacy USA

	(in millions, except location amounts)			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	\$ 21,814	\$ 21,500	\$ 42,473	\$ 41,870
Gross Profit	5,876	5,895	11,315	11,340
Selling, general and administrative expenses	4,756	4,466	9,090	8,883
Operating Income	1,120	1,429	2,225	2,457
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	1,552	1,632	2,841	2,875
Number of Prescriptions ⁽²⁾	192.7	186.7	379.9	372.6
30-Day Equivalent Prescriptions ⁽²⁾⁽³⁾	246.7	232.9	484.2	463.6
Number of Locations at period end	8,126	8,196	8,126	8,196

	Percentage Increases (Decreases) from Prior Year			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	1.5	2.1	1.4	3.1
Gross Profit	(0.3)	2.6	(0.2)	2.7
Selling, general and administrative expenses	6.5	(2.0)	2.3	(1.4)
Operating Income	(21.6)	10.6	(9.4)	4.7
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	(4.9)	2.1	(1.2)	5.9
Comparable Store Sales ⁽⁴⁾	2.4	2.2	1.8	4.0
Pharmacy Sales	3.7	3.2	3.1	4.9
Comparable Pharmacy Sales ⁽⁴⁾	4.2	3.7	3.0	6.5
Retail Sales	(2.7)	0.3	(1.9)	(0.3)
Comparable Retail Sales ⁽⁴⁾	(0.8)	(0.3)	(0.7)	(0.4)
Comparable Number of Prescriptions ⁽²⁾⁽⁴⁾	5.2	1.3	3.1	2.4
Comparable 30-Day Equivalent Prescriptions ⁽²⁾⁽³⁾⁽⁴⁾	7.9	2.8	5.7	3.8

	Percent to Sales			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Gross Margin	26.9	27.4	26.6	27.1
Selling, general and administrative expenses	21.8	20.8	21.4	21.2

(1) See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure and related disclosures.

(2) Includes immunizations.

(3) Includes the adjustment to convert prescriptions greater than 84 days to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

(4) Comparable stores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or subject to a natural disaster in the past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. The method of calculating comparable sales varies across the industries in which we operate. As a result, our method of calculating comparable sales may not be the same as other companies' methods. Comparable sales and comparable prescription figures are adjusted for the leap year by including only the first 28 days of February 2016.

Sales for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's sales for the three months ended February 28, 2017 increased by 1.5% to \$21.8 billion . Sales in comparable stores increased 2.4% compared with the year-ago quarter.

Pharmacy sales increased by 3.7% for the three months ended February 28, 2017 and represented 66.5% of the division's total sales. In the year-ago quarter, pharmacy sales were up 3.2% and represented 65.0% of the division's sales. Comparable pharmacy sales increased 4.2% for the three months ended February 28, 2017 , compared to an increase of 3.7% in the year-ago quarter, primarily due to Medicare Part D growth and volume growth from previously announced strategic pharmacy partnerships. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.9% in the three months ended February 28, 2017 versus a reduction of 1.9% in the year-ago quarter. On total division sales, this effect was a reduction of 1.7% for the three months ended February 28, 2017 compared to a reduction of 1.1% for the year-ago quarter. The total number of prescriptions (including immunizations) filled for the three months ended February 28, 2017 were 192.7 million compared to 186.7 million in the year-ago quarter. Prescriptions (including immunizations) adjusted to 30-day equivalents were 246.7 million in the three months ended February 28, 2017 compared to 232.9 million in the year-ago quarter.

[Table of Contents](#)

Retail sales decreased 2.7% for the three months ended February 28, 2017 and were 33.5% of the division's total sales. In the year-ago quarter, retail sales increased 0.3% and represented 35.0% of the division's sales. The decrease in the current quarter reflects the impact of the previously announced closure of certain e-commerce operations in the year-ago quarter. Comparable retail sales decreased 0.8% in the three months ended February 28, 2017 compared to a decrease of 0.3% in the year-ago quarter. The decrease in comparable retail sales growth in the current period was due to declines in the consumables and general merchandise category and the personal care category, partially offset by increases in the health and wellness category and the beauty category.

Operating Income for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's operating income for the three months ended February 28, 2017 decreased 21.6% to \$1.1 billion. The decrease was primarily due to higher expenses associated with the Cost Transformation Program.

Gross profit decreased 0.3% from the year-ago quarter, with a decrease in retail gross profit partially offset by an increase in pharmacy gross profit. The year-ago quarter included an extra day due to the leap year.

Selling, general and administrative expenses as a percentage of sales were 21.8% in the three months ended February 28, 2017 compared to 20.8% in the year-ago quarter. Expenses as a percentage of sales were higher in the current period primarily due to higher expenses associated with the Cost Transformation Program.

Adjusted Operating Income (Non-GAAP measure) for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's adjusted operating income for the three months ended February 28, 2017 decreased 4.9% to \$1.6 billion. The decrease was primarily due to lower gross margin. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

Sales for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's total sales for the six months ended February 28, 2017 increased 1.4% to \$42.5 billion. Sales in comparable stores increased 1.8% compared with the year-ago period.

Pharmacy sales increased by 3.1% for the six months ended February 28, 2017 and represented 67.8% of the division's total sales. In the six months ended February 29, 2016, pharmacy sales were up 4.9% and represented 66.7% of the division's sales. Comparable pharmacy sales were up 3.0% in the six months ended February 28, 2017 compared to an increase of 6.5% in the six months ended February 29, 2016. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.6% in the current six month period ended February 28, 2017 versus a reduction of 2.2% in the year-ago period. The effect of generics on division total sales was a reduction of 1.6% in the current six month period compared to a reduction of 1.3% in the year-ago period. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 97.6% of prescription sales for the six month period ended February 28, 2017 compared to 97.2% for the six months ended February 29, 2016. The total number of prescriptions (including immunizations) filled for the six months ended February 28, 2017 was approximately 379.9 million compared to 372.6 million for the year-ago period. Prescriptions (including immunizations) adjusted to 30 day equivalents were 484.2 million in the current six month period versus 463.6 million in the year-ago period.

Retail sales decreased 1.9% for the six months ended February 28, 2017 and were 32.2% of the division's total sales. In comparison, for the six months ended February 29, 2016 retail sales decreased 0.3% and represented 33.3% of the division's total sales. The decrease in the current period reflects the impact of the previously announced closure of certain e-commerce operations in the year-ago period. Comparable retail sales decreased 0.7% for the current six month period compared to a decrease of 0.4% in the year-ago period. The decrease in comparable retail sales in the six months ended February 28, 2017 was primarily attributable to declines in the consumables and general merchandise category and the personal care category, partially offset by growth in health and wellness category and the beauty category.

Operating Income for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's operating income for the six months ended February 28, 2017 decreased 9.4% to \$2.2 billion. The decrease was primarily due to higher costs associated with the Cost Transformation Program, partially offset by other cost benefits.

Gross profit decreased 0.2% from the year-ago period primarily due to a decrease in retail gross profit. The year-ago period included an extra day due to the leap year.

Selling, general and administrative expenses as a percentage of sales were 21.4% for the six month period ended February 28, 2017 compared to 21.2% in the year-ago period. As a percentage of sales, expenses in the current period were higher primarily due to increased costs associated with the Cost Transformation Program, partially offset by other cost benefits.

Adjusted Operating Income (Non-GAAP measure) for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy USA division's adjusted operating income for the six months ended February 28, 2017 decreased 1.2% to \$2.8 billion. The decrease was primarily due to lower gross margin. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

Retail Pharmacy International

This division comprises businesses operating in currencies other than the U.S. dollar, including the British Pound, Euro, Chilean Peso and Mexican Peso, and therefore the division's results are impacted by movements in foreign currency exchange rates. See Item 3 Quantitative and Qualitative Disclosure about Market Risk, Foreign Currency Exchange Rate Risk for further information on currency risk.

	(in millions, except location amounts)			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales ⁽⁴⁾	\$ 3,101	\$ 3,628	\$ 6,063	\$ 7,087
Gross Profit ⁽⁴⁾	1,204	1,439	2,379	2,861
Selling, general and administrative expenses ⁽⁴⁾	1,006	1,140	1,999	2,260
Operating Income	198	299	380	601
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	242	335	455	650
Number of Locations at period end	4,701	4,603	4,701	4,603

	Percentage Increases (Decreases) from Prior Year			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales ⁽⁴⁾	(14.5)	NA	(14.4)	NA
Gross Profit ⁽⁴⁾	(16.3)	NA	(16.8)	NA
Selling, general and administrative expenses ⁽⁴⁾	(11.8)	NA	(11.5)	NA
Operating Income	(33.8)	NA	(36.8)	NA
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	(27.8)	NA	(30.0)	NA
Comparable Store Sales ⁽²⁾	(13.7)	NA	(14.3)	NA
Comparable Store Sales in constant currency ⁽²⁾⁽³⁾	(0.9)	NA	(0.5)	NA
Pharmacy Sales ⁽⁴⁾	(15.6)	NA	(14.9)	NA
Comparable Pharmacy Sales ⁽²⁾	(15.4)	NA	(15.0)	NA
Comparable Pharmacy Sales in constant currency ⁽²⁾⁽³⁾	(3.7)	NA	(2.1)	NA
Retail Sales ⁽⁴⁾	(14.0)	NA	(14.2)	NA
Comparable Retail Sales ⁽²⁾	(12.8)	NA	(13.8)	NA
Comparable Retail Sales in constant currency ⁽²⁾⁽³⁾	0.6	NA	0.4	NA

	Percent to Sales			
	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Gross Margin ⁽⁴⁾	38.8	39.7	39.2	40.4
Selling, general and administrative expenses ⁽⁴⁾	32.4	31.4	33.0	31.9

NA Not applicable

- (1) See "--Non-GAAP Measures" below for reconciliations to the most directly comparable GAAP measure and related disclosures.
- (2) Comparable stores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. The method of calculating comparable sales varies across the industries in which we operate. As a result, our method of calculating comparable sales may not be the same as other companies' methods. The three and six month periods ended February 29, 2016 figures include an adjustment to remove February 29, 2016 results due to the leap year.
- (3) The Company presents certain information related to current period operating results in "constant currency," which is a non-GAAP financial measure. These amounts are calculated by translating current period results at the foreign currency exchange rates used in the comparable period in the prior year. The Company presents such constant currency financial information because it has significant operations outside of the United States reporting in currencies other than the U.S. dollar and this presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations. See "--Non-GAAP Measures" below.
- (4) To improve comparability, certain classification changes were made to prior period Sales, Cost of sales and Selling, general and administrative expenses. These changes had no impact on Operating Income or Adjusted Operating Income. The reclassifications were made in the fourth quarter of fiscal 2016.

Sales for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division's sales for the three months ended February 28, 2017 decreased 14.5% to \$3.1 billion. Sales in comparable stores decreased 13.7% from the year-ago quarter.

Of the decreases in sales and comparable store sales, 12.6 percentage points and 12.8 percentage points, respectively, were as a result of the negative impact of currency translation. Comparable store sales in constant currency decreased 0.9% from the year-ago quarter.

Pharmacy sales decreased by 15.6% in the three months ended February 28, 2017 and represented 32.1% of the division's sales. Comparable pharmacy sales decreased 15.4% from the year-ago quarter.

Of the decreases in pharmacy sales and comparable pharmacy sales, 11.6 percentage points and 11.7 percentage points, respectively, were as a result of the negative impact of currency translation. Comparable pharmacy sales in constant currency decreased 3.7% from the year-ago quarter. The decrease was mainly due to the negative impact of a reduction in pharmacy funding in the United Kingdom, partially offset by growth in other markets.

Retail sales decreased 14.0% for the three months ended February 28, 2017 and were 67.9% of the division's sales. Comparable retail sales decreased 12.8% from the year-ago quarter.

Retail sales and comparable retail sales were negatively impacted by 13.1 percentage points and 13.4 percentage points, respectively, as a result of currency translation. Comparable retail sales in constant currency increased 0.6% from the year-ago quarter reflecting Boots growth in the United Kingdom, Republic of Ireland and Thailand.

Operating Income for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division's operating income for the three months ended February 28, 2017 decreased 33.8% to \$198 million of which 9.7 percentage points (\$29 million) was as a result of the negative impact of currency translation. The remaining decrease was due to lower gross profit and higher selling, general and administrative expenses as a percentage of sales.

Gross profit decreased 16.3% from the year-ago quarter of which 12.3 percentage points (\$178 million) was as a result of the negative impact of currency translation. The remaining decrease was primarily due to lower gross profit in the United Kingdom which was impacted by reduced pharmacy funding compared to the year-ago quarter.

Selling, general and administrative expenses decreased 11.8% from the year-ago quarter. Expenses were positively impacted by 13.1 percentage points (\$149 million) as a result of currency translation. As a percentage of sales, selling, general and administrative expenses were 32.4% in the current quarter, compared to 31.4% in the year-ago quarter.

Adjusted Operating Income (Non-GAAP measure) for the Three Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division's adjusted operating income for the three months ended February 28, 2017 decreased 27.8% to \$242 million of which 11.1 percentage points (\$37 million) was as a result of the negative impact of currency

[Table of Contents](#)

translation. The remaining decrease was primarily due to lower gross profit and higher selling, general and administrative expenses as a percentage of sales. See “--Non-GAAP Measures” below for a reconciliation to the most directly comparable GAAP measure.

Sales for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division’s sales for the six months ended February 28, 2017 decreased 14.4% to \$6.1 billion. Sales in comparable stores decreased 14.3% from the year-ago period.

Of the decreases in sales and comparable store sales, 13.7 percentage points and 13.8 percentage points, respectively, were as a result of the negative impact of currency translation. Comparable store sales in constant currency decreased 0.5% from the year-ago period.

Pharmacy sales decreased by 14.9% in the six months ended February 28, 2017 and represented 33.8% of the division’s sales. Comparable pharmacy sales decreased 15.0% from the year-ago period.

Of the decreases in pharmacy sales and comparable pharmacy sales, 13.0 percentage points and 12.9 percentage points, respectively, were as a result of the negative impact of currency translation. Comparable pharmacy sales in constant currency decreased 2.1% from the year-ago period. The decrease was mainly due to the negative impact of a reduction in pharmacy funding in the United Kingdom.

Retail sales decreased 14.2% for the six months ended February 28, 2017 and were 66.2% of the division’s sales. Comparable retail sales decreased 13.8% from the year-ago period.

Retail sales and comparable retail sales were negatively impacted by 14.1 percentage points and 14.2 percentage points, respectively, as a result of currency translation. Comparable retail sales in constant currency increased 0.4% from the year-ago period reflecting Boots growth in the United Kingdom, Republic of Ireland and Thailand.

Operating Income for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division’s operating income for the six months ended February 28, 2017 decreased 36.8% to \$380 million of which 9.7 percentage points (\$58 million) was as a result of the negative impact of currency translation. The remaining decrease was due to lower gross profit and higher selling, general and administrative expenses as a percentage of sales.

Gross profit decreased 16.8% from the year-ago period of which 13.4 percentage points (\$386 million) was as a result of the negative impact of currency translation. The remaining decrease was primarily due to lower gross profit in the United Kingdom which was impacted by reduced pharmacy funding compared to the year-ago period.

Selling, general and administrative expenses decreased 11.5% from the year-ago period. Expenses were positively impacted by 14.5 percentage points (\$328 million) as a result of currency translation. This was offset in part by higher depreciation over the year-ago period. As a percentage of sales, selling, general and administrative expenses were 33.0% in the current period, compared to 31.9% in the year-ago period.

Adjusted Operating Income (Non-GAAP measure) for the Six Months Ended February 28, 2017 and February 29, 2016

Retail Pharmacy International division’s adjusted operating income for the six months ended February 28, 2017 decreased 30.0% to \$455 million of which 10.9 percentage points (\$71 million) was as a result of the negative impact of currency translation. The remaining decrease was due to lower gross profit and higher selling, general and administrative expenses as a percentage of sales. See “--Non-GAAP Measures” below for a reconciliation to the most directly comparable GAAP measure.

Pharmaceutical Wholesale

This division comprises businesses operating in currencies other than the U.S. dollar including the British Pound, Euro, and Turkish Lira, and thus the division’s results are impacted by movements in foreign currency exchange rates. See Item 3 Quantitative and Qualitative Disclosure about Market Risk, Foreign Currency Exchange Rate Risk for further information on currency risk.

(in millions, except location amounts)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	\$ 5,030	\$ 5,627	\$ 10,447	\$ 11,423
Gross Profit	485	535	987	1,092
Selling, general and administrative expenses	362	401	721	815
Equity earnings in AmerisourceBergen	42	—	59	—
Operating Income	165	134	325	277
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	226	155	450	321

Percentage Increases (Decreases) from Prior Year

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Sales	(10.6)	NA	(8.5)	NA
Gross Profit	(9.3)	NA	(9.6)	NA
Selling, general and administrative expenses	(9.7)	NA	(11.5)	NA
Operating Income	23.1	NA	17.3	NA
Adjusted Operating Income (Non-GAAP measure) ⁽¹⁾	45.8	NA	40.2	NA
Comparable Sales ⁽²⁾	(6.5)	NA	(4.6)	NA
Comparable Sales in constant currency ⁽²⁾⁽³⁾	5.2	NA	5.0	NA

Percent to Sales

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Gross Margin	9.6	9.5	9.4	9.6
Selling, general and administrative expenses	7.2	7.1	6.9	7.1

NA Not applicable

⁽¹⁾ See “--Non-GAAP Measures” below for reconciliations to the most directly comparable GAAP measure and related disclosures.

⁽²⁾ Comparable sales are defined as sales excluding acquisitions and dispositions. The three and six month periods ended February 29, 2016 figures include an adjustment to remove February 29, 2016 results due to the leap year.

⁽³⁾ The Company presents certain information related to current period operating results in “constant currency,” which is a non-GAAP financial measure. These amounts are calculated by translating current period results at the foreign currency exchange rates used in the comparable period in the prior year. The Company presents such constant currency financial information because it has significant operations outside of the United States reporting in currencies other than the U.S. dollar and this presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations. See “--Non-GAAP Measures” below.

Sales for the Three Months Ended February 28, 2017 and February 29, 2016

Pharmaceutical Wholesale division’s sales for the three months ended February 28, 2017 decreased 10.6% to \$5.0 billion. Comparable sales, which exclude acquisitions and dispositions, decreased 6.5%.

Sales and comparable sales were negatively impacted by 11.2 percentage points and 11.7 percentage points, respectively, as a result of currency translation. Comparable sales in constant currency increased 5.2%, reflecting growth in emerging markets and the United Kingdom.

Operating Income for the Three Months Ended February 28, 2017 and February 29, 2016

[Table of Contents](#)

Pharmaceutical Wholesale division's operating income for the three months ended February 28, 2017, which included \$42 million from the Company's share of equity earnings in AmerisourceBergen, increased 23.1% to \$165 million. Operating income was negatively impacted by 13.5 percentage points (\$18 million) as a result of currency translation.

Gross profit decreased 9.3% from the year-ago quarter. Gross profit was negatively impacted by 10.8 percentage points (\$58 million) as a result of currency translation.

Selling, general and administrative expenses decreased 9.7% from the year-ago quarter. Expenses were positively impacted by 9.9 percentage points (\$40 million) as a result of currency translation. As a percentage of sales, selling, general and administrative expenses were 7.2% in the current quarter, compared to 7.1% in the year-ago quarter.

Adjusted Operating Income (Non-GAAP measure) for the Three Months Ended February 28, 2017 and February 29, 2016

Pharmaceutical Wholesale division's adjusted operating income for the three months ended February 28, 2017, which included \$79 million from the Company's share of adjusted equity earnings in AmerisourceBergen, increased 45.8% to \$226 million. Adjusted operating income was negatively impacted by 13.6 percentage points (\$21 million) as a result of currency translation.

Excluding the contribution from the Company's share of adjusted equity earnings in AmerisourceBergen and the negative impact of currency translation, adjusted operating income increased 8.4% over the year-ago quarter. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

Sales for the Six Months Ended February 28, 2017 and February 29, 2016

Pharmaceutical Wholesale division's sales for the six months ended February 28, 2017 decreased 8.5% to \$10.4 billion. Comparable sales decreased 4.6%.

Sales and comparable sales were negatively impacted by 9.1 percentage points and 9.6 percentage points respectively, as a result of currency translation. Comparable sales in constant currency increased 5.0%, reflecting growth in emerging markets and the United Kingdom.

Operating Income for the Six Months Ended February 28, 2017 and February 29, 2016

Pharmaceutical Wholesale division's operating income for the six months ended February 28, 2017, which included \$59 million from the Company's share of equity earnings in AmerisourceBergen, increased 17.3% to \$325 million. Operating income negatively impacted by 11.6 percentage points (\$32 million) as a result of currency translation. The remaining increase was primarily due to lower selling, general and administrative expenses as a percentage of sales.

Gross profit decreased 9.6% from the year-ago period of which 9.2 percentage points (\$101 million) was as a result of the negative impact of currency translation.

Selling, general and administrative expenses decreased 11.5% from the year-ago period of which 8.4 percentage points (\$69 million) was as a result of the negative impact of currency translation. The remaining decrease was primarily related to cost benefits and dispositions. As a percentage of sales, selling, general and administrative expenses were 6.9% in the current period, compared to 7.1% in the year-ago period.

Adjusted Operating Income (Non-GAAP measure) for the Six Months Ended February 28, 2017 and February 29, 2016

Pharmaceutical Wholesale division's adjusted operating income for the six months ended February 28, 2017, which included \$137 million from the Company's share of adjusted equity earnings in AmerisourceBergen, increased 40.2% to \$450 million. Adjusted operating income was negatively impacted by 11.8 percentage points (\$38 million) as a result of currency translation.

Excluding the contribution from the Company's share of adjusted equity earnings in AmerisourceBergen and the negative impact of currency translation, adjusted operating income increased 9.3% over the year-ago period. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable GAAP measure.

NON-GAAP MEASURES

The following information provides reconciliations of the supplemental non-GAAP financial measures, as defined under the rules of the Securities and Exchange Commission, presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided the non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP.

These supplemental non-GAAP financial measures are presented because our management has evaluated our financial results both including and excluding the adjusted items or the effects of foreign currency translation, as applicable, and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of our business from period to period and trends in our historical operating results. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented.

The Company also presents certain information related to current period operating results in “constant currency,” which is a non-GAAP financial measure. These amounts are calculated by translating current period results at the foreign currency exchange rates used in the comparable period in the prior year. The Company presents such constant currency financial information because it has significant operations outside of the United States reporting in currencies other than the U.S. dollar and this presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations.

(in millions)

Three Months Ended February 28, 2017					
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,120	\$ 198	\$ 165	\$ (4)	\$ 1,479
Cost transformation	316	19	5	—	340
Acquisition-related amortization	38	25	19	—	82
LIFO provision	49	—	—	—	49
Adjustments to equity earnings in AmerisourceBergen	—	—	37	—	37
Acquisition-related costs	29	—	—	—	29
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 1,552</u>	<u>\$ 242</u>	<u>\$ 226</u>	<u>\$ (4)</u>	<u>\$ 2,016</u>

(in millions)

Three Months Ended February 29, 2016					
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,429	\$ 299	\$ 134	\$ (2)	\$ 1,860
Cost transformation	25	3	—	—	28
Acquisition-related amortization	47	33	21	—	101
LIFO provision	68	—	—	—	68
Acquisition-related costs	33	—	—	—	33
Asset impairment	30	—	—	—	30
Adjusted Operating Income (Non-GAAP measure)	<u>\$ 1,632</u>	<u>\$ 335</u>	<u>\$ 155</u>	<u>\$ (2)</u>	<u>\$ 2,120</u>

(in millions)

Six Months Ended February 28, 2017					
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 2,225	\$ 380	\$ 325	\$ (4)	\$ 2,926
Cost transformation	388	25	8	—	421
Acquisition-related amortization	75	50	39	—	164
LIFO provision	107	—	—	—	107
Adjustments to equity earnings in AmerisourceBergen	—	—	78	—	78
Acquisition-related costs	46	—	—	—	46
Adjusted Operating Income (Non-GAAP measure)	\$ 2,841	\$ 455	\$ 450	\$ (4)	\$ 3,742

(in millions)

Six Months Ended February 29, 2016					
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 2,457	\$ 601	\$ 277	\$ (7)	\$ 3,328
Cost transformation	110	8	—	—	118
Acquisition-related amortization	97	41	44	—	182
LIFO provision	114	—	—	—	114
Acquisition-related costs	67	—	—	—	67
Asset impairment	30	—	—	—	30
Adjusted Operating Income (Non- GAAP measure)	\$ 2,875	\$ 650	\$ 321	\$ (7)	\$ 3,839

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)	\$ 1,060	\$ 930	\$ 2,114	\$ 2,040
Adjustments to Operating Income:				
Cost transformation	340	28	421	118
Acquisition-related amortization ⁽¹⁾	82	101	164	182
LIFO provision ⁽¹⁾	49	68	107	114
Adjustments to equity earnings in AmerisourceBergen ⁽¹⁾	37	—	78	—
Acquisition-related costs ⁽¹⁾	29	33	46	67
Asset impairment ⁽¹⁾	—	30	—	30
Total Adjustments to Operating Income	537	260	816	511
Adjustments to Other income (expense):				
Decrease in fair market value of AmerisourceBergen warrants ⁽¹⁾	—	529	—	586
Net investment hedging (gain) loss ⁽¹⁾	15	(33)	14	(33)
Total Adjustments to Other income (expense)	15	496	14	553
Adjustments to Interest expense, net:				
Prefunded interest expenses ⁽¹⁾	48	—	89	—
Total Adjustments to Interest expense, net	48	—	89	—
Adjustments to Income tax provision:				
United Kingdom tax rate change ⁽²⁾	—	—	(77)	(178)
Tax impact of adjustments ⁽³⁾	(184)	(263)	(279)	(371)
Total Adjustments to Income tax provision	(184)	(263)	(356)	(549)
Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)	\$ 1,476	\$ 1,423	\$ 2,677	\$ 2,555
Diluted net earnings per common share (GAAP)	\$ 0.98	\$ 0.85	\$ 1.94	\$ 1.87
Adjustments to Operating Income	0.50	0.24	0.76	0.47
Adjustments to Other income (expense)	0.01	0.46	0.01	0.50
Adjustments to Interest expense, net:	0.04	—	0.08	—
Adjustments to Income tax provision	(0.17)	(0.24)	(0.33)	(0.50)
Adjusted diluted net earnings per common share (Non-GAAP measure)	\$ 1.36	\$ 1.31	\$ 2.46	\$ 2.34
Weighted average common shares outstanding, diluted	\$ 1,085.5	1,088.4	\$ 1,086.9	1,093.5

⁽¹⁾ Presented on a pre-tax basis. The comparable prior period has been recast accordingly to reflect the tax impact of adjustments as a single adjustment. There has been no change in Net earnings attributable to Walgreens Boots Alliance, Inc., diluted net earnings per share, adjusted net earnings attributable to Walgreens Boots Alliance, Inc. or adjusted net earnings per share from those previously reported.

⁽²⁾ Discrete tax-only items.

⁽³⁾ Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$11.8 billion (including \$2.2 billion in non-U.S. jurisdictions) as of February 28, 2017, compared to \$3.6 billion (including \$1.6 billion in non-U.S. jurisdictions) at February 29, 2016. Short-term investment objectives are primarily to minimize risk and maintain liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury money market funds and AAA-rated money market funds.

Our long-term capital policy is to maintain a strong balance sheet and financial flexibility; reinvest in our core strategies; invest in strategic opportunities that reinforce our core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term.

Cash provided by operations and the issuance of debt are the principal sources of funds for expansion, investments, acquisitions, remodeling programs, dividends to shareholders and stock repurchases. Net cash provided by operating activities for the six months ended February 28, 2017 was \$3.4 billion, compared to \$3.1 billion for the year-ago period. The \$0.3 billion increase in cash provided by operating activities was primarily due to improved working capital management, with higher cash inflows from changes in trade accounts payable and accounts receivable. Increases in cash inflows on trade accounts payable resulted primarily from changes in payment terms on pharmaceutical-related purchases. Increases in cash inflows on accounts receivable resulted primarily from pharmaceutical-related reimbursements, due to the timing of collections and an increase in the portion of Medicare Part D reimbursements.

Net cash used for investing activities was \$197 million for the six months ended February 28, 2017, compared to \$0.6 billion used in the year-ago period. Business acquisitions in the six months ended February 28, 2017 were \$52 million compared to \$86 million for the year-ago period. Business acquisitions in the year-ago period were primarily the acquisition of an international beauty brand and the purchase of prescription files.

For the six months ended February 28, 2017, additions to property, plant and equipment were \$639 million compared to \$657 million in the year-ago period. Capital expenditures by reporting segment were as follows:

	Six Months Ended	
	February 28, 2017	February 29, 2016
Retail Pharmacy USA	\$ 378	\$ 386
Retail Pharmacy International	210	222
Pharmaceutical Wholesale	51	49
Total	<u>\$ 639</u>	<u>\$ 657</u>

Significant capital expenditures primarily relate to investments in our stores and information technology projects.

Additionally, investing activities for the six months ended February 28, 2017 included proceeds related to sale-leaseback transactions of \$436 million, compared to \$60 million in the year-ago period.

Net cash used for financing activities for the six months ended February 28, 2017 was \$1.1 billion, compared to net cash used of \$1.9 billion in the year-ago period. We repurchased shares to support the needs of the employee stock plans totaling \$457 million in the six months ended February 28, 2017, compared to \$1 billion in the six months ended February 29, 2016. Proceeds related to employee stock plans were \$116 million during the six months ended February 28, 2017, compared to \$129 million for the six months ended February 29, 2016. Cash dividends paid were \$817 million during the six months ended February 28, 2017, compared to \$787 million for the same period a year ago. We currently intend to continue to maintain a long-term dividend payout ratio target of approximately 30 to 35 percent of adjusted net earnings attributable to Walgreens Boots Alliance.

In April 2017, Walgreens Boots Alliance authorized the 2017 stock repurchase program (the "2017 stock repurchase program"), which authorizes the repurchase of up to \$1.0 billion of Walgreens Boots Alliance common stock prior to the program's expiration on December 31, 2017. We determine the timing and amount of repurchases based on our assessment of various factors, including prevailing market conditions, alternate uses of capital, liquidity and the economic environment. We have repurchased, and may from time to time in the future repurchase, shares on the open market through Rule 10b5-1 plans, which enable us to repurchase shares at times when we otherwise might be precluded from doing so under insider trading laws.

We periodically borrow under our commercial paper program and may continue to borrow under it in future periods. There were no commercial paper borrowings outstanding as of February 28, 2017 or August 31, 2016, respectively. The Company had no activity under its commercial paper program for the six months ended February 28, 2017. The Company had average daily short-term borrowings of \$20 million of commercial paper outstanding at a weighted average interest rate of 0.62% for the six month period ended February 29, 2016.

Pending Rite Aid Transaction

The cash consideration payable to Rite Aid stockholders pursuant to the Merger Agreement described under “Introduction and Segments” above is expected to be financed with a combination of cash on hand and debt financing. In connection with the Merger Agreement, Walgreens Boots Alliance entered into a bridge facility commitment letter (as amended and restated, the “Commitment Letter”) with UBS Securities LLC and UBS AG, Stamford Branch for a \$12.8 billion senior unsecured bridge facility.

On December 18, 2015, Walgreens Boots Alliance entered into a Bridge Term Loan Credit Agreement with the lenders party thereto (as amended, the “Bridge Credit Agreement”) and a Term Loan Credit Agreement with the lenders party thereto (as amended, the “2015 Term Loan Credit Agreement.” The Commitment Letter and the commitments contemplated thereby terminated upon Walgreens Boots Alliance entering into the Bridge Credit Agreement and the 2015 Term Loan Credit Agreement.

On June 1, 2016, Walgreens Boots Alliance issued in an underwritten public offering \$1.2 billion of 1.750% notes due 2018 (the “2018 notes”), \$1.5 billion of 2.600% notes due 2021 (the “2021 notes”), \$0.8 billion of 3.100% notes due 2023 (the “2023 notes”), \$1.9 billion of 3.450% notes due 2026 (the “2026 notes”) and \$0.6 billion of 4.650% notes due 2046 (the “2046 notes”). These notes are subject to redemption in certain circumstances. Walgreens Boots Alliance intends to use the net proceeds from the sale of the notes to fund a portion of the cash consideration payable in connection with the merger contemplated by the Merger Agreement, to retire a portion of Rite Aid’s existing debt and to pay related fees and expenses. Any remaining net proceeds from the sale of the notes may also be used for general corporate purposes. In the event that such merger is not consummated on or prior to June 1, 2017 (the first anniversary of the issuance date of the notes) or if the Merger Agreement is terminated at any time on or prior to June 1, 2017, then Walgreens Boots Alliance will be required to redeem in full the 2018 notes, the 2021 notes and the 2023 notes (but not the 2026 notes or 2046 notes, which will remain outstanding in accordance with their respective terms) on the date described in the applicable note at a redemption price equal to 101% of the aggregate principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the date of redemption. In addition, pursuant to the Merger Agreement, (i) if the Merger Agreement is terminated by Walgreens Boots Alliance or Rite Aid due to the entry of a final order enjoining or prohibiting the merger by any antitrust authority, or, following July 31, 2017, because required antitrust approvals have not been obtained or an antitrust authority has issued an injunction or order preventing the merger, Walgreens Boots Alliance could be required to pay Rite Aid a termination fee of \$325 million, which will be reduced to \$162.5 million if on the termination date Rite Aid has failed to satisfy an Adjusted EBITDA test set forth in the Merger Agreement, and (ii) if the Merger Agreement is terminated by Walgreens Boots Alliance as a result of Rite Aid’s failure to satisfy such Adjusted EBITDA test, Walgreens Boots Alliance could be required to pay Rite Aid a termination fee of \$162.5 million in certain circumstances.

On August 30, 2016, Walgreens Boots Alliance entered into a \$1.0 billion senior unsecured term loan facility with the lender party thereto (the “2016 Term Loan Credit Agreement”).

On January 27, 2017, each of the Bridge Credit Agreement, the 2015 Term Loan Credit Agreement, and the 2016 Term Loan Credit Agreement terminated in accordance with its terms.

In connection with Amendment No. 1 to the Merger Agreement, on January 31, 2017, Walgreens Boots Alliance entered into (i) a \$5.0 billion backstop facility commitment letter (the “Backstop Commitment Letter”) and (ii) a \$5.0 billion unsecured bridge term loan facility (the “Backstop Credit Agreement”). Upon entry into the Backstop Credit Agreement, the Backstop Commitment Letter and the commitments contemplated thereby terminated. Fees paid in connection with the Backstop Commitment Letter and the Backstop Credit Agreement totaled \$3.8 million.

On February 22, 2017, Walgreens Boots Alliance entered into (a) a \$4.8 billion unsecured term loan facility with the lenders party thereto (the “Syndicated Credit Agreement”) and (b) a \$1.0 billion unsecured term loan facility with Sumitomo Mitsui Banking Corporation, as lender and administrative agent (the “Sumitomo Credit Agreement”) and, together with the Syndicated Credit Agreement, the “2017 Term Loan Credit Agreements”). In connection therewith, as of such date the commitments available under the Backstop Credit Agreement were reduced to zero and such agreement terminated in accordance with its terms.

The Syndicated Credit Agreement is a two-tranche unsecured term loan facility (each tranche in an amount of \$2.4 billion), with the first tranche maturing October 27, 2019 and the second tranche maturing October 27, 2021, provided that Walgreens Boots Alliance may increase the commitments available under either of the tranches of the Syndicated Credit Agreement at any time prior to the funding date thereunder by up to \$450 million, subject to obtaining commitments from existing lenders and/or new lenders selected by Walgreens Boots Alliance and reasonably acceptable to Bank of America, N.A., as administrative agent.

The Sumitomo Credit Agreement is a two-tranche unsecured term loan facility (each tranche in an amount of \$500 million), with the first tranche maturing on the first anniversary of the funding date thereunder and the second tranche maturing on the earlier of the first anniversary of the funding date thereunder and March 30, 2018.

Walgreens Boots Alliance will be the borrower under each of the 2017 Term Loan Credit Agreements. The obligations of the lenders party to each of the 2017 Term Loan Credit Agreements to fund the loans thereunder become effective upon the date of closing of the transactions contemplated by the Merger Agreement. The ability of Walgreens Boots Alliance to request the funding of loans under each of the 2017 Term Loan Credit Agreements is subject to the satisfaction (or waiver) of certain customary "limited conditions" set forth therein and will terminate upon the occurrence of certain events set forth therein. Commitments to provide loans under each of the 2017 Term Loan Credit Agreements will expire on the earliest of (a) the date of consummation of the acquisition by Walgreens Boots Alliance (the "Acquisition") of all the issued and outstanding equity interests of Rite Aid (provided that loans may be funded on such date), (b) prior to the consummation of the Acquisition, the termination of the Merger Agreement by Walgreens Boots Alliance or with the written consent of Walgreens Boots Alliance in accordance with its terms (other than with respect to provisions therein that expressly survive termination), (c) 11:59 p.m., New York time, on July 31, 2017; provided that Walgreens Boots Alliance may extend such date to October 31, 2017 on prior written notice to the respective Administrative Agent and lenders thereunder, and (d) the date of termination in whole of the lender's commitments under each applicable 2017 Term Loan Credit Agreement in accordance with the terms thereof.

Borrowings under each 2017 Term Loan Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the reserve adjusted Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. Upfront fees paid to date in connection with the 2017 Term Loan Credit Agreements totaled \$4.6 million. In addition, Walgreens Boots Alliance will also pay to the lenders under each of the 2017 Term Loan Credit Agreements certain customary fees, including a ticking fee based on the aggregate outstanding commitments of the lenders under the applicable 2017 Term Loan Credit Agreement, accruing from and including the effective date thereunder. As of February 28, 2017, there were no borrowings under either of the 2017 Term Loan Credit Agreements.

2017 Revolving Credit Agreement

On February 1, 2017, Walgreens Boots Alliance entered into a \$1.0 billion revolving credit facility (the "2017 Revolving Credit Agreement") with the lenders from time to time party thereto. Walgreens Boots Alliance will be the borrower under the 2017 Revolving Credit Agreement, which terminates on the earlier of (a) 364 days following the effective date thereof, subject to the extension thereof pursuant to provisions specified in the Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate commitment pursuant to the Revolving Credit Agreement. The ability of Walgreens Boots Alliance to request the making of loans under the 2017 Revolving Credit Agreement is subject to the satisfaction (or waiver) of certain customary conditions set forth therein (including a separate set of customary "limited conditions" applicable to any loans made for the sole purpose of financing Walgreens Boots Alliance's acquisition of Rite Aid). Borrowings under the 2017 Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the reserve adjusted Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. Upfront fees paid to date in connection with the 2017 Revolving Credit Agreement totaled \$0.5 million. In addition, Walgreens Boots Alliance will also pay to the lenders under the 2017 Revolving Credit Agreement certain customary fees, including a commitment fee on the daily actual excess of each such lender's commitment over such lender's outstanding credit exposure under the 2017 Revolving Credit Agreement, which commitment fee is earned and payable quarterly. As of February 28, 2017, there were no borrowings under the 2017 Revolving Credit Agreement.

Debt covenants

The Company's credit facilities contain a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60:1.00. The credit facilities contain various other customary covenants. In the case of the 2017 Term Loan Credit Agreements, such covenants are not in effect until the loans under each such credit facility are funded. As of February 28, 2017, the Company was in compliance with all such covenants.

As of April 4, 2017, the credit ratings of Walgreens Boots Alliance were:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook
Fitch	BBB	F2	Stable
Moody's	Baa2	P-2	On review for downgrade
Standard & Poor's	BBB	A-2	Negative

In assessing our credit strength, each credit rating agency considers various factors including our business model, capital structure, financial policies and financial performance. There can be no assurance that any particular rating will be assigned or maintained. Our credit ratings impact our borrowing costs, access to capital markets and operating lease costs. The rating agency ratings are not recommendations to buy, sell or hold our debt securities or commercial paper. Each rating may be subject to revision or withdrawal at any time by the assigning rating agency and should be evaluated independently of any other rating.

Pursuant to our arrangements with AmerisourceBergen, we have the right, but not the obligation, to increase our minority equity position in AmerisourceBergen over time, as described under "--AmerisourceBergen Corporation Relationship" above. As of February 28, 2017, the Company owned 56,854,867 AmerisourceBergen common shares representing approximately 26% of the outstanding AmerisourceBergen common stock. This includes a total of approximately 11.5 million shares of AmerisourceBergen that we purchased in the open market. Share purchases may be made from time to time in open market transactions or pursuant to instruments and plans complying with Rule 10b5-1. Our ability to invest in equity in AmerisourceBergen above certain thresholds is subject to the receipt of regulatory approvals.

We believe that cash flow from operations, availability under our existing credit facilities and arrangements, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, acquisitions, dividend payments and debt service obligations for at least the next 12 months. Our cash requirements are subject to change as business conditions warrant and opportunities arise. The timing and size of any new business ventures or acquisitions that we may complete may also impact our cash requirements.

See Item 3 (Qualitative and Quantitative Disclosures about Market Risk) below for a discussion of certain financing and market risks.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities and, except as described herein, we do not have significant exposure to any off-balance sheet arrangements. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

As of February 28, 2017, we have issued \$321 million in letters of credit, primarily related to insurance obligations. We also had \$45 million of guarantees to various suppliers outstanding as of February 28, 2017. We remain secondarily liable on 71 leases. The maximum potential undiscounted future payments related to these leases was \$335 million as of February 28, 2017.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Other than our obligations under the Merger Agreement and the transactions contemplated thereby, there have been no material changes, outside of the ordinary course of business, in our outstanding contractual obligations disclosed in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2016.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with GAAP and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on our consolidated financial position or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. These adjustments would be made in future periods. For a discussion of our significant accounting policies, please see the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2016. Some of the more significant estimates include business combinations, goodwill and indefinite-lived intangible asset impairment, vendor allowances, liability for closed locations, cost of sales and inventory, equity method investments, pension and postretirement benefits and income taxes. There have been no significant changes in those accounting policies.

NEW ACCOUNTING PRONOUNCEMENTS

A discussion of new accounting pronouncements is described in Note 16, New Accounting Pronouncements in Item 1. Consolidated Condensed Financial Statements (Unaudited) of this Current Report on Form 10-Q and is incorporated herein by reference.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other documents that we file or furnish with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company's website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Some of such forward-looking statements may be based on certain data and forecasts relating to our business and industry that we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications, surveys and market research generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Statements that are not historical facts are forward-looking statements, including, without limitation, those regarding estimates of and goals for future financial and operating performance as well as forward-looking statements concerning the expected execution and effect of our business strategies, our cost-savings and growth initiatives and restructuring activities and the amounts and timing of their expected impact, our Merger Agreement, as amended, with Rite Aid and the transactions contemplated thereby (including the pending divestiture transaction to sell certain Rite Aid stores and assets to Fred's, Inc.) and their possible timing and effects, our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, estimates of the impact of developments on our earnings, earnings per share and other financial and operating metrics, cough, cold and flu season, prescription volume, pharmacy sales trends, prescription margins, changes in generic prescription drug prices, retail margins, number and location of new store openings, network participation, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, the proposed withdrawal of the United Kingdom from the European Union and its possible effects, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, impairment or other charges, acquisition and joint venture synergies, competitive strengths and changes in legislation or regulations. Words such as "expect," "likely," "outlook," "forecast," "preliminary," "would," "could," "should," "can," "will," "project," "intend," "plan," "goal," "guidance," "target," "aim," "continue," "sustain," "synergy," "on track," "on schedule," "headwind," "tailwind," "believe," "seek," "estimate," "anticipate," "may," "possible," "assume," variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions, known or unknown, that could cause actual results to vary materially from those indicated or anticipated, including, but not limited to, those relating to the impact of private and public third-party payers' efforts to reduce prescription drug reimbursements, fluctuations in foreign currency exchange rates, the timing and magnitude of the impact of branded to generic drug conversions and changes in generic drug prices, our ability to realize synergies and achieve financial, tax and operating results in the amounts and at the times anticipated, supply arrangements including our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, our equity method investment in AmerisourceBergen, the occurrence of any event, change or other circumstance that could give rise to the termination, cross-termination or modification of any of our contractual obligations, the amount of costs, fees, expenses and charges incurred in connection with strategic transactions, whether the costs associated with restructuring activities will exceed estimates, our ability to realize expected savings and benefits from cost-savings initiatives, restructuring activities and acquisitions in the amounts and at the times anticipated, the timing and amount of any impairment or other charges, the timing and severity of cough, cold and flu season, changes in management's assumptions, the risks associated with governance and control matters, the ability to retain key personnel, changes in economic and business conditions generally or in particular markets in which we participate, changes in financial markets and interest rates, the risks associated with international business operations, including the risks associated with the proposed withdrawal of the United Kingdom from the European Union, the risk of unexpected costs, liabilities or delays, changes in vendor, customer and payer relationships and terms, including changes in network participation and reimbursement terms, risks of inflation in the cost of goods, risks associated with the operation and growth of our customer loyalty programs, competition, risks associated with new business areas and activities, risks associated with acquisitions, divestitures, joint ventures and strategic investments, including those relating to the ability of the parties to satisfy the closing conditions (including, without limitation, approval by the holders of Rite Aid's common stock and the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) and consummate the pending acquisition of Rite Aid and related matters

(including the pending divestiture transaction to sell certain Rite Aid stores and assets to Fred's, Inc.) on a timely basis or at all, the risks associated with the integration of complex businesses, outcomes of legal and regulatory matters, including with respect to regulatory review and actions in connection with the pending acquisition of Rite Aid and related matters, and changes in laws, regulations or interpretations thereof. These and other risks, assumptions and uncertainties are described in in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016 and in other documents that we file or furnish with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date the statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

We are exposed to interest rate volatility with regard to existing debt issuances. Primary exposures include U.S. Treasury rates, LIBOR and commercial paper rates. From time to time, we use interest rate swaps and forward-starting interest rate swaps to hedge our exposure to the impact of interest rate changes on existing debt and future debt issuances respectively, to reduce the volatility of our financing costs and, based on current and projected market conditions, achieve a desired proportion of fixed versus floating-rate debt. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed upon notional principal amount.

We also use interest rate caps to protect from rising interest rates on existing floating-rate debt. Information regarding our interest rate swaps, forward starting interest rate swaps, and interest rate caps transactions are set forth in Note 7. Financial Instruments to our unaudited Consolidated Condensed Financial Statements. These financial instruments are sensitive to changes in interest rates. On February 28, 2017, we had approximately \$1.7 billion in long-term debt obligations that had floating interest rates. A one percentage point increase or decrease in interest rates for the various debt held by us would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense by approximately \$17 million. The amounts exclude the impact of any associated interest rate swaps, forward starting interest rate swaps and interest rate caps.

Foreign Currency Exchange Rate Risk

We are exposed to fluctuations in foreign currency exchange rates, primarily with respect to the British Pound Sterling and Euro, and certain other foreign currencies, including the Mexican Peso, Chilean Peso, Norwegian Krone and Turkish Lira which may affect our net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. We enter into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows of certain entities denominated in foreign currencies. These transactions are almost exclusively less than 12 months in maturity. In addition, we enter into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany financing transactions). As circumstances warrant, we also use basis swaps as hedging instruments to hedge portions of our net investments in foreign operations. The foreign currency derivative instruments are sensitive to changes in exchange rates. A 1% increase or decrease in foreign currency exchange rates versus the U.S. dollar would increase or decrease our pre-tax income by approximately \$10 million due to changes in the value of foreign currency derivative instruments. Excluded from the computation were anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the abovementioned instruments are intended to partially hedge.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its CEO and CFO, no changes during the three months ended February 28, 2017 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be

faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information in response to this item is incorporated herein by reference to Note 9, Commitments and Contingencies of the Consolidated Condensed Financial Statements of this Quarterly Report.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. "Risk Factors" in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2016, which could materially affect our business, financial condition or future results.

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

(c) The following table provides information about purchases by the Company during the quarter ended February 28, 2017 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act. Subject to applicable law, share purchases may be made in open market transactions, privately negotiated transactions, or pursuant to instruments and plans complying with Rule 10b5-1.

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Program ⁽¹⁾
12/01/16 – 12/31/16	—	\$ —	—	—
01/01/17 – 01/31/17	—	—	—	—
02/01/17 – 02/28/17	—	—	—	—
Total	—	\$ —	—	—

(1) In April 2017, Walgreens Boots Alliance authorized the 2017 stock repurchase program which authorizes the purchase of up to \$1.0 billion of Walgreens Boots Alliance common stock prior to the program's expiration on December 31, 2017.

Item 5. Other Information

Please see the disclosure under Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Restructuring Programs” of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for updated information regarding the Cost Transformation Program. Such disclosure amends and updates the disclosure included in Item 2.05 and Item 2.06 of the Company’s Current Report on Form 8-K filed on April 9, 2015.

Item 6. Exhibits

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and:

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

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit No.	Description	SEC Document Reference
2.1*	Asset Purchase Agreement dated as of December 19, 2016 by and among Rite Aid Corporation, AFAE, LLC, Fred’s, Inc. (solely for the purposes set forth in the Asset Purchase Agreement) and Walgreens Boots Alliance, Inc. (solely for the purposes set forth in the Asset Purchase Agreement).	Filed herewith.
2.2*	Amendment No. 1, dated as of January 29, 2017, to Agreement and Plan of Merger, dated as of October 27, 2015, by and among Walgreens Boots Alliance, Inc., Victoria Merger Sub, Inc. and Rite Aid Corporation	Incorporated by reference to Exhibit 2.1 to Walgreens Boots Alliance, Inc.’s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on January 31, 2017.
3.1	Amended and Restated Certificate of Incorporation of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.’s Current Report on Form 8-K12B (File No. 001-36759) filed with the SEC on December 31, 2014.
3.2	Amended and Restated Bylaws of Walgreens Boots Alliance, Inc.	Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.’s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on June 10, 2016.

[Table of Contents](#)

10.1	Backstop Facility Commitment Letter, effective as of January 31, 2017, by and among Walgreens Boots Alliance, Inc., HSBC Securities (USA) Inc., HSBC Bank USA, National Association and HSBC Bank plc.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on February 2, 2017.
10.2	Backstop Bridge Term Loan Credit Agreement, dated January 31, 2017, by and among Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and HSBC Bank USA, National Association, as administrative agent.	Incorporated by reference to Exhibit 10.2 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on February 2, 2017.
10.3	Revolving Credit Agreement, dated February 1, 2017, by and between Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and JPMorgan Chase Bank N.A., as administrative agent.	Incorporated by reference to Exhibit 10.3 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on February 2, 2017.
10.4	Term Loan Credit Agreement dated February 22, 2017, by and among Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and Bank of America, N.A., as administrative agent.	Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on February 23, 2017.
10.5	Term Loan Credit Agreement, dated February 22, 2017, by and among Walgreens Boots Alliance, Inc., the lenders from time to time party thereto and Sumitomo Mitsui Banking Corporation, as administrative agent.	Incorporated by reference to Exhibit 10.2 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 001-36759) filed with the SEC on February 23, 2017.
10.6**	Extension, dated as of March 27, 2017, to Assignment Letter between Alexander Gourlay and Walgreens Boots Alliance Services Limited.	Filed herewith.
12	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.

[Table of Contents](#)

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
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* Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Walgreens Boots Alliance, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

** Management contract or compensatory plan or arrangement.

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.

Walgreens Boots Alliance, Inc.

(Registrant)

Dated: April 5, 2017

/s/ George R. Fairweather

George R. Fairweather

Executive Vice President and Global Chief Financial Officer

Dated: April 5, 2017

/s/ Kimberly R. Scardino

Kimberly R. Scardino

Senior Vice President, Global Controller and Chief Accounting Officer

(Principal Accounting Officer)

ASSET PURCHASE AGREEMENT

BY AND AMONG

RITE AID CORPORATION,

AFAE, LLC,

FRED'S, INC.

(solely for the purposes set forth in the Preamble)

AND

WALGREENS BOOTS ALLIANCE, INC.

(solely for the purposes set forth in the Preamble)

Dated as of December 19, 2016

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	7
Section 1.01. Certain Defined Terms	7
ARTICLE II PURCHASE AND SALE	8
Section 2.01. Purchased Assets	8
Section 2.02. Excluded Assets	9
Section 2.03. Assumed Liabilities	10
Section 2.04. Excluded Liabilities	11
Section 2.05. Assignment of Contracts and Rights	12
Section 2.06. Closing	13
Section 2.07. Purchase Price.	14
Section 2.08. Deliveries by Seller	15
Section 2.09. Deliveries by Buyer	16
Section 2.10. Inventory Valuation	16
Section 2.11. Prorations	18
Section 2.12. Purchased Cash; Aggregate Inventory Amount Adjustment	19
ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER	19
Section 3.01. Incorporation, Qualification and Authority of Seller	19
Section 3.02. No Conflict	20
Section 3.03. Consents and Approvals	20
Section 3.04. Financial Information	20
Section 3.05. Absence of Certain Changes or Events	21
Section 3.06. Absence of Litigation	21
Section 3.07. Compliance with Laws	21
Section 3.08. Governmental Licenses and Permits	22
Section 3.09. Title to the Purchased Assets	22
Section 3.10. Taxes	22
Section 3.11. Employment and Employee Benefits Matters	22
Section 3.12. Real Property	24
Section 3.13. Inventory	24
Section 3.14. Environmental Matters	25
Section 3.15. Privacy and Data Security; Seller Rx Data	25
Section 3.16. Compliance with Health Care Legal Requirements	26
Section 3.17. Brokers	26
Section 3.18. Condition and Sufficiency of Purchased Assets	26
Section 3.19. No Other Representations or Warranties	27

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER	28
Section 4.01. Organization and Authority of Buyer	28
Section 4.02. Qualification of Buyer	28
Section 4.03. No Conflict	28
Section 4.04. Consents and Approvals	29
Section 4.05. Absence of Litigation; Compliance with Laws	29
Section 4.06. Absence of Restraints; Compliance With Laws	29
Section 4.07. Financial Ability	30
Section 4.08. Solvency	31
Section 4.09. Brokers	31
Section 4.10. Investigation	31
ARTICLE V ADDITIONAL AGREEMENTS	33
Section 5.01. Conduct of Business Prior to the Applicable Closing	33
Section 5.02. Access to Information	35
Section 5.03. Preservation of Books and Records	36
Section 5.04. Confidentiality	37
Section 5.05. Regulatory and Other Authorizations; Consents.	37
Section 5.06. Use of Names	39
Section 5.07. Taxes.	39
Section 5.08. Ancillary Agreements	41
Section 5.09. Further Action	41
Section 5.10. Solvency After Closing	42
Section 5.11. Non-Solicitation of Employees	42
Section 5.12. Financing.	42
Section 5.13. Destruction of Purchased Assets; Store Removal	48
Section 5.14. Restriction on Use of Customer Data	48
Section 5.15. Commercial Assistance	49
Section 5.16. Conversion of Stores	49
Section 5.17. RediClinic	50
Section 5.18. Acquired Leases	50
Section 5.19. Duplicate IT System	50
ARTICLE VI EMPLOYEE MATTERS	51
Section 6.01. Employee Matters	51
ARTICLE VII CONDITIONS TO CLOSING	60
Section 7.01. Conditions to Obligations of Parent and Seller	60
Section 7.02. Conditions to Obligations of Buyer	61
Section 7.03. Frustration of Closing Conditions	62

ARTICLE VIII TERMINATION, AMENDMENT AND WAIVER	62
Section 8.01. Termination	62
Section 8.02. Notice of Termination	63
Section 8.03. Effect of Termination	63
Section 8.04. Extension; Waiver; Rescission	63
ARTICLE IX INDEMNIFICATION	64
Section 9.01. Indemnification by Seller	64
Section 9.02. Indemnification by Buyer	65
Section 9.03. Notification of Claims	66
Section 9.04. Exclusive Remedies	67
Section 9.05. Additional Indemnification Provisions	68
Section 9.06. Mitigation	68
Section 9.07. Third Party Remedies	68
Section 9.08. Limitation on Liability	69
Section 9.09. Parent Guaranty.	69
Section 9.10. Fred’s Guaranty.	70
ARTICLE X GENERAL PROVISIONS	71
Section 10.01. Survival	71
Section 10.02. Expenses	71
Section 10.03. Notices	71
Section 10.04. Public Announcements	73
Section 10.05. Severability	73
Section 10.06. Entire Agreement	74
Section 10.07. Assignment	74
Section 10.08. No Third-Party Beneficiaries	74
Section 10.09. Amendment	75
Section 10.10. Disclosure Schedules	75
Section 10.11. Governing Law; Submission to Jurisdiction	75
Section 10.12. Bulk Sales Laws	76
Section 10.13. Specific Performance	76
Section 10.14. Interpretation	77
Section 10.15. Counterparts	77
Section 10.16. Waiver of Jury Trial	77
Section 10.17. Non-Recourse	78
Section 10.18. Time is of the Essence	78

DISCLOSURE SCHEDULES

2.01(l)	Intellectual Property
2.02(p)	Excluded Assets
2.07	Allocation of the Base Purchase Price
2.11	Prorations
3.02	No Conflict
3.04	Financial Information
3.06	Absence of Litigation
3.07	Compliance with Laws
3.11(a)	Employee Plans and Employee Benefits Matters
3.11(b)	Multiemployer Plans
3.11(f)	Collective Bargaining Agreements
3.12(a)	Owned Real Property
3.12(b)	Leased Real Property
3.13	Inventory: Liens and Permitted Liens
3.14	Environmental Matters
3.16(c)	Compliance with Health Care Legal Requirements
3.18	Sufficiency of Purchased Assets
5.01	Conduct of Business Prior to the Applicable Closing
5.05(e)	Pricing Methodology
5.15	License Agreements
5.16	Conversion of Stores
6.01(b)	Open Positions
6.01(j)(iv)	Multiemployer Plan Withdrawal Liability
7.01(b)	Governmental Approvals

EXHIBITS

Exhibit A	Definitions
Exhibit B	Transaction Accounting Principles
Exhibit C	Form of Transition Services Agreement
Exhibit D-1	Form of Bill of Sale, Assignment and Assumption Agreement
Exhibit D-2	Form of Subsequent Closing Bill of Sale, Assignment and Assumption Agreement
Exhibit E	Inventory Procedures
Exhibit F	Form of Transitional Trademark License Agreement
Exhibit G	Form of Trademark Assignment Agreement

SCHEDULES

Schedule 2.10(b)	Form of Physical Inventory Valuation Report
Schedule A	Inventory Valuation Process Example
Schedule B	Duplicate IT System Exceptions

This **ASSET PURCHASE AGREEMENT** (this “Agreement”), dated as of December 19, 2016, is by and among **RITE AID CORPORATION**, a Delaware corporation (“Seller”), **WALGREENS BOOTS ALLIANCE, INC.**, a Delaware corporation (“Parent”) (solely for purposes of Section 2.06, Section 2.09 through Section 2.12, Section 5.03 through Section 5.06, Section 5.08, Section 5.11 through Section 5.19, Section 9.09, Article VIII and Article X), **AFAE, LLC**, a Tennessee limited liability company (“Buyer”), and **FRED’S, INC.**, a Tennessee corporation (“Fred’s”) (solely for purposes of Section 4.07, Section 5.05, Section 5.12, Section 9.10 and Article X).

PRELIMINARY STATEMENTS

A. The United States Federal Trade Commission (“FTC”) staff has raised the concern that the proposed acquisition (the “Rite Aid Acquisition”) of Seller by Parent is likely to produce anti-competitive effects in the alleged relevant product markets in various geographic areas in the United States, which would not be in the public interest, including, but not limited to, by eliminating competition between Parent and Seller.

B. Whereas in order to resolve the concerns raised by FTC Staff in the alleged product markets and geographic areas, Parent and Seller have agreed to enter into an agreement to divest certain assets related to these products with Buyer, to permit Buyer to replace lost competition by itself marketing and selling the products referred to above into the respective alleged markets.

C. If this Agreement is approved by the FTC, the FTC will issue a Proposed Consent Order governing the scope, nature and extent and requirements of this Agreement.

D. Following the Rite Aid Closing, Seller wishes to sell, or to cause to be sold, to Buyer, and Buyer wishes to purchase from Seller certain of the assets of Seller and its Affiliates, all on the terms and subject to the conditions set forth herein. In addition, Buyer wishes to assume, and Seller wishes to have Buyer assume, certain Liabilities of Seller and its Affiliates, all on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Certain Defined Terms. Capitalized terms used in this Agreement shall have the meanings specified in Exhibit A to, or elsewhere in, this Agreement.

ARTICLE II

PURCHASE AND SALE

Section 2.01. Purchased Assets. Upon the terms and subject to the conditions of this Agreement, on the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date), Seller shall, and shall cause its Affiliates to sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase from Seller and, as applicable, its Affiliates, free and clear of all Liens (except for Permitted Liens) all right, title and interest of Seller and its Affiliates, in, to and under the following assets to the extent exclusively relating to any Acquired Store or the Distribution Center (collectively, the “Purchased Assets”):

(a) all Inventory and supplies of Seller and its Affiliates;

(b) to the extent transferable, the Permits held by Seller and its Affiliates;

(c) the Owned Real Property;

(d) the Acquired Leases, and all subleases, licenses or concessions thereunder, including the right to all security deposits and other amounts and instruments deposited by, on behalf of, or for the benefit of, Seller or its Affiliates thereunder with respect to which Seller or any of its Affiliates is a party;

(e) the machinery, equipment, vehicles, furniture, shelving, safes (with combinations and keys), and other personal property owned by Seller or any of its Subsidiaries, and all leases relating to the foregoing;

(f) all of Seller’s or one of its Subsidiary’s rights, claims or causes of action against third parties relating to the assets, properties, business or operations of the Acquired Stores or the Distribution Center arising out of events or transactions occurring, or facts or circumstances existing, prior to the Closing Date (or the applicable Subsequent Closing Date or the Distribution Center Closing, as applicable);

(g) (i) all books and records (including all data and other information stored on discs, tapes or other media) of Seller or any of its Subsidiaries relating to the assets, properties, business and operations of the Acquired Stores and the Distribution Center (but excluding (A) all personnel files other than as set forth below, and (B) all Tax Returns not relating solely to the Acquired Stores), and (ii) any and all medical records, billing records, prescriptions, prescription files and records, pharmacy customer lists, signature logs and patient profiles (the information in this clause (ii), collectively, “Seller Rx Data”) relating to customers of the Acquired Stores (which shall in any event include no less than twenty four (24) months for any Seller Rx Data of customers of the Acquired Stores maintained electronically or in hard copy, or for such longer period of time to the extent required by applicable Law and stored in the Duplicate IT System and electronically available if not on the Duplicate IT System); provided, that, the “Purchased Assets” shall include, to the extent available, personnel records limited to employment applications and hiring paperwork, compensation records, and the 2015 and 2016 overall annual performance reviews and ratings pertaining to Transferred Employees

employed in the position of District Manager, Pharmacy District Manager, Human Resources District Manager, Asset Protection District Manager, Regional Vice President, Regional Pharmacy Vice President, Senior Human Resources Manager, or Regional Asset Protection Director; provided, further, however, that as a condition of transferring such records, (i) each subject Transferred Employee shall, to the extent required by applicable Law with respect to Transferred Employee, provide written consent for the transfer and shall waive all claims against Seller and any of its Affiliates related to the contents or the transfer of such records, (ii) the Buyer shall acknowledge that the Seller and its Affiliates make no representations or warranties regarding the accuracy or completeness of such records and agree that it shall base no employment decisions on the records provided, and (iii) Buyer shall indemnify and hold the Seller Indemnified Parties harmless with respect to any claim or Loss related to Buyer's receipt or use of the records transferred in accordance herewith;

(h) the CBAs applicable to employees of the Acquired Stores and the Distribution Center;

(i) any cash and cash equivalents in the registers of any Acquired Stores as of the close of business on the Business Day immediately preceding the Closing Date (or the applicable Subsequent Closing Date) (the "Purchased Cash");

(j) all guarantees and warranties related to the Purchased Assets;

(k) the right to use all telephone numbers and facsimile numbers;

(l) the Intellectual Property set forth on Section 2.01(l) of the Disclosure Schedules; and

(m) to the extent transferable, the historical customer data related to the Seller's Wellness+ program (and to the extent not transferable, Seller shall provide Buyer access to such customer data (to the extent reasonably practicable and permissible)).

Section 2.02. Excluded Assets. Notwithstanding the provisions of Section 2.01, the Purchased Assets shall not include any assets of Seller or any of its Affiliates other than the Purchased Assets, including the following (collectively, the "Excluded Assets"):

(a) all notes and accounts receivable generated;

(b) any cash, bank deposits and cash equivalents of Seller, other than the Purchased Cash;

(c) all Contracts of insurance ("Insurance Arrangements");

(d) all corporate minute books and stock transfer books and the corporate seal of Seller or its Affiliates, other than the books and records contemplated by Section 2.01(g);

(e) all equity interests in any joint venture or equity interests in any other Person held by Seller or any of its Affiliates;

(f) all assets arising out of or relating to employee benefits or employee benefit or compensation plans, programs, agreements or arrangements maintained or contributed to (or formerly maintained or contributed to) by Seller or its Affiliates (“Benefits Arrangements”), except as expressly set forth in Section 6.01;

(g) all personnel files and records, other than those expressly included in accordance with Section 2.01(g) and the provisos stated therein;

(h) all refunds of any Tax for which Seller is liable pursuant to Section 5.07;

(i) all Tax Returns of Seller or its Affiliates not relating solely to the Acquired Stores;

(j) except as expressly set forth in Section 2.01, any Contract to which Seller or any of its Affiliates is a party;

(k) except as expressly set forth in Section 2.01(l), the Intellectual Property used or owned by Seller or any of its Affiliates;

(l) the Software and information technology systems used or owned by Seller or any of its Affiliates;

(m) any of the machinery, equipment, vehicles, furniture and other personal property leased by Seller or any of its Affiliates under a Contract;

(n) all pin-pad credit card readers;

(o) all assets related to the “RediClinic” in-store clinics and any equity interests owned by Seller and its Affiliates of the entity or entities that own such assets; and

(p) the assets set forth on Section 2.02(p) of the Disclosure Schedules.

Section 2.03. Assumed Liabilities. On the terms and subject to the conditions set forth in this Agreement, Buyer hereby agrees, effective at the time of the Closing (or the applicable Subsequent Closing or Distribution Center Closing), to assume, pay, discharge and perform as required solely under the following Liabilities to the extent exclusively relating to the Acquired Stores or Distribution Center, whether known or unknown, fixed or contingent, asserted or unasserted, and not satisfied or extinguished, as the same shall exist on and after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) (the “Assumed Liabilities”):

(a) all Liabilities of Seller or any of its Affiliates to be paid or performed after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) under the Acquired Leases;

(b) any Liabilities in respect of Taxes for which Buyer is liable pursuant to Section 5.07;

(c) except as contemplated by Sections 2.04(f), 2.04(h) and 2.04(i), all Liabilities of Seller or any of its Affiliates to be paid or performed after the Closing Date (or the applicable Subsequent Closing Date) under the CBAs applicable to employees of the Acquired Stores, which shall be assumed in accordance with their terms, including Liabilities related to or arising out of any Multiemployer Plan to which Seller or any of Seller's Affiliates contribute as of the Closing Date (or the applicable Subsequent Closing Date); and

(d) all Liabilities relating to Business Employees to the extent arising after and relating to any period of employment with Buyer or any of its Affiliates after the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date).

Section 2.04. Excluded Liabilities. The Buyer is not assuming or agreeing to pay or discharge any Liabilities other than the Assumed Liabilities and all such other Liabilities of Seller and its Affiliates, including the following shall be referred to as "Excluded Liabilities":

(a) any Liabilities in respect of Taxes for which Seller or its Affiliates is liable pursuant to Section 5.07;

(b) any payables and other liabilities or obligations of Seller or its Affiliates with respect to the Acquired Stores owed to any other business unit of Seller or any of Seller's Affiliates;

(c) any Company Expenses;

(d) any indebtedness of Seller or its Affiliates;

(e) any Liabilities in respect of any Excluded Assets;

(f) except as may be otherwise specifically provided in Section 6.01, all Liabilities arising out of or relating to employee benefits, deferred compensation, pension or retirement plans, or other programs, policies, procedures or other arrangements of any type or description, including for this purpose any benefits provided or available to former employees, dependents of employees or former employees, independent contractors or any other person, which are maintained or contributed to (or formerly maintained or contributed to) by Seller or any Affiliate or former Affiliate of Seller, or to which Seller or its Affiliates or former Affiliates has or formerly had any obligation to contribute or provide benefits, however maintained, funded or sponsored, whether or not legally binding or subject to ERISA, whether providing individual or a group coverage, and whether written or unwritten, funded or unfunded, insured or self-insured, including: (i) all Liabilities arising under the Benefits Arrangements (other than any Multiemployer Plan), (ii) all Liabilities under Title IV of ERISA (other than any Liability with respect to a Multiemployer Plan), (iii) all Liabilities with respect to compensation, bonuses and commissions owed to any current or former Business Employees that are payable with respect to services performed by such individuals prior to their termination of employment or service with Seller or Seller's Affiliates, (iv) all Liabilities arising out of or relating to any claims by any current or former Business Employees with respect to any personal injuries,

including workers' compensation or disability, allegedly arising during their employment or engagement by Seller or Seller's Affiliates, regardless of when any such claim is made or asserted, (v) all Liabilities arising from the Seller's breach of its CBAs applicable to employees of the Acquired Stores and the Distribution Center, (vi) any Liabilities arising out of or relating to any pension plan other than a Multiemployer Plan, including but not limited to the Rite Aid of New York Pension Plan and the Rite Aid Defined Benefit Pension Plan, (vii) any Liabilities relating to personal holidays or other vacation leave accrued by employees of the Acquired Stores and the Distribution Center prior to the applicable Employment Start Date, and (viii) all other Liabilities for which Seller is responsible pursuant to Section 6.01;

(g) any Liabilities or obligations in connection with any Business Employees who are not Transferred Employees (including any liabilities arising under the WARN Act and any similar state or local law, provided Buyer has offered employment to such Business Employees in accordance with Section 6.01);

(h) except as otherwise specifically provided in Section 6.01(a) or (b), any Liabilities (i) in connection with the Transferred Employees to the extent arising before, and relating to any period of employment with Seller at any time on or prior to, the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) or (ii) related to current or former employees of Seller or any of its Affiliates who are not Transferred Employees; and

(i) any Liabilities arising out of (i) any Action related to or arising out of any occurrence or event happening prior to the Closing (or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), (ii) any matter disclosed on Schedule 3.06 of the Disclosure Schedules or (iii) any matter disclosed on Schedule 3.14 of the Disclosure Schedules.

Section 2.05. Assignment of Contracts and Rights. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not constitute an agreement to assign or transfer any Acquired Lease, Permit or any claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment or transfer thereof, without the consent of any applicable third party (including any Governmental Authority), would constitute a breach or other contravention thereof, a violation of Law or would in any way adversely affect the rights of Buyer (as assignee of Seller) or Seller (as applicable). Subject to Section 5.05(c), Seller will use its commercially reasonable efforts to obtain the consent of the other parties to any such Purchased Asset or any claim or right or any benefit arising thereunder for the assignment thereof to Buyer as Buyer may request. If, on the Closing Date (or the applicable Subsequent Closing Date), any such consent is not obtained, or if an attempted transfer or assignment thereof would be ineffective, a violation of Law or would adversely affect the rights of Buyer (as assignee of Seller) thereto or thereunder so that Buyer would not in fact receive all such rights, Seller and Buyer will, subject to Section 5.05(c), cooperate in a mutually agreeable arrangement under which Buyer would, in compliance with Law, obtain the benefits and assume the obligations and bear the economic burdens associated with the Purchased Asset, claim, right or benefit in accordance with this Agreement, including subcontracting, sublicensing

or subleasing to Buyer, or under which Seller would enforce, for the benefit of Buyer, and at the expense of Buyer, any and all of its rights against a third party thereto (including any Governmental Authority) associated with such Purchased Asset, claim, right or benefit (collectively, “Third Party Rights”), and Seller would promptly pay to Buyer when received all monies received by them under any Purchased Asset or any claim or right or any benefit arising thereunder. To the extent that (i) any Acquired Leases cannot be assigned or transferred to Buyer as set forth in this Section 2.05 and (ii) Seller subleases such Acquired Leases to Buyer, Buyer and Seller will enter into individual subleases for each of such Acquired Leases (as opposed to a “master” sublease covering all such Acquired Leases).

Section 2.06. Closing.

(a) Subject to Section 2.06(b) and Section 2.06(c), on the second (2nd) Business Day following the satisfaction or waiver of the conditions set forth in Section 7.01 and Section 7.02 (other than such conditions which, by their nature, are to be satisfied at Closing), or on such other date as Seller and Buyer may mutually agree in writing, the sale and purchase of the Purchased Assets and the assumption of the Assumed Liabilities contemplated by this Agreement with respect to which such conditions have been satisfied or waived as of such date shall take place at a closing (the “Closing”) that will be held at the offices of Sidley Austin LLP, One South Dearborn Street, Chicago, Illinois 60603, or such other place as Seller and Buyer may agree in writing or remotely via the exchange of executed documents or closing deliverables (the date on which the Closing takes place being the “Closing Date”).

(b) Buyer and Seller will consummate the sale and purchase of any Purchased Assets and the assumption of any Assumed Liabilities (other than the Purchased Assets and Assumed Liabilities that were transferred on the Closing Date or any other Subsequent Closing Date) (each, a “Subsequent Closing”) on the second (2nd) Business Day following (i) receipt by Buyer of a certificate of Seller signed by a duly authorized representative of Seller, with respect to the Acquired Stores to be transferred at such Subsequent Closing, certifying that (A) the representations and warranties contained in the first sentence of Section 3.05, Section 3.09, the second and third sentences of Section 3.13, the final sentence of Section 3.15 and the final sentence of Section 3.18, are true and correct in all respects as of such Subsequent Closing as if made on the applicable Subsequent Closing Date, except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect and (B) the covenants contained in the first sentence of Section 5.01 (with respect to Inventory and prescriptions) and Section 5.01(f) of this Agreement have been complied with in all material respects, (ii) the satisfaction or waiver of (A) the conditions set forth in Section 7.01(b) and Section 7.02(b) and (B) the condition that Parent shall have (1) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at such Subsequent Closing using the Developed Testing Procedures and (2) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate, in each case applicable to the Acquired Stores to be transferred at such Subsequent Closing and (iii) the delivery to Buyer of the Inventory Statement and the report specified in Section 2.10(b)(ii) (the “Subsequent Closing Conditions”), pursuant to the terms and conditions of this Agreement. The date on

which a Subsequent Closing occurs is hereinafter referred to as the “Subsequent Closing Date”; provided, however, that the sale and purchase of the Distribution Center and the assets therein to the extent Purchased Assets (the “Distribution Center Closing”) shall occur on the last day of the Transition Period (as defined in the Transition Service Agreement) or such earlier date as mutually agreed by the parties (such date, the “Distribution Center Closing Date”), subject to receipt by Buyer of a certificate of Seller signed by a duly authorized representative of Seller, with respect to the Distribution Center, certifying that the representations and warranties contained in Section 3.09 are true and correct in all respects as of the Distribution Center Closing as if made on the Distribution Center Closing Date, except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect. Upon the request of Parent, Buyer will provide commercially reasonable transition services related or arising out of the assets related to the Distribution Center pursuant to an agreement to be mutually agreed upon in good faith by the parties prior to the Distribution Center Closing Date.

(c) Notwithstanding anything herein to the contrary, in no event shall the parties consummate the Closing or a Subsequent Closing, except as otherwise agreed upon by Buyer and Seller, with respect to less than fifty (50) Acquired Stores (other than the final Subsequent Closing) or more than seventy-five (75) Acquired Stores (it being acknowledged and agreed that in the event that the Subsequent Closing Conditions have been satisfied or waived with respect to less than fifty (50) Acquired Stores, the parties shall consummate the Subsequent Closing with respect to such Acquired Stores on the second Business Day following the satisfaction or waiver of the Subsequent Closing Conditions with respect to fifty (50) or more Acquired Stores which have not yet been conveyed to Buyer, or, in the case of the final Subsequent Closing, any remaining Acquired Stores that have not previously been conveyed to Buyer).

Section 2.07. Purchase Price.

(a) The aggregate cash “Purchase Price” for the Purchased Assets shall be an amount in cash equal to (i) \$950,000,000 (the “Base Purchase Price”) plus the assumption of the Assumed Liabilities. Section 2.07 of the Disclosure Schedules shall set forth an allocation of the Base Purchase Price among each of the Acquired Stores and the Distribution Center for purposes of Section 2.06(b) and Section 2.07(a).

(b) Within sixty (60) days following each Subsequent Closing Date and the Distribution Center Closing Date, Seller and Buyer shall negotiate and draft a schedule (the “Allocation Schedule”) allocating the Purchase Price (taking into account, for purposes of this Section 2.07(b), any other consideration paid to Seller, including any adjustment and the Assumed Liabilities) among the Purchased Assets (including the Distribution Center). The Allocation Schedule shall be reasonable and shall be prepared in accordance with Section 1060 of the Code and the regulations thereunder. Seller and Buyer each agrees that promptly upon receiving said Allocation Schedule it shall return an executed copy thereof to the other party. Seller and Buyer shall file IRS Form 8594, and all Tax Returns consistent with the Allocation

Schedule. Buyer and Seller each agrees to provide the other promptly with any information required to complete Form 8594.

Section 2.08. Deliveries by Seller.

(a) At the Closing, Seller shall deliver or cause to be delivered to Buyer:

- (i) a certificate, dated as of the Closing Date, executed by Seller confirming the satisfaction of the conditions specified in Section 7.02(a) and Section 7.02(f);
- (ii) a certification of non-foreign status, for purposes of Section 897 and 1445 of the Code;
- (iii) duly executed counterparts by Seller or any Affiliate of Seller to each of the Ancillary Agreements applicable to the Closing; and
- (iv) an Operational Duplicate IT System Certificate, executed by Parent, dated as of the Closing Date.

(b) At each Subsequent Closing and at the Distribution Center Closing, as applicable, Seller shall deliver or cause to be delivered to Buyer:

- (i) a certificate, dated as of each Subsequent Closing Date or Distribution Center Closing Date, as applicable, executed by Seller regarding the accuracy of the matters set forth in Section 7.02(a) where, for purposes of this Section 2.08(b)(i), each reference therein to “Closing Date” in Section 7.02(a) shall be deemed to be such Subsequent Closing Date or Distribution Center Closing Date, as applicable, with any exceptions to Section 7.02(a) being noted therein (each such exception, a “Bring-Down Exception”), which such certificate is provided for indemnification purposes only (without giving effect to any Bring-Down Exceptions, as noted below) and solely with respect to the Acquired Stores or Distribution Center to be transferred at such Subsequent Closing and the Distribution Center Closing (as applicable); provided, however, that it is expressly acknowledged and agreed that the inclusion of any Bring-Down Exception shall not be deemed to amend, modify or supplement any Disclosure Schedule for indemnification purposes or in any other way limit or otherwise affect any remedies available to Buyer or any other Buyer Indemnified Party under this Agreement;
- (ii) an Operational Duplicate IT System Certificate, dated as of each Subsequent Closing Date, executed by Parent with respect to the Acquired Stores to be transferred at such Subsequent Closing;
- (iii) a certification of non-foreign status, for purposes of Section 897 and 1445 of the Code; and

(iv) duly executed counterparts by Seller or any Affiliate of Seller to each of the Ancillary Agreements applicable to such Subsequent Closing and the Distribution Center Closing.

Section 2.09. Deliveries by Buyer.

(a) At the Closing, Buyer shall deliver to Parent:

(i) an amount of cash equal to the portion of the Purchase Price with respect to the Acquired Stores to be transferred at Closing as contemplated by Section 2.07 of the Disclosure Schedules, by wire transfer in immediately available funds, to an account or accounts as directed by Seller;

(ii) a receipt for the Purchased Assets transferred at the Closing;

(iii) duly executed counterparts by Buyer to each of the Ancillary Agreements applicable to the Closing;
and

(iv) a certificate, dated as of the Closing Date, executed by Buyer confirming the satisfaction of the conditions specified in Section 7.01(a).

(b) At each Subsequent Closing and the Distribution Center Closing, as applicable, Buyer shall deliver to Parent:

(i) an amount of cash equal to the portion of the Purchase Price with respect to the Acquired Stores to be transferred at such Subsequent Closing, and the Distribution Center to be transferred at the Distribution Center Closing, in each case, as contemplated by Section 2.07 of the Disclosure Schedules, by wire transfer in immediately available funds, to an account or accounts as directed by Seller;

(ii) a receipt for the Purchased Assets transferred at the applicable Subsequent Closing and Distribution Center Closing; and

(iii) duly executed counterparts by Buyer to each of the Ancillary Agreements applicable to such Subsequent Closing and Distribution Center Closing.

Section 2.10. Inventory Valuation.

(a) An Inventory Amount with respect to the Closing, a Subsequent Closing or a Distribution Center Closing shall be calculated as follows:

(i) The parties shall commission WIS International or another mutually acceptable inventory valuation firm (the “Inventory Service”) to conduct a physical inventory (with a representative of each of Parent and Buyer present thereat in order to observe such Inventory Audit) at certain Acquired

Stores to be inventoried at the Closing or such Subsequent Closing (which shall be such Acquired Stores as are mutually agreed in good faith by Parent and Buyer prior to the Closing Date (or the applicable Subsequent Closing Date)) (such Acquired Stores so sampled are collectively referred to as the “Sampled Locations”), as described herein (each, an “Inventory Audit”). The Inventory Service shall also conduct a physical inventory (with a representative of each of Parent and Buyer present thereat in order to observe such Inventory Audit) at the Distribution Center prior to the Distribution Center Closing Date. The Inventory Audits shall be performed within the ten (10) days prior to the Closing Date or applicable Subsequent Closing Date or Distribution Center Closing Date. The Inventory Audits will be performed as of the close of business at each selected location on the date of its Inventory Audit. In the case of a 24-hour store, the Inventory Audit will be performed as of 11:59 PM store time. The Inventory Audits will be performed in accordance with the inventory count and valuation procedures set forth on Exhibit E attached hereto (the “Inventory Procedures”). The fees and expenses of the Inventory Service shall be paid fifty percent (50%) by Buyer and fifty percent (50%) by Seller. The Inventory Service shall conduct a physical inventory of at least 20% of the aggregate number of Acquired Stores being transferred at the Closing and any applicable Subsequent Closing.

(ii) The Inventory Service will calculate the aggregate count of Inventory counted by it at each Sampled Location with respect to the Closing or the applicable Subsequent Closing and applicable Inventory in the Distribution Center with respect to the Distribution Center Closing in accordance with the Inventory Procedures (such count with respect to each Sampled Location and the Distribution Center, the “Retail Inventory Value”). If the Book to Physical Adjustment Ratio with respect to the Sampled Locations with respect to the Closing or the applicable Subsequent Closing is greater than or equal to 5% (based on a physical inventory valuation report), the Inventory Service will conduct an Inventory Audit (an “Additional Inventory Audit”) of an additional number of Acquired Stores selected by Parent and confirmed by Buyer (each such additional Acquired Store thereafter deemed to be a Sampled Location for purposes of this Section 2.10). The Inventory Service shall conduct an Additional Inventory Audit of that number of Acquired Stores being transferred at the Closing and any applicable Subsequent Closing as may be mutually agreed by Buyer and Parent.

(b) At the conclusion of each Inventory Audit and Additional Inventory Audit, (i) the Inventory Service shall provide each of Parent, Buyer and Buyer’s financing sources with a physical inventory valuation report in the form attached hereto as Schedule 2.10(b) setting forth the Inventory Amount with respect to the Acquired Stores and Distribution Center to be transferred as of the Closing Date, applicable Subsequent Closing Date or Distribution Center Closing Date (each, an “Inventory Statement”), which such report shall be signed by each of Buyer and Parent and (ii) the Inventory Service shall provide each of Parent and Buyer prior to

each of the Closing, each Subsequent Closing and to the extent applicable to the Inventory to be transferred thereat, the Distribution Center Closing, a report as to the retail and cost value of the applicable Inventory to be transferred as of such date (including in each case shown by front end, pharmacy, cigarettes and liquor) and prescription volume, in each case as of the most recent month ended prior to such date in form and substance consistent with Seller's past practice.

Section 2.11. Prorations.

(a) As of the Closing Date, each Subsequent Closing Date and the Distribution Center Closing Date (as applicable) all items set forth on Section 2.11 of the Disclosure Schedules shall be prorated as of the Closing, such Subsequent Closing or Distribution Center Closing (collectively, the "Prorated Charges"). Whenever possible, such prorations shall be based on actual, current payments by Seller or its Affiliates and to the extent such actual amounts are not available, such prorations shall be estimated as of the Closing, such Subsequent Closing and Distribution Center Closing (as applicable) based on actual amounts for the most recent comparable billing period. When the actual amounts become known, such prorations shall be recalculated by Buyer and Parent, and Buyer or Parent, as the case may be, promptly (but not later than ten (10) Business Days after notice of payment due) shall make any additional payment or refund so that the correct prorated amount is paid by each of Buyer and Parent.

(b) Percentage rent payable under each Acquired Lease shall be prorated at the end of the current lease year for each Acquired Lease in accordance with the terms of the applicable Acquired Lease, and otherwise the percentage rent payable, if any, shall be paid by Buyer when due and Seller shall promptly reimburse Buyer a portion thereof determined by multiplying (A) a fraction, the numerator of which is the amount of Seller's or its Affiliates' gross annual sales at such Acquired Store from the first day of such lease year to (and excluding) the Closing Date or the applicable Subsequent Closing Date (as applicable), and the denominator of which is the sum of Buyer's and its Affiliates' and Seller's and its Affiliates' gross annual sales at such Acquired Store for the entire lease year, times (B) the amount of percentage rent actually due under the Acquired Lease for such Acquired Store. Seller, upon the request of Buyer, shall promptly provide Buyer with such information as Buyer shall be required to submit to landlords under the Acquired Leases in connection with the payment of percentage rent with respect to the Acquired Stores.

(c) Buyer and Parent shall cooperate in good faith to resolve any dispute with respect to prorations. In the event Buyer and Parent are unable to resolve such dispute within twenty (20) Business Days after the date such dispute arose, Buyer and Parent shall submit the items remaining for resolution in writing, together with such written evidence as Buyer or Parent may elect to include, to an Independent Accounting Firm. The Independent Accounting Firm shall, within twenty (20) Business Days of such submission, resolve any differences between Buyer and Parent and such resolution shall, in the absence of manifest error, be final, binding and conclusive upon each of the parties. The costs, fees and expenses of the Independent Accounting Firm shall be borne equally by Buyer and Parent.

Section 2.12. Purchased Cash; Aggregate Inventory Amount Adjustment.

(a) No later than three (3) Business Days following the Closing Date, Buyer shall deliver to Parent an amount of cash equal to the Purchased Cash with respect to the Acquired Stores transferred on the Closing Date, with a receipt related thereto. No later than three (3) Business Days following each such Subsequent Closing Date, Buyer shall deliver to Parent an amount of cash equal to the Purchased Cash with respect to the Acquired Stores transferred on such Subsequent Closing, together with a receipt related thereto.

(b) No later than three (3) Business Days following the final Subsequent Closing Date, either (i) Buyer shall deliver to Parent an amount of cash equal to amount, if any, by which the Aggregate Inventory Amount is greater than \$663,000,000 or (ii) Seller shall deliver to Buyer an amount, if any, by which the Aggregate Inventory Amount is less than \$637,000,000. Schedule A sets forth an illustrative example of the inventory valuation process, for reference purposes only.

(c) No later than three (3) Business Days following the Distribution Center Closing Date, either (i) Buyer shall deliver to Parent an amount of cash equal to amount, if any, by which the Distribution Center Inventory Amount is greater than \$25,000,000 or (ii) Seller shall deliver to Buyer an amount, if any, by which the Distribution Center Inventory Amount is less than \$20,000,000.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer that, except as set forth in the applicable subsection of the Disclosure Schedule (or deemed disclosed with respect to a particular subsection of this ARTICLE III pursuant to Section 10.10 hereof):

Section 3.01. Incorporation, Qualification and Authority of Seller. Seller is a corporation duly incorporated, validly existing and in good standing under the Laws of Delaware and has all necessary corporate power to enter into, consummate the transactions contemplated by and carry out its obligations under the Transaction Agreements to which it is a party. Seller has the corporate power and authority to operate its business with respect to the Purchased Assets as now conducted and is duly qualified as a foreign corporation to do business, and, to the extent legally applicable, is in good standing, in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification material to the Purchased Assets, except for jurisdictions where the failure to be so qualified or in good standing has not had and would not reasonably be expected to have a Material Adverse Effect. The execution and delivery by Seller of the Transaction Agreements to which it is a party and the consummation by Seller of the transactions contemplated by, and the performance by Seller of its obligations under, the Transaction Agreements have been duly authorized by all requisite corporate action on the part of Seller. This Agreement has been, and upon execution and delivery the other Ancillary Agreements to which it is a party will be, duly executed and

delivered by Seller, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes, and upon execution and delivery, the other Ancillary Agreements will constitute, legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their terms, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfer, or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 3.02. No Conflict. Provided that all consents, approvals, authorizations and other actions described in Section 3.03 have been obtained or taken or as otherwise provided in this ARTICLE III and except as may result from any facts or circumstances relating to Buyer or its Affiliates or except as set forth on Section 3.02 of the Disclosure Schedules, the execution, delivery and performance by Seller of the Transaction Agreements and the consummation by Seller of the transactions contemplated by the Transaction Agreements do not and will not (a) violate or conflict with the Certificate of Incorporation or Bylaws of Seller, (b) conflict with or violate any Law or Governmental Order applicable to Seller or the Purchased Assets or (c) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, amendment, acceleration or cancellation of any of the Purchased Assets, or result in the creation of any Lien (other than a Permitted Lien) on any of the Purchased Assets pursuant to any Contract or Material Permit to which Seller (with respect to the Purchased Assets) is a party or by which any Purchased Asset is bound or affected, except, in the case of clauses (b) and (c), for any such conflicts, violations, breaches, defaults, rights or Liens as have not had and would not reasonably be expected to have a Material Adverse Effect or would not materially impair or delay the ability of Seller to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

Section 3.03. Consents and Approvals. The execution and delivery by Seller of the Transaction Agreements do not, and the performance by Seller of, and the consummation by Seller of the transactions contemplated by, the Transaction Agreements will not, require any material consent, approval, authorization or other action by, or any material filing with or notification to, any Governmental Authority, except (a) where the failure to obtain such consent, approval, authorization or action or to make such filing or notification would not prevent or materially delay the consummation by Seller of the transactions contemplated by, or the performance by Seller of any of their material obligations under, the Transaction Agreements, (b) as may be necessary as a result of any facts or circumstances relating to Buyer or its Affiliates or (c) in connection, or in compliance, with the Proposed Consent Order, the Rite Aid Consent Order, or other requests or requirements of the FTC or FTC Staff.

Section 3.04. Financial Information. Section 3.04 of the Disclosure Schedules sets forth a statement of profits and losses with respect to each Acquired Store for the twelve-month period ended October 31, 2016 (collectively, the “Financial Statements”). The Financial Statements present fairly, in all material respects, the financial condition and results of operations of the applicable Acquired Store at their respective dates and for the periods covered

by such statements, which are in conformity with the Transaction Accounting Principles applied consistently and are consistent with the historical accounting principles, practices, methodologies and policies of Seller or the Seller's applicable Affiliates, subject to normal year-end adjustments. The Financial Statements have been derived from the financial books and records of Seller and the Seller's applicable Affiliates. Neither Seller nor any of Seller's Affiliate (with respect to the Acquired Stores) has received any written notification from its independent accountants that Seller or any of Seller's Affiliate (with respect to the Acquired Stores) has used any improper accounting practice that would have the effect of not reflecting or incorrectly reflecting in the books and records of Seller, any Affiliate of Seller (with respect to the Acquired Stores) or any of their subsidiaries any material properties, assets, liabilities, revenues, expenses, equity accounts or other accounts with respect to the Acquired Stores, except as has not had and would not reasonably be expected to have a Material Adverse Effect.

Section 3.05. Absence of Certain Changes or Events. Except as contemplated by this Agreement, since October 31, 2016 Seller has conducted business at the Acquired Stores and the Distribution Center in the ordinary course and there has not occurred any event that would materially impair or delay the ability of Seller to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements. Except as contemplated by this Agreement, since October 31, 2016, there has not occurred any event that has had or would reasonably be expected to have, a Material Adverse Effect.

Section 3.06. Absence of Litigation. Except for the FTC's review of the Rite Aid Acquisition and except as set forth on Section 3.06 of the Disclosure Schedule, as of the date of this Agreement there is no material Action pending or threatened in writing against Seller or any of its Affiliates (with respect to the Acquired Stores), at law or in equity or before any Governmental Authority, nor is there any material Action pending in which Seller or any of its Affiliates (with respect to the Acquired Stores) is the plaintiff or claimant, in each case, in respect of the Purchased Assets or the Assumed Liabilities. Except as set forth on Section 3.06 of the Disclosure Schedule, neither Seller nor any of Seller's Affiliates (with respect to the Acquired Stores) is a party or subject to or in default under any material unsatisfied judgment, penalty, settlement or award applicable to the Acquired Stores or the Distribution Center.

Section 3.07. Compliance with Laws. Except as set forth on Section 3.07 of the Disclosure Schedules, Seller and its Subsidiaries have not been since March 3, 2012, and are not in violation of, any Laws (other than any Environmental Laws, which are the subject of Section 3.14) or Governmental Orders applicable to the conduct of business at the Acquired Stores by it or by which any material Purchased Asset is bound or affected, except for violations the existence of which has not had and would not reasonably be expected to have, a Material Adverse Effect, and the Seller and its Subsidiaries have not received any written notice or, to the Knowledge of Seller, any other communication of any non-compliance with any such Laws, except for any such non-compliance that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 3.08. Governmental Licenses and Permits.

(a) Seller holds all governmental qualifications, registrations, filings, privileges, franchises, licenses, permits, approvals or authorizations, including Pharmacy Approvals that are necessary for the operation of business at the Acquired Stores and the Distribution Center as conducted on the date of this Agreement (“Permits”), except for those the absence of which has not had and would not reasonably be expected to have, a Material Adverse Effect (collectively, “Material Permits”).

(b) During the 24 months immediately preceding the date of this Agreement, neither Seller nor any of Seller’s Affiliates (with respect to the Acquired Stores) has received written notice of any Action relating to the revocation or modification of any of the Material Permits. As of the date of this Agreement, no outstanding material violations are or have been recorded in respect of any of the Material Permits.

Section 3.09. Title to the Purchased Assets. Except for Liens created by or through Buyer or any of its Affiliates, the Purchased Assets are owned by or otherwise will be made available as of the Closing (or the applicable Subsequent Closing or Distribution Center Closing) to Seller free and clear of all Liens (other than Permitted Liens) and Seller and its Affiliates will have good, valid and marketable title to all Purchased Assets.

Section 3.10. Taxes. Seller has, in respect of the business conducted at the Acquired Stores and the Purchased Assets, timely filed all material Tax Returns required to be filed with the appropriate Tax authorities in all jurisdictions in which such Tax Returns are required to be filed (taking into account any extension of time to file granted or to be obtained on behalf of Seller), and all Taxes shown to be payable on such Tax Returns have been paid. All monies required to be withheld by Seller from employees of the Acquired Stores and the Distribution Center for income Taxes and social security and other payroll Taxes have been collected or withheld, and either paid to the respective Tax authorities, set aside in accounts for such purpose, or accrued, reserved against and entered upon the books of the Acquired Stores and the Distribution Center.

Nothing in this Section 3.10 shall cause Seller to be liable for any Taxes for which Seller is not expressly liable pursuant to Section 5.07 (relating to liability for Taxes). This Section 3.10 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to Taxes.

Section 3.11. Employment and Employee Benefits Matters.

(a) Section 3.11(a) of the Disclosure Schedules sets forth a list of all material employee benefit plans (within the meaning of Section 3(3) of ERISA) and all material retirement, welfare benefit, bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree health or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, that are maintained, contributed to or sponsored by Seller or its respective Affiliates for the benefit of any employee of the Acquired Stores and the Distribution Center, other than governmental plans and Multiemployer Plans (the

“Employee Plans”). No Employee Plans are sponsored or maintained by the Acquired Stores. Seller has provided Buyer with true and correct copies of all Employee Plans set forth on Section 3.11(a) of the Disclosure Schedules.

(b) No circumstance exists which would reasonably be expected to result in a material Liability to the Acquired Stores under ERISA other than Liabilities related to or arising out of any multiemployer plan (within the meaning of Section 3(37) of ERISA) subject to a CBA applicable to employees of the Acquired Stores (a “Multiemployer Plan”). Section 3.11(b) of the Disclosure Schedules sets forth a list of all Multiemployer Plans.

(c) Each Employee Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS that it is so qualified (or an application for such a determination letter has been filed and is pending), and, to the Knowledge of Seller, no fact or event has occurred since the date of such determination letter that would reasonably be expected to adversely affect such qualification.

(d) Each Employee Plan has been operated in all material respects in accordance with its terms and the requirements of all applicable Laws, other than noncompliance which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(e) There are no material controversies pending or, to the Knowledge of Seller, threatened in connection with any Employee Plan that could reasonably be expected to have a Material Adverse Effect.

(f) Except as set forth on Section 3.11(f) of the Disclosure Schedules, Seller is not a party to any CBAs applicable to employees of the Acquired Stores or the Distribution Center. Seller has provided Buyer true and correct copies of all CBAs set forth on Section 3.11(f) of the Disclosure Schedules.

(g) Seller and its Affiliates are and have been in compliance, in all material respects, with all applicable Laws regarding employment, labor and wage and hour matters, including discrimination, sexual harassment, civil rights, immigration, safety and health, workers’ compensation, classification of employees and independent contractors, classification of exempt and non-exempt status for overtime eligibility purposes, plant closing and layoff or other notices, including under the WARN Act, and the collection and payment of withholding taxes, Social Security taxes and similar Taxes, in each case other than noncompliance which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(h) This Section 3.11 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to employment and employee benefits matters.

Section 3.12. Real Property.

(a) Section 3.12(a) of the Disclosure Schedules sets forth a list of each parcel of real property owned by Seller or its Affiliates with respect to an Acquired Store and the Distribution Center (collectively, the “Owned Real Property”) and the record owner thereof. Seller and its Affiliates have good, marketable and valid fee simple title to all of the Owned Real Property, free and clear of all Liens except for Permitted Liens.

(b) Section 3.12(b) of the Disclosure Schedules sets forth (i) a list of all leasehold interests with respect to the Acquired Stores and the Distribution Center in all real property (including with respect to any relocation site set forth on Section 3.12(b) of the Disclosure Schedules, the “Leased Real Property”) and (ii) a list of all leases, subleases, licenses and other agreements for the use and occupancy by the Acquired Stores and the Distribution Center of the Leased Real Property (together with all modifications, amendments and supplements thereto, collectively, the “Acquired Leases”). Each Acquired Lease is a valid and binding obligation of Seller or one of its Affiliates, as applicable, is in full force and effect and is enforceable against such Person, as applicable, and, to the Knowledge of Seller, against the other parties thereto, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfers, or other similar Laws relating to or affecting creditors’ rights generally now or hereafter in effect and subject, as to enforceability, to any effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (i) as of the date hereof, neither the Seller nor any of Seller’s Affiliates (with respect to the Acquired Stores) has received any written notice of any condemnation, requisition or taking by a Governmental Authority with respect to any Owned Real Property or Leased Real Property nor, to the Knowledge of Seller, has any such condemnation been threatened in writing, (ii) there are no unexpired option agreements, rights of first refusal or similar rights with respect to the Owned Real Property and (iii) none of Seller nor any of Seller’s Affiliate (with respect to the Acquired Stores) is in default or breach of any Acquired Lease, and, to the Knowledge of Seller, no event has occurred which, with notice, lapse of time or both, would constitute a default or breach of any Acquired Lease by any of Seller nor any of Seller’s Affiliates (with respect to the Acquired Stores).

Section 3.13. Inventory. The Inventory is of a quantity (including seasonal variations), quality and mix consistent with past practices and at levels historically maintained by Seller and necessary for the continued operation of the Acquired Stores as conducted on the date hereof and as of the Closing (or the applicable Subsequent Closing or Distribution Center Closing). Since December 31, 2015, the Inventory has been maintained in the ordinary course of business consistent with past practice. All such Inventory is owned free and clear of all Liens other than Permitted Liens and Liens described on Section 3.13 of the Disclosure Schedules. Substantially all of the Inventory to be transferred at Closing, each Subsequent Closing and the Distribution Center Closing will consist of, items of a quality usable or saleable in the ordinary course of business consistent with past practice and are and will be in

quantities substantially sufficient for the normal operation of the Acquired Stores in accordance with past practice. The aggregate Inventory levels and prescription volumes in the Acquired Stores are not materially less than such levels and volumes, as applicable, at other retail and pharmacy stores of Seller and its Subsidiaries, taken together in the aggregate.

Section 3.14. Environmental Matters. Except as set forth on Section 3.14 of the Disclosure Schedules, each of Seller and Seller's applicable Affiliates, in each case with respect to the Purchased Assets or the Acquired Stores, (a) is in compliance in all respects with all applicable Environmental Laws and is not subject to any material liability under any Environmental Law; (b) has obtained, and is in compliance in all respects with, all Environmental Permits; (c) has not received written notice of, nor is a party to, any claim, demand or right relating to any Environmental Law or Remedial Action, in each case except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and (d) there are no events or circumstances, including contamination, at any of the Owned Real Property or the real property subject to the Acquired Leases that would reasonably be expected to result in liability of Seller or any of its Affiliates (with respect to the Acquired Stores) relating to Hazardous Materials or any Environmental Laws, in each case except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as set forth on Section 3.14 of the Disclosure Schedules, there has been no environmental investigation, study, audit, test, review or other analysis conducted within the past three (3) years that documents conditions giving rise to any material Environmental Liability in connection with any property or facility leased by Seller in connection with the Acquired Stores or the Distribution Center. The representations and warranties contained in this Section 3.14 are the only representations and warranties being made with respect to compliance with or liability under Environmental Laws, including natural resources, related to the Acquired Stores, the Purchased Assets or Seller's ownership or operation thereof.

Section 3.15. Privacy and Data Security; Seller Rx Data. As of the date of this Agreement, the collection, use, transfer, import, export, storage, disposal, and disclosure by Seller of personally identifiable customer information, or other information relating to Persons protected by Law, has not violated in any material respect any applicable Law or any contractual obligation of Seller or Seller's Affiliates (with respect to the Purchased Assets) relating to the collection, use, privacy, security, or protection of such information (collectively, "Privacy and Security Laws"). Without limiting the generality of the foregoing, Seller is in compliance in all material respects with the privacy and security provisions of the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009. Seller has created and maintained written policies and procedures reasonably designed to protect the privacy and security of all customer information and to comply with all Privacy and Security Laws, and has implemented an information security program that includes commercially reasonable security procedures, including physical and electronic safeguards, to protect all customer information stored or transmitted by Seller in electronic form. Since January 1, 2013, there have been no material security breaches relating to, or violations of any privacy policy or security policy of Seller or Seller's Affiliates regarding, or any unauthorized access to or disclosure of, any data or

information stored, transmitted or otherwise used by Seller (with respect to the Acquired Stores or the Distribution Center). Since October 31, 2016, Seller and its Subsidiaries have maintained the Seller Rx Data in all material respect in the ordinary course of business consistent with past practice.

Section 3.16. Compliance with Health Care Legal Requirements.

(a) Each Acquired Store is in compliance in all material respects with all the requirements for participation in and payment under the Medicare, Medicaid and other state or federal health care programs in which that Acquired Store participates (collectively “Programs”) and is a party to valid participation agreements for payment by such Programs if that Acquired Store bills a particular Program for payment or is otherwise required to meet such requirements. Seller has not received any written notice indicating that the enrollment or participation of any such Acquired Store in a Program may be terminated or withdrawn.

(b) To the Knowledge of Seller, no Business Employee has been convicted of or charged with a Medicare, Medicaid or other Federal Health Care Program (as defined in 42 U.S.C. § 1320a-7b(f)) related offense, or convicted of or charged with or investigated for a violation of federal or state law relating to fraud, theft, embezzlement, breach of fiduciary responsibility, financial misconduct, obstruction of an investigation or controlled substances. To the Knowledge of Seller, no Business Employee has been excluded or suspended from participation in Medicare, Medicaid or any other Federal Health Care Program, or has been debarred, suspended or are otherwise ineligible to participate in federal programs. To the Knowledge of Seller, neither Seller nor any of Seller’s Affiliates has contracted on behalf of the Acquired Stores with any individual or entity that is suspended, excluded or debarred from participation in, or otherwise ineligible to participate in, a Federal Health Care Program.

(c) Except as set forth on Section 3.16(c) of the Disclosure Schedules, Seller is not a party to any corporate integrity agreements, monitoring agreements, consent decrees, settlement orders or similar agreements with or imposed by any Governmental Authority with regard to the operation of the Acquired Stores.

Section 3.17. Brokers. Except for Bank of America Merrill Lynch, Inc. (who has been engaged by Parent), no broker, finder or investment banker is entitled to any brokerage, finder’s or other fee or commission from Seller or any of its Affiliates in connection with the sale of the Acquired Stores based upon arrangements made by or on behalf of Seller or any of its Affiliates.

Section 3.18. Condition and Sufficiency of Purchased Assets. The buildings, structures, furniture, fixtures, machinery, equipment, and other items of tangible personal property included in the Purchased Assets are, in all material respects, structurally sound, are in good operating condition and repair except for ordinary wear and tear, and are adequate for the uses to which they are presently used, and none of such buildings, structures, furniture, fixtures, machinery, equipment, and other items of tangible personal property is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. Except as set forth on Section 3.18 of the Disclosure Schedules,

except for the Excluded Assets and except as is not material and adverse to the Purchased Assets, the Assumed Liabilities and to the business and operations at the Acquired Stores (taken as a whole), the Purchased Assets, when taken together with the rights of Buyer under the Transition Services Agreement constitute all of the rights, property and assets necessary to conduct such business in substantially the same manner as currently conducted.

Section 3.19. No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT (AS MODIFIED BY THE DISCLOSURE SCHEDULES), IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO AND IN THE ANCILLARY AGREEMENTS, NEITHER SELLER NOR ANY OTHER PERSON MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WITH RESPECT TO SELLER, THE PROBABLE SUCCESS OR PROFITABILITY OF THE ACQUIRED STORES, THE PURCHASED ASSETS, THE ACQUIRED STORES OR THE TRANSACTIONS CONTEMPLATED BY THE TRANSACTION AGREEMENTS, THE ASSUMED LIABILITIES OR ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AND SELLER DISCLAIMS ANY OTHER REPRESENTATIONS, WARRANTIES, FORECASTS, PROJECTIONS, STATEMENTS OR INFORMATION, WHETHER MADE BY SELLER OR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES. SELLER MAKES NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE BUYER'S BUSINESS OR ANY AGREEMENTS OR OTHER RELATIONSHIPS BETWEEN SELLER AND ITS AFFILIATES AND THE BUYER AND ITS AFFILIATES, OTHER THAN WITH RESPECT TO THE ANCILLARY AGREEMENTS. NEITHER SELLER NOR ANY OF ITS AFFILIATES WILL HAVE LIABILITY TO BUYER OR ANY OTHER PERSON RESULTING FROM THE DISTRIBUTION TO BUYER, OR BUYER'S USE OF ANY INFORMATION PROVIDED TO BUYER OR ANY OF ITS REPRESENTATIVES BY SELLER OR ANY OF ITS AFFILIATES OR REPRESENTATIVES, INCLUDING ANY INFORMATION, DOCUMENTS, PROJECTIONS, FORECASTS OR OTHER MATERIAL MADE AVAILABLE TO BUYER OR ITS REPRESENTATIVES IN ANY "DATA ROOMS" (VIRTUAL OR OTHERWISE), MANAGEMENT PRESENTATIONS OR IN ANY OTHER FORM IN EXPECTATION OF, OR IN CONNECTION WITH, THE TRANSACTIONS CONTEMPLATED HEREBY, OR IN RESPECT OF ANY OTHER MATTER OR THING WHATSOEVER (ELECTRONIC OR OTHERWISE) OR OTHERWISE IN EXPECTATION OF THE TRANSACTIONS CONTEMPLATED HEREBY. BUYER ACKNOWLEDGES AND AGREES THAT NO REPRESENTATIVE OR AFFILIATE OF SELLER HAS ANY AUTHORITY, EXPRESS OR IMPLIED, TO MAKE ANY REPRESENTATIONS, WARRANTIES OR AGREEMENTS NOT SPECIFICALLY SET FORTH IN THIS AGREEMENT OR IN ANY OTHER TRANSACTION AGREEMENT AND SUBJECT TO THE LIMITED REMEDIES HEREIN PROVIDED. OTHER THAN THE SPECIFIC REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO OR IN THE ANCILLARY AGREEMENTS, BUYER SPECIFICALLY DISCLAIMS THAT IT IS RELYING UPON OR HAS RELIED UPON ANY OTHER REPRESENTATIONS OR WARRANTIES THAT MAY HAVE BEEN MADE BY ANY PERSON, AND

ACKNOWLEDGES AND AGREES THAT SELLER AND ITS AFFILIATES HAVE SPECIFICALLY DISCLAIMED AND DO HEREBY SPECIFICALLY DISCLAIM ANY SUCH OTHER REPRESENTATION OR WARRANTY MADE BY ANY PERSON. BUYER SPECIFICALLY DISCLAIMS ANY OBLIGATION OR DUTY BY SELLER OR ANY OF ITS AFFILIATES TO MAKE ANY DISCLOSURES OF FACT NOT REQUIRED TO BE DISCLOSED PURSUANT TO THE SPECIFIC REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN ARTICLE III, IN ANY CERTIFICATE DELIVERED BY OR ON BEHALF OF SELLER PURSUANT HERETO OR IN THE ANCILLARY AGREEMENTS.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as follows:

Section 4.01. Organization and Authority of Buyer. Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation and has all necessary limited liability company power to enter into the Transaction Agreements and to consummate the transactions contemplated by, and to carry out its obligations under, the Transaction Agreements. The execution and delivery of the Transaction Agreements by Buyer, the consummation by Buyer of the transactions contemplated by, and the performance by Buyer of its obligations under, the Transaction Agreements have been duly authorized by all requisite limited liability company action on the part of Buyer. This Agreement has been, and upon execution and delivery the other Ancillary Agreements to which Buyer is a party will be, duly executed and delivered by Buyer, and (assuming due authorization, execution and delivery by Seller) this Agreement constitutes, and upon execution and delivery the other Ancillary Agreements will constitute, legal, valid and binding obligations of Buyer enforceable against Buyer in accordance with their terms, subject to the effect of any applicable Laws relating to bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or preferential transfers, or similar Laws relating to or affecting creditors' rights generally and subject, as to enforceability, to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.02. Qualification of Buyer. Buyer has all necessary limited liability company power and authority to operate its business as now conducted. Buyer is duly qualified as a foreign limited liability company to do business and, to the extent legally applicable, is in good standing in each jurisdiction where the character of its owned, operated or leased properties or the nature of its activities makes such qualification necessary, except for jurisdictions where the failure to be so qualified or in good standing would not impair or delay the ability of Buyer to consummate the transactions contemplated by, or perform its obligations under, the Transaction Agreements.

Section 4.03. No Conflict. Provided that all consents, approvals, authorizations and other actions described in Section 4.04 have been obtained or taken, except as

may result from any facts or circumstances relating to Seller, the execution, delivery and performance by Buyer of, and the consummation by Buyer of the transactions contemplated by, the Transaction Agreements do not and will not (a) violate or conflict with the Articles of Organization, Operating Agreement or similar organizational documents of Buyer, (b) conflict with or violate any Law or Governmental Order applicable to Buyer or (c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Lien (other than a Permitted Lien) on any of the assets or properties of Buyer pursuant to, any note, bond, mortgage, indenture, Contract, Permit or other material instrument to which Buyer is a party or by which any of such assets or properties is bound or affected, except, in the case of clauses (b) and (c), any such conflicts, violations, breaches, defaults, rights or Liens as would not impair or delay the ability of Buyer to consummate the transactions contemplated by, or perform its obligations under, the Transaction Agreements.

Section 4.04. Consents and Approvals. The execution and delivery by Buyer of the Transaction Agreements do not, and the performance by Buyer of, and the consummation by Buyer of the transactions contemplated by, the Transaction Agreements will not, require any material consent, approval, authorization or other action by, or any material filing with or notification to, any Governmental Authority, except (a) where the failure to obtain such consent, approval, authorization or action, or to make such filing or notification, would not prevent or materially delay Buyer from consummating the transactions contemplated by or performing any of its material obligations under the Transaction Agreements, (b) as may be necessary as a result of any facts or circumstances relating to Seller or its Affiliates or (c) in connection, or in compliance, with the Proposed Consent Order, the Rite Aid Consent Order, or other requests or requirements of the FTC or FTC Staff.

Section 4.05. Absence of Litigation; Compliance with Laws. As of the date of this Agreement, there is no Action pending or, to the best knowledge of Buyer, threatened in writing against Buyer, nor is there any Action pending in which Buyer is the plaintiff or claimant, that would reasonably be expected to impair or materially delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

Section 4.06. Absence of Restraints; Compliance With Laws.

(a) To the best knowledge of Buyer, there exist no facts or circumstances that would reasonably be expected to impair or delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements.

(b) Buyer is not in violation of any Laws or Governmental Orders applicable to it or by which any of its material assets is bound or affected, except for violations the existence of which would not reasonably be expected to impair or delay the ability of Buyer to consummate the transactions contemplated by, or to perform its obligations under, the Transaction Agreements on a timely basis.

Section 4.07. Financial Ability.

(a) Fred's has received and accepted an executed revolver loan commitment letter (the "Revolver Loan Debt Commitment Letter") and a term loan commitment letter (the "Term Loan Debt Commitment Letter", and together with the Revolver Loan Debt Commitment Letter, the "Debt Commitment Letters"), each dated as of the date hereof from the lenders party thereto (collectively, with their respective successors or assigns, the "Lenders") relating to the commitment of the Lenders to provide the full amount of the debt financing required to consummate the transactions contemplated by the Transaction Agreements on the terms contemplated thereby, and in each case to pay related fees and expenses. The debt financing required to consummate the transactions contemplated by the Transaction Agreements and to pay related fees and expenses is collectively referred to in this Agreement as the "Debt Financing." Fred's has delivered to Parent true and complete copies of each Debt Commitment Letter and true and complete copies of any fee letter (collectively, the "Fee Letter") (with only the fee amounts, the "flex" provisions and pricing caps (none of which individually or in the aggregate would reduce the amount of the Debt Financing or adversely affect the availability of the Debt Financing or delay or prevent the Closing or make the funding of the Debt Financing less likely to occur) redacted) relating to the Debt Commitment Letters and any engagement letters or other agreements relating to the Debt Financing.

(b) Except as set forth in the Debt Commitment Letters, there are no conditions precedent to the obligations of the Lenders and the Debt Financing to provide the Debt Financing or any contingencies that would permit the Lenders or the Debt Financing to reduce the total amount of the Debt Financing.

(c) Subject to its terms and conditions, the Debt Financing, when funded in accordance with the Debt Commitment Letters, will provide Fred's with acquisition financing on each of the Closing Date, each Subsequent Closing Date and the Distribution Center Closing Date, in each case sufficient to consummate the transactions contemplated by the Transaction Agreements on the terms contemplated thereby and to pay all related fees and expenses.

(d) As of the date of this Agreement, each of the Debt Commitment Letters is valid, binding and in full force and effect and no event has occurred that, with or without notice, lapse of time, or both, would reasonably be expected to constitute a default or breach or an incurable failure to satisfy a condition precedent on the part of Buyer under the terms and conditions of such Debt Commitment Letter, other than any such default, breach or failure that has been waived by the Lenders or otherwise cured in a timely manner by Buyer to the satisfaction of the Lenders. As of the date of this Agreement, Buyer has paid in full any and all commitment fees or other fees required to be paid pursuant to the terms of each Debt Commitment Letter on or before the date of this Agreement. There are no side letters or other Contracts or arrangements (except for any fee letters, engagement letters with respect to the Debt Financing and any other agreements, each of which has been delivered to Parent) relating to the Debt Financing. Assuming the performance in all material respects by Seller and Parent of its obligations under this Agreement, Buyer has no reason to believe that it or any Lender would be unable to satisfy on a timely basis any term or condition of the Debt Financing

required to be satisfied by it. Buyer has fully paid any and all commitment fees or other fees required by the Debt Financing to be paid on or before the date of this Agreement.

Section 4.08. Solvency. Immediately after giving effect to the consummation of the transactions contemplated by the Transaction Agreements (including any financings being entered into in connection therewith):

- (a) the fair saleable value (determined on a going concern basis) of the assets of Buyer will be greater than the total amount of its Liabilities;
- (b) Buyer will be able to pay its respective debts and obligations in the ordinary course of business as they become due; and
- (c) Buyer will have adequate capital to carry on its respective businesses and all businesses in which it is about to engage.

Section 4.09. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer.

Section 4.10. Investigation. BUYER ACKNOWLEDGES AND AGREES THAT IT (I) HAS MADE ITS OWN INQUIRY AND INVESTIGATION INTO, AND, BASED THEREON, HAS FORMED AN INDEPENDENT JUDGMENT CONCERNING SELLER, THE PURCHASED ASSETS, THE BUSINESS AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, THE ASSUMED LIABILITIES AND ANY OTHER ASSETS, RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AND (II) HAS BEEN FURNISHED WITH, OR GIVEN ADEQUATE ACCESS TO, SUCH INFORMATION ABOUT THE PURCHASED ASSETS, THE BUSINESS, THE ASSUMED LIABILITIES AND ANY OTHER RIGHTS OR OBLIGATIONS TO BE TRANSFERRED HEREUNDER OR PURSUANT HERETO, AS IT HAS REQUESTED. BUYER FURTHER ACKNOWLEDGES AND AGREES THAT (I) THE ONLY REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS MADE BY SELLER ARE THE REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS MADE IN THIS AGREEMENT AND THE ANCILLARY AGREEMENTS AND BUYER HAS NOT RELIED UPON ANY OTHER REPRESENTATIONS OR OTHER INFORMATION MADE OR SUPPLIED BY OR ON BEHALF OF SELLER OR BY ANY AFFILIATE OR REPRESENTATIVE OF SELLER, INCLUDING ANY INFORMATION PROVIDED BY OR THROUGH MANAGEMENT PRESENTATIONS, DATA ROOMS (VIRTUAL OR OTHERWISE) OR OTHER DUE DILIGENCE INFORMATION AND THAT BUYER WILL NOT HAVE ANY RIGHT OR REMEDY ARISING OUT OF ANY SUCH REPRESENTATION OR OTHER INFORMATION, (II) ANY CLAIMS BUYER MAY HAVE FOR BREACH OF A REPRESENTATION OR WARRANTY SHALL BE BASED SOLELY ON THE REPRESENTATIONS AND WARRANTIES OF SELLER SET FORTH IN ARTICLE III HEREOF (AS MODIFIED BY THE DISCLOSURE SCHEDULES) AND (III) EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, BUYER SHALL ACQUIRE THE PURCHASED ASSETS, THE BUSINESS AND THE ASSUMED LIABILITIES WITHOUT

ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO MERCHANTABILITY, SATISFACTORY QUALITY OR FITNESS FOR ANY PARTICULAR PURPOSE, IN “AS-IS” CONDITION AND ON A “WHERE-IS” BASIS.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.01. Conduct of Business Prior to the Applicable Closing. Except as otherwise required by applicable Law or as contemplated by or necessary to effectuate the Transaction Agreements and except for matters identified in Section 5.01 of the Disclosure Schedules, from the date of this Agreement through the Closing (and, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing), unless Buyer otherwise consents in advance (which consent shall not be unreasonably withheld, conditioned or delayed), Seller shall, and shall cause its Affiliates to, conduct its business at the Acquired Stores and the Distribution Center in the ordinary course of business (including regular repair and maintenance efforts) and use its commercially reasonable efforts to preserve intact its business organization, maintain the viability, marketability and competitiveness of the Purchased Assets and to preserve the current significant business relationships with Business Employees, suppliers and customers of the Acquired Stores. Nothing in this Section 5.01 shall be deemed to limit the transfer of Excluded Assets prior to the Closing (or, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing) or the conduct by Seller of its other businesses to the extent unrelated to the Acquired Stores or the Distribution Center. Without limiting the generality of the foregoing, except as required by applicable Law or as otherwise contemplated by or necessary to effectuate the Transaction Agreements and except for matters identified in Section 5.01 of the Disclosure Schedules, unless Buyer otherwise consents in advance (which consent shall not be unreasonably withheld, conditioned or delayed) Seller shall not and Seller shall cause its Affiliates (with respect to the Acquired Stores) to not from the date hereof until the Closing (and, with respect to the Acquired Stores to be transferred at a Subsequent Closing, such Subsequent Closing and to the extent related to the portion of the Distribution Center related to the Acquired Stores, the Distribution Center Closing):

- (a) except in the ordinary course of business, grant any Lien (other than a Permitted Lien) on any Purchased Asset (whether tangible or intangible);
- (b) with respect to the Acquired Stores or the Distribution Center, incur any debt, issue any debt securities or assume, grant, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans or advances (other than in the ordinary course of business);
- (c) close any Acquired Store or sell, transfer, lease, sublease or otherwise dispose of any of the Purchased Assets other than sales of Inventory and obsolete or excess equipment sold or disposed of in the ordinary course of business;
- (d) enter into any Contract for the purchase of real property;

(e) (i) enter into, amend, renew or modify any Acquired Lease or Contract that would be an Acquired Lease if in effect on the date of this Agreement (other than any amendment, renewal or modification that does not change the economic terms of such Acquired Lease or such Contract in a way detrimental to Seller or Buyer) or (ii) consent to the termination of (other than a termination in accordance with its terms) any Acquired Lease or Contract permitted under this Section 5.01 to be entered into on or following the date hereof that would be an Acquired Lease if in effect on the date of this Agreement; provided, however that Seller shall notify Buyer in writing in advance of the occurrence of any of the foregoing;

(f) manage the levels and selections of Inventory with respect to the Acquired Stores in a manner other than in the ordinary course of business consistent with past practice;

(g) (A) grant any material increase, or announce any material increase, in the wages, salaries, compensation, bonuses, incentives, pension or other benefits payable to any Transferred Employee, including any material increase or material change pursuant to any Employee Plan; (B) establish or increase or promise to increase in any material respect any benefits under any Employee Plan, in either case except in the ordinary course of business, consistent with past practice or as required by Law, the terms of any Employee Plan as in effect on the date hereof or any Contract (including any CBAs) or involving increases in the ordinary course of business, including any changes to pension or other benefits that are applicable to the employees of the Acquired Stores and Seller generally; (C) intentionally materially and adversely alter the working conditions, staffing levels and training of employees at the Acquired Stores or the Distribution Center; or (D) with respect to the Acquired Stores and the Distribution Center, fail to use commercially reasonable efforts to retain employees and replace employees when vacancies occur in the ordinary course of business, consistent with past practice;

(h) make any change in any method of accounting or accounting practice or policy used by the Acquired Stores in the preparation of its financial statements, other than such changes as are consistent with the Transaction Accounting Principles or changes required by U.S. GAAP or otherwise applying generally to Seller;

(i) terminate, waive, modify or fail to renew any existing Pharmacy Approval or other Material Permit, except in the ordinary course of the business;

(j) acquire, by merger or consolidation with, or by purchase of all or a substantial portion of the assets or equity of, or by any other manner, any business or entity which would constitute a Purchased Asset or Assumed Liability;

(k) waive any claim or compromise, settle or agree to settle any Action related to the Acquired Stores or the Distribution Center, unless such settlement only involves payment of money or remediation actions that do not create a material limitation, restriction, or obligation on the Material Permits;

(l) display any signs or conduct any advertising (e.g., direct mailing, point-of-purchase coupons) that indicates that Seller or any of Seller's Affiliates is moving its operations

at any of the Acquired Stores to another location or indicating that such Acquired Store will close;

(m) conduct any “going out of business,” “close-out,” “liquidation,” or similar sales or promotions at or relating to any Acquired Store; or

(n) enter into any legally binding commitment with respect to any of the foregoing.

Section 5.02. Access to Information.

(a) From the date of this Agreement until the Closing Date (and, with respect to the Acquired Stores to be transferred at each Subsequent Closing, each Subsequent Closing Date and the Distribution Center to be transferred at the Distribution Center Closing Date, the Distribution Center Closing), upon reasonable prior notice, and except as determined in good faith to be appropriate to ensure compliance with any applicable Laws and subject to any applicable privileges (including the attorney-client privilege) and contractual confidentiality obligations, Seller shall, and shall cause its Affiliates and Representatives to (i) afford the Representatives of Buyer reasonable access, during normal business hours, to the offices, properties, books and records of the Acquired Stores; (ii) furnish to the Representatives of Buyer such additional financial and operating data and other information regarding the Acquired Stores as Buyer may from time to time reasonably request; and (iii) make available to the Representatives of Buyer and its Affiliates those employees of Seller and its Affiliates whose assistance, expertise, testimony, notes and recollections or presence may be necessary to assist Buyer, its Affiliates or its or their respective Representatives in connection with its inquiries, including the presence of such persons as witnesses in hearings or trials for such purposes provided, however, that such investigation shall not unreasonably interfere with any of the businesses or operations of Seller or any of its Affiliates; and provided, further, that the auditors and accountants of Seller or any of its Affiliates shall not be obliged to make any work papers available to any Person unless and until such Person has signed a customary agreement relating to such access to work papers in form and substance reasonably acceptable to such auditors or accountants. If so requested by Seller, Buyer shall enter into a customary joint defense agreement with Seller with respect to any information to be provided to Buyer pursuant to this Section 5.02(a).

(b) In addition to the provisions of Section 5.03, from and after the Closing Date, in connection with any reasonable business purpose, including the preparation of Tax Returns, claims relating to Excluded Liabilities, financial statements, or the determination of any matter relating to the rights or obligations of Seller or any of its Affiliates under any of the Transaction Agreements, upon reasonable prior notice, and except as determined in good faith to be necessary to (i) ensure compliance with any applicable Law, (ii) preserve any applicable privilege (including the attorney-client privilege), or (iii) comply with any contractual confidentiality obligations, Buyer shall, and shall cause its Affiliates and its Representatives to, (A) afford the Representatives of Seller and its Affiliates reasonable access, during normal business hours, to the offices, properties, books and records of Buyer and its Affiliates in respect of the Acquired Stores and the Purchased Assets (and related Liabilities), (B) furnish to the

Representatives of Seller and its Affiliates such additional financial and other information regarding the Acquired Stores and the Purchased Assets (and related Liabilities) as Seller or its Representatives may from time to time reasonably request and (C) make available to the Representatives of Seller and its Affiliates those employees of Buyer and its Affiliates whose assistance, expertise, testimony, notes and recollections or presence may be necessary to assist Seller, its Affiliates or its or their respective Representatives in connection with its inquiries for any of the purposes referred to above, including the presence of such persons as witnesses in hearings or trials for such purposes; provided, however, that such investigation shall not unreasonably interfere with the business or operations of Buyer or any of its Affiliates; provided, further, that the auditors and accountants of Buyer or its Affiliates shall not be obligated to make any work papers available to any Person except in accordance with such auditors' and accountants' normal disclosure procedures and then only after such Person has signed a customary agreement relating to such access to work papers in form and substance reasonably acceptable to such auditors or accountants. If so requested by Buyer, Seller or one of its Affiliates shall enter into a customary joint defense agreement with Buyer and its Affiliates with respect to any information to be provided to Seller pursuant to this Section 5.02(b).

(c) Notwithstanding anything in this Agreement to the contrary, no Party hereto shall be required, prior to the Closing, to disclose, or cause the disclosure of, to any other Party or its Affiliates or its or their Representatives (or provide access to any offices, properties, books or records of such Party or any of their Affiliates that could result in the disclosure to such persons or others of) any confidential information relating to trade secrets, proprietary know-how, processes or patent, trademark, trade name, service mark or copyright applications or product development, or pricing and marketing plans, nor shall any Party be required to permit or cause others to permit any other Party or its Affiliates or Representatives to have access to or to copy or remove from the offices or properties of such Party or any of its Affiliates any documents, drawings or other materials that might reveal any such confidential information.

Section 5.03. Preservation of Books and Records. Parent and its Affiliates shall have the right to retain copies of all books and records of the Acquired Stores relating to periods ending on or prior to the Closing Date. Buyer agrees that it shall preserve and keep, or cause to be preserved and kept, all original books and records in respect of the Acquired Stores in the possession of Buyer or its Affiliates for the longer of (a) any applicable statute of limitations and (b) a period of seven (7) years from the final Subsequent Closing Date. During such period, (x) Representatives of Seller and its Affiliates shall, upon reasonable notice and for any reasonable business purpose, have access during normal business hours to examine, inspect and copy such books and records and (y) Buyer shall provide, or cause to be provided to, Seller or its Affiliates, access to such original books and records of the Acquired Stores as Seller or its Affiliates shall reasonably request in connection with any Action to which Seller or any of its Affiliates are parties or in connection with the requirements of any Law applicable to Seller or any of its Affiliates. Seller or its Affiliates, as applicable, shall return such original books and records to Buyer as soon as such books and records are no longer needed in connection with the circumstances described in the immediately preceding sentence. After such seven-year or longer

period, before Buyer or any of its Affiliates shall dispose of any of such books and records, Buyer shall give at least ninety (90) days' prior written notice of such intention to dispose to Seller, and Seller or any of its Affiliates shall be given an opportunity, at its cost and expense, to remove and retain all or any part of such books and records as it may elect. If so requested by Buyer, Seller or any of its Affiliates shall enter into a customary joint defense agreement with Buyer or its Affiliates with respect to any information to be provided to Seller or its Affiliates pursuant to this Section 5.03.

Section 5.04. Confidentiality. The confidentiality obligations of that certain letter agreement dated as of August 17, 2016 (the "Confidentiality Agreement") between Buyer, Seller and Parent are incorporated into this Agreement by reference and shall continue in full force and effect until the later of the final Subsequent Closing and the Distribution Center Closing, at which time the confidentiality obligations under the Confidentiality Agreement shall terminate; provided, however, that Buyer's confidentiality obligations shall terminate only in respect of that portion of the confidential material subject to the terms of the Confidentiality Agreement and exclusively relating to the Acquired Stores that is the subject of the transactions contemplated by this Agreement, and Buyer's other obligations under the Confidentiality Agreement shall continue in full force and effect in accordance with the terms thereof. If, for any reason, the sale of the Purchased Assets is not consummated, the Confidentiality Agreement shall nonetheless continue in full force and effect.

Section 5.05. Regulatory and Other Authorizations; Consents.

(a) Each of Fred's and Buyer shall use its reasonable best efforts, and shall cause its Affiliates to use their respective reasonable best efforts, to (i) promptly obtain all authorizations, consents, orders and approvals of all Governmental Authorities that may be, or become, necessary for its execution and delivery of, performance of its obligations pursuant to, and consummation of the transactions contemplated by, the Transaction Agreements (including Pharmacy Approvals), (ii) take all such actions as may be requested by any such Governmental Authority to obtain such authorizations, consents, orders and approvals and (iii) avoid the entry of, or effect the dissolution of, any decree, order, judgment, injunction, temporary restraining order or other order in any suit or proceeding, that would otherwise have the effect of preventing or materially delaying the consummation of the transactions contemplated by the Transaction Agreements. Except as permitted by Article VIII, none of Parent, Seller nor each of Fred's and Buyer nor their respective Affiliates shall take any action that would reasonably be expected to have the effect of delaying, impairing or impeding the receipt of any required authorizations, consents, orders or approvals.

(b) Each party to this Agreement shall promptly notify the other party of any oral or written communication it receives from any Governmental Authority relating to the matters that are the subject of this Agreement, permit the other party to review in advance any communication proposed to be made by such party to any Governmental Authority and provide the other party with copies of all correspondence, filings or other communications between them or any of their Representatives, on the one hand, and any Governmental Authority or members of its staff, on the other hand, subject to Section 5.02(c). No party to this Agreement

shall agree to participate in any meeting or discussion with any Governmental Authority in respect of any such filings, investigation or other inquiry unless it consults with the other party in advance. Subject to the Confidentiality Agreement and to Section 5.02(c), the parties to this Agreement will coordinate and cooperate fully with each other in exchanging such information and providing such assistance as the other party may reasonably request in connection with the foregoing.

(c) Each of Parent and Seller shall use its commercially reasonable efforts to give all notices to, and obtain all consents from, all landlords party to the Acquired Leases, and Parent shall bear the costs of any payments made to landlords party to the Acquired Leases in connection therewith. Upon request from Parent or Seller, Fred's agrees to provide a guarantee of Buyer's obligations under any or all of the Acquired Leases in form and substance reasonably satisfactory to the landlord party to such Acquired Lease and Parent. Each of Parent and Seller shall provide commercially reasonable cooperation and assistance to Buyer and its Affiliates and Representatives with Buyer's timely preparation and submission of any request or application for any consent or approval required of Buyer, including the Pharmacy Approvals and any consent or approval with respect to any Government Program. Fred's and Buyer shall collectively be solely responsible for all filing fees and other costs associated with such requests and applications, including attorney fees and other costs incurred by Fred's and Buyer in connection with the preparation of such requests and applications.

(d) Each of Fred's and Buyer understands that Fred's and Buyer, and this Agreement are subject to the prior approval of the FTC and that Parent is entering into this Agreement to obtain FTC approval for the Proposed Consent Order in connection with the Rite Aid Acquisition. Each of Fred's and Buyer, as promptly as practicable after the date hereof (to the extent Fred's and Buyer have not already completed the following activities), will (i) prepare and furnish all necessary information and documents reasonably requested by the FTC, (ii) use reasonable best efforts to demonstrate to the FTC that each of Fred's and Buyer is an acceptable purchaser of the Purchased Assets and that Fred's and Buyer will compete effectively using the Purchased Assets, and (iii) reasonably cooperate with Parent and Seller in obtaining all FTC approvals. Nothing in this Agreement shall prevent Parent or Seller from complying with the Proposed Consent Order and neither Parent nor Seller shall be considered in breach of this Agreement for taking actions to comply with the Proposed Consent Order. Each party shall promptly notify the other parties of any communication (including oral communications) it or any of its Affiliates receives from the FTC relating to the matters that are the subject of this Agreement and consult with each other in advance of any proposed communication by the receiving party to the FTC. Each of Fred's and Buyer shall use reasonable best efforts to obtain, and agrees to take all reasonable actions that Parent reasonably requests in order to assist Parent in obtaining, FTC approvals for Fred's and Buyer, this Agreement, the Ancillary Agreements and the Rite Aid Acquisition. Parent, Seller, Fred's and Buyer shall promptly notify each other upon the occurrence (or reasonably impending occurrence) of any of the following events: (i) either Fred's or Buyer is not (or will not be) preliminarily approved by the FTC or other necessary Governmental Authority as a purchaser of the Purchased Assets hereunder; (ii) the FTC Staff informs Parent, Seller, Fred's or Buyer that the FTC Staff will not recommend approval of Fred's or Buyer as purchaser of the Purchased

Assets hereunder; (iii) the FTC Staff informs Parent, Fred's or Buyer that the FTC Staff will require the transfer to Fred's or Buyer hereunder of any asset other than the Purchased Assets specified in Section 2.01 or that the FTC Staff will prohibit the transfer to Fred's and Buyer hereunder of any such Purchased Asset; or (iv) the FTC Staff informs Parent or Seller that it has or will approve another buyer for Purchased Assets other than Fred's and Buyer.

(e) With respect to any changes, amendments, modifications or waivers to this Agreement requested by the FTC, each of Fred's, Buyer, Parent and Seller agrees to negotiate in good faith with the other party any such change, amendment, modification or waiver, and to the extent that the FTC requires the divestiture of additional pharmacy and retail stores of Seller in connection with the Proposed Consent Order and Parent agrees to sell such pharmacy and retail stores, in which case such stores shall be "Acquired Stores" and each of Fred's and Buyer agrees to purchase all assets of Seller and its Affiliates that will become Purchased Assets and assume all liabilities that will become Assumed Liabilities by virtue of such stores becoming Acquired Stores, in each case, at a purchase price determined in accordance with the pricing methodology set forth on Section 5.05(e) of the Disclosure Schedules as applicable to the Acquired Stores as of the date hereof and the calculation of the amounts payable pursuant to Section 2.12 shall be modified accordingly. In addition, "Acquired Stores" shall be deemed to include such stores, "Purchased Assets" shall be deemed to include such assets and "Assumed Liabilities" shall be deemed to include such liabilities, with the provisions of this Agreement to apply mutatis mutandis to such stores, assets and liabilities.

Section 5.06. Use of Names. Except as expressly set forth in Section 2.01, neither Parent nor Seller is conveying ownership rights or granting Buyer or its Affiliates a license to use any of the tradenames, service marks or trademarks of Seller or any Affiliate of Seller (collectively, the "Retained Names and Marks") and, after the Closing, Buyer and its Affiliates shall not use in any manner the names or marks of Seller or any Affiliate of Seller or any word that is similar in sound or appearance to such names or marks, except (i) the Intellectual Property set forth on Section 2.01(l) of the Disclosure Schedules or as otherwise provided in this Section 5.06, (ii) the sale of any Inventory under a label owned by Seller, and (iii) as would constitute nominative fair use or otherwise be permitted under applicable Law. In the event Buyer or any Affiliate of Buyer violates any of its obligations under this Section 5.06, Seller and its Affiliates may proceed against it in Law or in equity for such damages or other relief as a court may deem appropriate. Buyer acknowledges that a violation of this Section 5.06 may cause Seller and its Affiliates irreparable harm which may not be adequately compensated for by money damages. Buyer therefore agrees that in the event of any actual or threatened violation of this Section 5.06, Seller and its Affiliates shall be entitled, in addition to other remedies that they may have, to seek a temporary restraining order and to seek preliminary and final injunctive relief against Buyer or such Affiliate of Buyer to prevent any violations of this Section 5.06, without the necessity of posting a bond.

Section 5.07. Taxes.

(a) Liability for Taxes. Seller shall be liable for and shall pay all Taxes imposed with respect to the conduct of the business of the Acquired Stores or the ownership or

use of the Purchased Assets at or prior to the Closing (or each Subsequent Closing or Distribution Center Closing, as applicable); provided, however, that Seller shall not be liable for or pay Transfer Taxes described in Section 5.07(b). Buyer shall be liable for and shall pay all Taxes imposed with respect to the conduct of the business of the Acquired Stores or the ownership or use of the Purchased Assets after the Closing (or each Subsequent Closing Date or Distribution Center Closing, as applicable). Notwithstanding anything to the contrary in this Section 5.07, the provisions of Section 2.11 (Prorations) shall control with respect to the Tax matters addressed therein.

(b) Notwithstanding Section 5.07(a), any sales Tax, use Tax, real property transfer Tax, documentary stamp Tax or similar Tax attributable to the sale or transfer of the Acquired Stores or the Purchased Assets (collectively, the “Transfer Taxes”) shall be split equally by Seller and Buyer (Seller’s portion of which shall be “Seller’s Allocable Portion”). Buyer will pay all Transfer Taxes other than Seller’s Allocable Portion. Buyer will timely file all necessary Tax Returns with respect to the Transfer Taxes, provided that Seller will file any Tax Returns with respect to the Transfer Taxes that Seller is required to file under Law. Each Party will afford the other Party a reasonable opportunity to review and comment upon tax information required to be included in such Tax Returns prior to filing and will strive to incorporate reasonable good faith comments of the other Party into such Tax Returns. Each of Buyer and Seller agrees to timely sign and deliver such certificates or forms as may be reasonably necessary or appropriate to establish an exemption from (or otherwise reduce) Taxes described in this Section 5.07(b).

(c) Seller, on the one hand, or Buyer on the other hand, as the case may be, shall provide reimbursement for any Tax paid by one party all or a portion of which is the responsibility of the other party in accordance with the terms of this Section 5.07. Within a reasonable time prior to the payment of any such Tax, the party paying such Tax shall give notice to the other party of the Tax payable and the portion which is the liability of each party, although failure to do so will not relieve the other party from its liability hereunder.

(d) Buyer shall promptly notify Seller in writing upon receipt by Buyer or any of its Affiliates of notice of any pending or threatened federal, state, local or foreign Tax audits, examinations or assessments which may materially affect the amount of any Tax which is, in whole or in part, an Excluded Liability. Notwithstanding anything to the contrary in Section 9.03, Seller shall have the sole right to control any Tax audit or administrative or court proceeding relating to any Tax which is, in whole or in part, an Excluded Liability and to employ counsel of its choice at its expense. Neither Buyer nor any of its Affiliates may settle any Tax claim relating in whole or in part to any Tax which is an Excluded Liability without the prior written consent of Seller, which consent may be withheld in the sole discretion of Seller.

(e) After the Closing Date, each of Seller and Buyer shall (and shall cause their respective Affiliates to): (i) assist the other party in preparing any Tax Returns in respect of the business conducted at the Acquired Stores or the Purchased Assets which such other party is responsible for preparing and filing; (ii) cooperate fully in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns in respect of the Acquired Stores or the

Purchased Assets; (iii) make available to the other party and to any taxing authority as reasonably requested all information, records, and documents relating to Taxes in respect of the Acquired Stores or the Purchased Assets; (iv) provide timely notice to the other party in writing of any pending or threatened Tax audits or assessments relating to Taxes in respect of the Acquired Stores or the Purchased Assets for taxable periods for which the other party may have a liability under this Section 5.07; and (v) furnish the other party with copies of all correspondence received from any taxing authority in connection with any Tax audit or information request with respect to any such taxable period.

Section 5.08. Ancillary Agreements.

(a) At or prior to the Closing, Parent, Seller, Fred's and Buyer shall execute and deliver the Transition Services Agreement substantially in the form attached as Exhibit C (the "Transition Services Agreement").

(b) At or prior to Closing and each Subsequent Closing or Distribution Center Closing (as applicable), Seller and Buyer shall execute and deliver an executed bill of sale, assignment, transfer, conveyance and assumption in respect of the Purchased Assets and Assumed Liabilities as is necessary to effect the transactions contemplated by the Transaction Agreements substantially in the form attached as Exhibit D-1 or Exhibit D-2 as applicable (the "Bill of Sale, Assignment and Assumption Agreement").

(c) At or prior to the Closing, Seller and Buyer shall execute and deliver the Transitional Trademark License Agreement substantially in the form attached as Exhibit F (the "Transitional Trademark License Agreement").

(d) At or prior to the Closing, Seller and Buyer shall execute and deliver one or more Trademark Assignment Agreements substantially in the form attached as Exhibit G (each, a "Trademark Assignment Agreement").

Section 5.09. Further Action.

(a) Except as permitted by ARTICLE VIII, each of Seller and Buyer shall (i) execute and deliver, or shall cause to be executed and delivered, such documents and other papers and shall take, or shall cause to be taken, such further actions as may be reasonably required to carry out the provisions of the Transaction Agreements and give effect to the transactions contemplated by the Transaction Agreements, (ii) refrain from taking any actions that would reasonably be expected to impair, delay or impede the Closing, any Subsequent Closing or Distribution Center Closing and (iii) without limiting the foregoing, use its commercially reasonable efforts to cause all of the conditions to the obligations of the other party to consummate the transactions contemplated by this Agreement to be met as promptly as practicable; provided, however, that following the Closing, nothing in this Section 5.09(a) shall require Seller or any of its Affiliates, on the one hand, or Buyer or any of its Affiliates, on the other hand, to pay money to, commence or participate in any Action with respect to, or offer or grant any accommodation (financial or otherwise) to, any third Person.

(b) Each of Seller and Buyer shall keep each other reasonably apprised of the status of the matters relating to the completion of the transactions contemplated by the Transaction Agreements, including with respect to the negotiations relating to the satisfaction of the conditions set forth in ARTICLE VII. From time to time following the Closing, Seller and Buyer shall, and shall cause their respective Affiliates, to execute, acknowledge and deliver all reasonable further conveyances, notices, assumptions, releases and acquittances and such instruments, and shall take such reasonable actions as may be necessary or appropriate to make effective the transactions contemplated hereby as may be reasonably requested by the other party.

Section 5.10. Solvency After Closing. After the Closing, Buyer agrees that it shall not take or cause to be taken or omit to take any action that could result in a determination pursuant to applicable Law that, after giving effect to the transactions contemplated by the Transaction Agreements (or after giving effect to such transactions and to such other subsequent actions or omissions), Buyer (a) was insolvent at the time of the Closing or any Subsequent Closing, (b) became insolvent as a result of the transactions contemplated by the Transaction Agreements, (c) was left with unreasonably small capital with which to engage in its business or (d) incurred debts beyond its ability to pay such debts as they mature, such that the payment of the Purchase Price may be deemed a “fraudulent conveyance” or impermissible dividend or distribution under applicable Law or otherwise subject to claims of any creditors of Buyer or its trustees in bankruptcy proceedings.

Section 5.11. Non-Solicitation of Employees. During the period beginning as of the Closing Date and ending on the earlier of the thirty-month anniversary of the Closing Date and the two-year anniversary of the final Subsequent Closing Date (the “Restricted Period”), each of Parent and Seller shall not, and each shall cause its Affiliates not to, directly or indirectly, solicit, or otherwise attempt to induce any Transferred Employee to terminate his or her employment with Buyer or any of its Affiliates nor induce any employees of Seller or Seller’s Affiliates who are offered employment by the Buyer pursuant to Section 6.01(a) to reject that offer; provided, however, that nothing in this Section 5.11 shall prohibit Parent, Seller or any of their Affiliates from taking the following actions:

(a) advertising for employees in newspapers, trade publications, or other media, or engaging recruiters to conduct general employee search activities, in either case not targeted specifically at Transferred Employees; or

(b) hiring or communicating with any Transferred Employee who applies for employment with Seller or any of its Affiliates, whether or not such Transferred Employee was involuntarily terminated, so long as such Transferred Employee was not solicited by Seller or any of its Affiliates in violation of this Section 5.11.

Section 5.12. Financing.

(a) Prior to the Closing, Seller shall, and shall cause Seller’s Affiliates to, provide to Fred’s, and shall use commercially reasonable efforts to cause its and their respective Representatives to provide to Fred’s, commercially reasonable cooperation and assistance

reasonably requested by Fred's in connection with the arrangement, syndication and consummation of any Debt Financing (including the marketing efforts in connection therewith) undertaken by Fred's in connection with the transactions contemplated by the Transaction Agreements, in each case in a timely manner, including using commercially reasonable efforts to:

(i) furnish Fred's financing sources, as promptly as practicable, with (A) the Financial Statements, and (B) all financial information and all other information regarding the Acquired Stores reasonably required for Fred's to prepare Fred's pro forma financial statements, as well as Fred's financial projections after giving effect to the transactions contemplated by the Transaction Agreements, in each case consistent with the type required for the Debt Financing and in Seller's possession;

(ii) upon reasonable notice, during business hours and at Fred's expense, provide reasonable cooperation with the marketing efforts of Fred's and the lenders, underwriters or initial purchasers for the Debt Financing, including using commercially reasonable efforts to cause its Representatives (including senior management and advisors of Seller) to participate in a reasonable number of meetings or conference calls;

(iii) assist with the preparation of customary materials for rating agency presentations, offering documents, road show presentations and similar documents reasonably necessary or advisable in connection with the Debt Financing;

(iv) cause Seller's independent auditors to provide, consistent with customary practice, (A) assistance in the preparation of pro forma financial statements by Fred's; and (B) assistance to and cooperation with Fred's, including participating in accounting due diligence sessions;

(v) execute and deliver reasonably necessary representation and authorization letters to accountants and auditors, customary closing certificates and other reasonably necessary certificates, letters and documents as may be reasonably requested by Fred's;

(vi) facilitate the granting of a security interest (and perfection thereof) in collateral, including by (x) reasonably cooperating with Fred's to arrange for customary pay-off letters, lien terminations, notices and instruments of discharge to be delivered at the Closing (or any Subsequent Closing or Distribution Center Closing, as applicable) providing for the pay-off, discharge and termination on the Closing Date (or any Subsequent Closing Date or Distribution Center Closing Date, as applicable) of all indebtedness and Liens (subject to receipt from Fred's of the funds necessary to effectuate the pay-off contemplated by such pay-off letters, lien terminations and instruments of discharge), (y) to obtain customary landlord lien waivers and access

agreements for leaseholds related to the Distribution Center, so long as the agreement pertaining thereto is provided to Seller prior to the fifth Business Day following the date hereof and (z) with respect to the Distribution Center and Owned Real Property, executing and delivering any documents reasonably necessary to determine whether the Distribution Center or applicable Owned Real Property is in a flood zone and delivering copies of any existing title policies with respect thereto;

(vii) provide Fred's and its financing sources with all necessary documentation and other information regarding the Seller and any applicable Affiliate of Seller required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including the USA Patriot Act of 2001, as amended from time to time;

(viii) provide customary authorization letters with respect to the Purchased Assets, in a form reasonably acceptable to Seller, to Fred's financing sources authorizing the distribution of information to prospective lenders;

(ix) enter into the cooperation and license agreement, to be effective as of the Closing, contemplated by Exhibit C of the Debt Commitment Letters; and

(x) reasonably cooperate in good faith with Fred's financing sources and their respective agents with respect to their due diligence, including (A) giving access to documentation reasonably requested by persons in connection with the Debt Financing and (B) permitting Fred's' financing sources and other lenders to evaluate the Purchased Assets for the purposes of establishing collateral arrangements as of the Closing (or each Subsequent Closing or Distribution Center Closing, as applicable) (and using commercially reasonable efforts to provide all relevant information or documentation reasonably requested in connection therewith).

(b) Notwithstanding the foregoing, (i) none of the Seller, the Seller's Affiliates or their respective Representatives shall be required to (A) authorize, execute or enter into or perform any agreement (other than authorization and representation letters as set forth herein) with respect to the Debt Financing that is not contingent upon the Closing or that would be effective prior to the Closing, (B) take any action that would unreasonably interfere with the ongoing operations of the business or Seller (it being understood that appraisals and field examinations of collateral conducted in accordance with customary procedures would not so interfere), (C) take any action that would cause any representation or warranty in this Agreement to be breached, (D) take any action that would cause any condition to Closing set forth in Article VII to fail to be satisfied, (E) except as provided by Section 5.12(a)(ix), approve or adopt any Debt Financing or agreements related thereto (or any alternative financing) at or prior to the Closing, (F) except as provided by Section 5.12(a)(ix), enter into any agreements or certificates in connection with any Debt Financing (or any alternative financing) at or prior to the Closing or (G) be responsible for any adjustments to any pro forma financial information required to be provided in accordance with the Debt Commitment Letters; (ii) Seller shall not be required to

make any representation, warranties or certifications as to which, after Seller's use of commercially reasonable efforts to cause such representation, warranty or certification to be true, Seller in its good faith determination that such representation, warranty or certification is not true; and (iii) nothing shall obligate Seller to provide, or cause to be provided, any legal opinion by its counsel, or to provide any information or take any action to the extent it would result in a violation of any applicable Law or loss of any privilege. None of Seller or any of its Subsidiaries shall be required to pay any commitment or other similar fee or make any other payment (other than for reasonable out-of-pocket costs or expenses that are reimbursed by Fred's as provided below in this Section 5.12(b)) or incur any other Liability or provide or agree to provide any indemnity in connection with the Debt Financing or any of the foregoing prior to the Closing. Fred's shall, promptly upon request by Seller, reimburse Seller for all documented and reasonable out-of-pocket costs and expenses incurred by Seller or any of its Subsidiaries in connection with such cooperation. Each of Fred's and Buyer shall indemnify and hold harmless Seller and its Subsidiaries and representatives from and against any and all Liabilities suffered or incurred by them in connection with the Debt Financing and any information utilized in connection therewith (other than historical information provided by Seller or any of its Subsidiaries).

(c) From the date hereof through the Distribution Center Closing, each of Fred's and Buyer shall use its reasonable best efforts and do all things necessary or advisable to arrange and obtain the Debt Financing as soon as reasonably practicable and, in any event, not later than the date the Closing is required to be effected in accordance with this Agreement, on the terms and conditions (including, to the extent applicable, the "flex" provisions) described in the Debt Commitment Letters (for purposes of this Section 5.12(c), the Debt Commitment Letters shall include any fee letter), including using reasonable best efforts to (i) enter into definitive agreements with respect to each Debt Commitment Letter on the terms and conditions (as such terms may be modified or adjusted in accordance with the terms of, and within the limits of the flex provisions contained in any fee letter) contemplated by such Debt Commitment Letter (collectively, the "Definitive Debt Financing Agreements"), (ii) satisfy on a timely basis all conditions and covenants, including with respect to the payment of any commitment, engagement or placement fees, applicable to Fred's in the Fee Letter, each Debt Commitment Letter or the Definitive Debt Financing Agreements, (iii) consummate the Debt Financing at or prior to Closing, a Subsequent Closing or the Distribution Center Closing, as applicable and (iv) prior to the Distribution Center Closing, enforce Fred's rights under the Debt Commitment Letters and the Definitive Debt Financing Agreements, including by affirmatively bringing lawsuits or other proceedings. Neither Fred's nor Buyer shall agree to any amendments or modifications to, or grant any waivers of, any condition or other provision under any Debt Commitment Letter or the definitive agreements relating to the Debt Financing without the prior written consent of Parent (including any amendment of either Debt Commitment Letter or the definitive agreements relating to the Debt Financing to add lenders, lead arrangers, bookrunners, syndication agents or similar entities who had not executed the applicable Debt Commitment Letter as of the date hereof) if such amendment, modification or waiver would (or could be reasonably expected to) (A) reduce the aggregate amount of the Debt Financing (including by changing the amount of fees to be paid or original issue discount of the Debt Financing or similar fee) unless, in the case of any reduction in the amount of the Purchase Price, the Debt Financing

is reduced by a corresponding amount, (B) impose new or additional conditions, or otherwise amend, modify or expand any conditions, to the receipt of the Debt Financing, (C) delay or prevent the Closing, a Subsequent Closing or the Distribution Center Closing, as applicable (D) make the funding of the Debt Financing (or satisfaction of the conditions to obtaining any of the Debt Financing) less likely to occur or (E) adversely impact the ability of Fred's to enforce its rights against the other parties to the Debt Commitment Letters or the Definitive Debt Financing Agreements, the ability of Fred's to timely consummate the transactions contemplated hereby or the likelihood of consummation of the transactions contemplated hereby. Each of Fred's and Buyer shall use its reasonable best efforts to maintain in effect the Debt Commitment Letters (including any Definitive Debt Financing Agreements) until the transactions contemplated hereby are consummated. Fred's shall not release or consent to the termination of the obligations of the Lenders under either Debt Commitment Letter, except that Fred's shall be permitted to consent to an assignment or other transfer of the commitments of any Lender thereunder, provided that such assignment or transfer shall not relieve such Lender from its obligations to fund upon the initial funding under either Debt Commitment Letter except to the extent that such Lender's portion of such initial funding is otherwise funded. Notwithstanding anything herein to the contrary, each of the Parties hereby agrees to, and agrees that Fred's shall be permitted to consent to, (i) (A) Citizens Bank, N.A. and its Affiliates and (B) any other Lenders consented to by the Sellers (such consent not to be unreasonably withheld or delayed), becoming a party to the Revolver Loan Debt Commitment Letter (pursuant to a customary joinder agreement to the Revolver Loan Debt Commitment Letter) and, upon the execution and delivery of such a customary joinder agreement, Citizens Bank, N.A. or such other Lender shall join the Revolver Loan Debt Commitment Letter as a "Commitment Party" and an "Initial Lender" thereunder and each other "Commitment Party" and "Initial Lender" thereunder shall be relieved of its obligations with respect to the commitments so assigned or transferred to Citizens Bank, N.A. or such other Lender and (ii) Pathlight BGC Ltd. and its Affiliates, becoming a party to the Term Loan Debt Commitment Letter (pursuant to a customary joinder agreement to the Term Loan Debt Commitment Letter) and, upon the execution and delivery of such a customary joinder agreement, Pathlight BGC Ltd. shall join the Term Loan Debt Commitment Letter as a "Commitment Party" and an "Initial Lender" thereunder and each other "Commitment Party" and "Initial Lender" thereunder shall be relieved of its obligations with respect to the commitments so assigned or transferred to Pathlight BGC Ltd..

(d) Notwithstanding anything to the contrary contained in this Agreement, in no event shall Fred's nor any of its Affiliates (which for purposes of this Section 5.12(d) shall be deemed to include each direct or indirect investor or potential investor in Fred's, or any of Fred's or its Affiliates or any such investor's financing sources or potential financing sources or other representatives acting at the direction of or on behalf of Fred's) engage any bank or investment bank or other potential provider of debt or equity financing on an exclusive basis or otherwise on terms that prohibit or are designed to prevent such provider from providing or seeking to provide such financing or other services to any Person in connection with a transaction relating to the Acquired Stores in connection with the transactions contemplated hereby.

(e) Neither Fred's nor Buyer shall, without the prior written consent of Parent, prior to or in connection with the Closing, permit or arrange any debt financing to which Seller

or any of its Affiliates will be a party or by which any of their respective assets shall be subject or bound, other than the Debt Financing. If any portion of the Debt Financing becomes unavailable on the terms and conditions (including any “flex” provisions) contemplated in the Debt Commitment Letters, each of Fred’s and Buyer shall use its reasonable best efforts to, as promptly as practicable, arrange and obtain from alternative sources of debt financing an amount sufficient to satisfy the payment of all amounts due by Fred’s and Buyer pursuant to the Transaction Agreements, on terms and conditions (including any “flex” provisions) that are at least as favorable to Parent and Fred’s in the aggregate as those contained in the applicable Debt Commitment Letter, which shall not expand upon the conditions precedent or contingencies to the funding on the Closing Date of the Debt Financing as set forth in the applicable Debt Commitment Letter in effect on the date hereof or otherwise adversely affect the ability or likelihood of Fred’s or Buyer to timely consummate the transactions contemplated hereby. The new debt commitment letter and fee letter entered into in connection with such alternative financing are referred to, respectively, as a “New Debt Commitment Letter” and a “New Fee Letter.” In the event Fred’s enters into any such New Debt Commitment Letter, (i) any reference in this Agreement to the “Debt Financing” shall mean the debt financing contemplated by the Debt Commitment Letters as modified pursuant to clause (ii) below, and (ii) any reference in this Agreement to the “Debt Commitment Letters” (and any definition incorporating the term “Debt Commitment Letter,” including the definition of Definitive Debt Financing Agreements) shall be deemed to include the Debt Commitment Letters and any Fee Letter to the extent not superseded by a New Debt Commitment Letter or New Fee Letter, as the case may be, at the time in question and any New Debt Commitment Letter or New Fee Letter to the extent then in effect.

(f) From the date hereof through the Distribution Center Closing, each of Fred’s and Buyer shall, and shall cause its respective representatives to, keep Parent informed as promptly as practicable in reasonable detail of the status of its efforts to arrange the Debt Financing and substantially concurrently provide copies of all documents provided to or from the Lenders or otherwise related to the Debt Financing to Parent. Without limiting the generality of the foregoing, from the date hereof through the Distribution Center Closing, each of Fred’s and Buyer shall (i) furnish Parent complete, correct and executed copies of any amendments to either Debt Commitment Letter promptly upon their execution and (ii) give Parent prompt written notice (A) of any default or breach (or any event that, with or without notice, lapse of time or both, would (or could reasonably be expected to) give rise to any default or breach) by any party under any of the Debt Commitment Letters or the definitive agreements relating to the Debt Financing of which Fred’s becomes aware, (B) of any termination of either of the Debt Commitment Letters, (C) of the receipt of any written notice or other communication from any Person with respect to any (1) actual or potential default, breach, termination or repudiation of any Debt Commitment Letter, any definitive agreement relating to the Debt Financing or any provision of either Debt Commitment Letter or the definitive agreements relating to the Debt Financing, in each case by any party thereto, or (2) material dispute or disagreement between or among any parties to either Debt Commitment Letter or the definitive agreements relating to the Debt Financing, and (D) if for any reason Fred’s believes in good faith that they will not be able to obtain all or any portion of the Debt Financing on the terms, in the manner or from the sources contemplated by the Debt Commitment Letters or the definitive agreements relating to the Debt Financing.

(g) Each of Fred's and Buyer shall take all actions necessary to cause the condition set forth in (i) clause (e) of Exhibit C to each Debt Commitment Letter to be satisfied on the Closing Date and (ii) clause (b) of the definition of "Subsequent Acquisition Conditions" in the term sheet attached to such Debt Commitment Letter to be satisfied on each Subsequent Closing Date. Each of Fred's and Buyer will promptly (and in any event, within three (3) Business Days) notify Seller in writing if Excess Availability (as defined in each Debt Commitment Letter) is less than 35% of the Loan Cap (as each such term is defined in each Debt Commitment Letter or, on and following the Closing Date, as defined in the Definitive Debt Financing Agreements) for more than three (3) consecutive Business Days.

Section 5.13. Destruction of Purchased Assets; Store Removal. Notwithstanding any other provision herein, if any of the Acquired Stores and/or the Distribution Center is rendered unsaleable or unusable due to acts of God, including earthquakes, fire, hurricanes, tornadoes, floods, tsunamis, or other natural disasters or any other types of damage, at Parent's option, (i) if permitted by the FTC, such Acquired Stores and/or the Distribution Center and all of the related assets shall be retained by Parent and the Purchase Price shall be reduced as set forth on Section 2.07 of the Disclosure Schedules (and the amounts payable pursuant to Section 2.12 shall be reduced accordingly), (ii) such Acquired Stores and/or the Distribution Center shall be sold to Buyer and the parties shall negotiate in good faith with respect to a reduction to the Purchase Price taking into account the allocation of the Purchase Price attributed to such Acquired Store as set forth on Section 2.07 of the Disclosure Schedules or (iii) if Parent has within thirty (30) days of such act of God restored such Acquired Stores and/or the Distribution Center to usable or salable condition substantially equivalent to the condition of such Acquired Store immediately prior to such act of God (at Parent's cost), then such Acquired Stores and/or the Distribution Center shall be sold to Buyer in accordance with and subject to the terms of this Agreement. In the event Parent elects clause (i) with respect to an Acquired Store, the term "Acquired Stores" shall be deemed to be modified to exclude any such store or the Distribution Center, as applicable, "Purchased Assets" shall be deemed to be modified to exclude any facility that was to be "Purchased Assets" because such facility was an Acquired Store or the Distribution Center, and "Assumed Liabilities" shall be deemed to be modified to exclude any Liabilities that were to be "Assumed Liabilities" because such facility was an Acquired Store or the Distribution Center. In the event that Parent and Buyer mutually agree that neither Parent nor Seller shall sell, transfer, assign, convey or deliver to Buyer one or more Acquired Stores, the parties shall negotiate in good faith to amend the terms of this Agreement and any other Transaction Agreement as necessary to appropriately reflect the terms of such arrangement, and "Purchased Assets" shall be deemed to be modified to exclude any facility that was to be "Purchased Assets" because such facility was an Acquired Store, and "Assumed Liabilities" shall be deemed to be modified to exclude any Liabilities that were to be "Assumed Liabilities" because such facility was an Acquired Store.

Section 5.14. Restriction on Use of Customer Data.

(a) During the Restricted Period, Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, use the Seller Rx Data that is, or any other information or data that is, in each case related to the Acquired Stores and regarding the applicable client's or

customer's behavior in an Acquired Store and acquired from or through its acquisition of Seller, to specifically solicit any client or customer of any of the Acquired Stores (the "Restricted Data"), in a manner intended to cause an adverse effect to the relationship between such Acquired Store and such client or customer, or to divert such client's or customer's business from any of the Acquired Stores. In addition, during the Restricted Period, Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, solicit any supplier or licensor of any of the Acquired Stores to terminate or adversely modify the relationship between Buyer and such supplier or licensor Agreement. Notwithstanding anything herein to the contrary, nothing shall prevent Parent or any of its Subsidiaries (other than Seller and its Subsidiaries) from conducting solicitations in the ordinary course of business consistent with past practice with respect to its stores (other than the Acquired Stores) that do not rely on or employ the use of Restricted Data, and neither Parent nor any of its Affiliates shall be in breach of this Section 5.14 because it solicits, without relying on or employing the use of Restricted Data, any Person (i) who contacts Parent or any of its Affiliates on its, his or her own initiative, (ii) if such client's, customer's, supplier's, licensor's or Person's name is sourced, given to Parent or any of its Affiliates, or otherwise is present on any marketing list or other source that Parent or any of its Affiliates owns or to which it is granted access or (iii) in a general solicitation.

(b) Each of Parent and Seller acknowledges that a breach or threatened breach of this Section 5.14 would give rise to irreparable harm to Buyer, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by Parent or Seller of any such obligations, Buyer shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

Section 5.15. Commercial Assistance. After the date hereof until the expiration of the term of the Transition Services Agreement, Parent shall, and shall cause Parent's Affiliates to, provide to Buyer, and shall use commercially reasonable efforts to cause its and their respective Representatives to provide to Buyer, all commercially reasonable cooperation and assistance reasonably requested by Buyer in connection with Buyer's negotiation and execution of the license agreements set forth on Section 5.15 of the Disclosure Schedules, and agrees not to enforce any exclusivity covenants with respect to the proposed counterparties to such agreements.

Section 5.16. Conversion of Stores. Subject to receipt of necessary legal and regulatory approvals, Parent shall, and shall cause Parent's Affiliates to, use its reasonable best efforts not to operate any Rite Aid-branded store set forth on Section 5.16 of the Disclosure Schedules utilizing exterior signage containing the Rite Aid banner as of the later of (1) the date that is one hundred eighty (180) days after the consummation of the Rite Aid Acquisition or (2) in the case of all Rite Aid branded stores located in any given Core Based Statistical Area ("CBSA"), the date that is sixty (60) days after the consummation of the purchase and sale of the first Acquired Store in such CBSA under this Agreement as further set forth on Section 5.16 of

the Disclosure Schedules (i.e. sixty (60) days after the Closing or applicable Subsequent Closing, as applicable to such Acquired Store)

Section 5.17. RediClinic. Parent and Buyer shall use reasonable best efforts to have Seller or its Affiliates continue to operate the RediClinic in-store clinics in the Acquired Stores as of the Closing Date until the one (1) year anniversary of the Closing Date (subject to an extension at Buyer's discretion of until the earlier of the second anniversary of the Closing and the date on which Parent and its Affiliates cease operating RediClinic in-store clinics in the majority of its stores in which RediClinic in-store clinics exist as of the Closing Date (other than the Acquired Stores)). Parent shall provide Buyer with ninety (90) days' prior written notice in the event Parent decides in its sole discretion to terminate the RediClinic in-store clinics in Parent's and its Affiliates stores (other than the Acquired Stores).

Section 5.18. Acquired Leases. After the Closing Date, Buyer will not, and will not permit any of its Affiliates to (and shall cause its successors or assigns not to), renew, extend, amend or supplement any Acquired Lease resulting in the term of such Acquired Lease extending beyond ten (10) years following the Closing without Parent's prior written consent unless Buyer provides Parent with evidence reasonably satisfactory to Parent that Parent's obligations with respect to such extended period under the Acquired Leases have been irrevocably and fully released (the effective date of any such release being a "Release Date"). Any cash or other collateral posted by Parent or its Affiliates in respect of such obligations shall be delivered to Parent promptly following such release. From the Closing Date to the applicable Release Date, Buyer shall provide Parent with prompt written notice upon entering into any renewal, extension, amendment or supplement of any Acquired Lease resulting in an extension of such Acquired Lease. In the event that Buyer desires to transfer an Acquired Store, Buyer shall, as a condition to such transfer, have the transferee agree in writing to be bound by the covenant in this Section 5.18, with such written agreement being delivered to Parent prior to the execution of such transfer.

Section 5.19. Duplicate IT System. Seller shall use commercially reasonable efforts to complete the development and establishment of the Duplicate IT System and use commercially reasonable efforts to cause the Duplicate IT System to be operational in a manner consistent with the operation of Seller's comparable information technology system consistent with past practice, in each case subject to the exceptions set forth on Schedule B, as soon as reasonably practicable after the date hereof. Representatives of Seller shall test the Duplicate IT System prior to the Closing Date utilizing customary testing procedures, which procedures shall be presented to Buyer in writing as soon as reasonably practicable after the date hereof (the "Developed Testing Procedures"). Seller shall provide representatives of Buyer a reasonable opportunity to be present during such testing and to see the results of such testing. Seller shall use its commercially reasonable efforts to remove the functionality limitations set forth on Schedule B in a manner reasonably acceptable to Buyer as soon as reasonably practicable after the date hereof.

ARTICLE VI

EMPLOYEE MATTERS

Section 6.01. Employee Matters.

(a) Buyer will make an offer of employment at least two (2) weeks prior to the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) (it being acknowledged and agreed that to the extent Buyer makes written offers of employment to any District Manager, Pharmacy District Manager, Human Resources District Manager, Asset Protection District Manager, Regional Vice President, Regional Pharmacy Vice President, Senior Human Resources Manager, or Regional Asset Protection Director or corporate Business Employees, Seller shall, upon request, use commercially reasonable efforts to assist Buyer in preparing, printing and delivering the applicable written offer letters). Such offer of employment will be provided to each individual listed on an employee census (the “Employee Census”), who is employed by Seller or an Affiliate of Seller on the Closing Date (or the applicable Subsequent Closing Date or Distribution Closing Date) for employment beginning on the first Business Day following such date (the “Employment Start Date”) and shall be for the same position held by such Business Employee, and at the same location(s) at which such Business Employee worked, immediately prior to the Employment Start Date. The Employee Census shall first be delivered to Buyer prior to the date of this Agreement and shall state each Business Employee’s name, title, employment classification, salary or pay rate and status with respect to whether he or she is currently on long-term disability or otherwise on a leave of absence. The Employee Census shall be updated by Seller no sooner than three (3) weeks prior to the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date) for any Business Employee and with respect to any Business Employee added to the Employee Census pursuant to such an update, Buyer will make an offer of employment as soon as practicable thereafter but no later than the Closing Date (or the applicable Subsequent Closing Date or Distribution Center Closing Date). Each non-Union Business Employee listed on the Employee Census will receive an offer which will provide for compensation (including salary, wages, incentive compensation and bonus opportunities) that is no less favorable than that provided immediately prior to the Employment Start Date and employee benefits (including retirement, welfare and fringe benefits) that are equivalent to those provided to such non-Union Business Employee immediately prior to the Employment Start Date (subject to any eligibility requirements but taking into account prior service with Seller or Seller’s Affiliates). Each Union Business Employee listed on the Employee Census will receive an offer which will provide for compensation and employee benefits in accordance with the terms of the applicable CBA (taking into account prior service with Seller or Seller’s Affiliates). Each Business Employee that accepts an offer of employment from Buyer will be referred to as a “Transferred Employee”. Each offer of employment by Buyer to a Business Employee shall be on an employment “at-will” basis except as required by any CBA. Except as otherwise required by the terms of a CBA with respect to Union Business Employees and subject to Section 6.01(k) hereof, for a period of at least one (1) year following the Employment Start Date, Buyer shall provide each Transferred Employee compensation (including salary,

wages, incentive compensation and bonus opportunities) that is no less favorable than that provided immediately prior to the Employment Start Date and employee benefits (including retirement, welfare and fringe benefits) that are equivalent to those provided to such Transferred Employee immediately prior to the Employment Start Date (subject to any eligibility requirements but taking into account prior service with Seller or Seller's Affiliates). Transferred Employees will cease to be employees of the Seller or Seller's Affiliates, as applicable, and become employees of Buyer or its Affiliates on the Employment Start Date and shall cease any further participation in (and shall cease to accrue benefits under) all Employee Plans as of the Employment Start Date. Seller (or its Affiliates) will pay to all Transferred Employees (A) any unpaid personal holidays or other vacation leave accrued by such Transferred Employees as of the date immediately preceding the Employment Start Date and (B) any accrued but unpaid bonus for any bonus periods that have commenced but not yet concluded before the Employment Start Date with respect to the portion of the applicable bonus period occurring before the Employment Start Date, in each case, in accordance with Seller's (or its Affiliate's) programs and policies. Buyer agrees that it will (or will cause its Affiliates to) take any and all commercially reasonable actions necessary to allow any Business Employees on a work visa to become employed with Buyer or its Affiliates. For those Business Employees who become Transferred Employees and who are employed on a work visa, Buyer will serve as the successor-in-interest and thus accept all applicable rights and obligations related to the work visa and any corresponding permanent residence petition.

(b) Open Positions; Employee Data. As soon as reasonably practicable following the date on which the FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition (which such Proposed Consent Order shall identify Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder), Seller shall use reasonable efforts to identify for Buyer at least two (2) individuals with respect to each open (i)(A) district manager, pharmacy district manager, regional vice president or regional pharmacy vice president position, and (B) field district support team member or field regional support member position whose function is to provide services related to asset protection, human resources or administration (and not, for the avoidance of doubt, services related to information technology, compliance or merchandising) and (ii) corporate position, in each case as listed on Section 6.01(b) of the Disclosure Schedules. Such individuals shall be current employees of Seller and shall, in the aggregate, consist of a mix of tenured and "ready to be promoted now" individuals and all such identified individuals shall have received an annual performance rating of at least "meets expectations" for the most recent two (2) performance periods ending on or prior to the identification date and shall not have had any disciplinary action taken against them within the twelve (12) month period immediately preceding the identification date. Additionally, Seller shall provide to Buyer, no sooner than ten (10) days prior to the Closing Date or the applicable Subsequent Closing Date or Distribution Center Closing Date the 2015 and 2016 overall annual performance reviews and ratings (with all definitions related thereto), to the extent available, for all Transferred Employees in management positions (i.e., Store Manager, Assistant Store Manager and Pharmacy Manager positions), all Transferred Employees who are pharmacists, and all Transferred Employees in regional and district management and field support roles. Seller makes no representation that the annual performance reviews and ratings are indicative of all aspects of employee

performance which is based on a number of factors, reflects only a certain period of time, and reflects evaluations by completely different managers with differing expectations. Buyer shall indemnify and hold Seller harmless for (A) all Liabilities incurred by Buyer arising from or in connection with Seller's disclosure of the information provided pursuant to this Section or Buyer's actions in reliance on the information provided pursuant to this Section and (B) all Liabilities incurred by Seller as a result of Buyer's non-compliance with applicable Laws in connection with Buyer's or Buyer's Affiliate's selection or hiring process with respect to the open positions described herein.

(c) Severance Benefits. Seller shall be responsible (and Buyer shall have no responsibility) to pay any severance pay and benefits claimed to be owed to its employees as a result of (i) the Rite Aid Acquisition, or (ii) the transactions that are the subject of the Transaction Agreements, provided that Buyer has offered employment to Business Employees in accordance with Section 6.01(a). Following the Employment Start Date, Buyer agrees to provide Transferred Employees whose employment with Buyer or its Affiliates is terminated during the one (1) year period beginning on the Employment Start Date with a severance plan or program that provides (A) severance pay that is no less favorable than the severance pay payable under the Employee Plans as in effect immediately prior to the Employment Start Date and (B) post-termination employee benefits (including retirement, welfare and fringe benefits) that are equivalent to those provided to similarly situated employees of Buyer (subject to any eligibility requirements), taking into account such Transferred Employee's additional service with the Buyer or its Affiliates and calculated on the basis of the Transferred Employee's compensation at the time of the termination or immediately prior to the Employment Start Date, whichever is greater; provided, however that, if different, Union Business Employees will be provided with severance pay and post-termination employee benefits in accordance with the applicable CBA (taking into account prior service with Seller or Seller's Affiliates); provided further, however, that Buyer is in no event obligated to provide severance pay with respect to any period of service for which severance pay has been paid or is payable by Seller..

(d) Credit for Service. To the extent permitted by Law and to the extent that service is relevant for purposes of eligibility and vesting (and, in order to calculate the amount of any vacation, sick days, short-term disability, salary continuation, severance and similar benefits, but not for purposes of defined benefit pension benefit accruals) under any retirement plan, employee benefit plan, program or arrangement established or maintained by Buyer or any of its Affiliates for the benefit of the Transferred Employees following the Employment Start Date, such plan, program or arrangement shall credit all Transferred Employees for service earned prior to the Employment Start Date with Seller or any of their Affiliates or predecessors, as if such service had been performed for Buyer, in addition to service earned with Buyer or any of Buyer's Affiliates on and after the Employment Start Date.

(e) Preexisting Conditions; Coordination. Following the Employment Start Date, Buyer shall: (i) waive limitations on eligibility, enrollment and benefits relating to any preexisting medical conditions of the Transferred Employees and their eligible dependents, and (ii) recognize for purposes of annual deductible and out of pocket limits under its health and dental plans (the "Buyer Plans") for the plan year of the applicable Buyer Plan that includes the

Employment Start Date, deductible and out of pocket expenses paid by Transferred Employees and their respective dependents under the applicable health and dental Employee Plans in the portion of the plan year ending on the date each such Transferred Employee begins participating in the analogous Buyer Plan to the extent the Transferred Employees participate in any such Buyer Plans.

(f) Paid Time Off. Except as otherwise required by the terms of an applicable CBAs with respect to Union Business Employees, Buyer shall continue a paid time off program for the benefit of the Transferred Employees through at least the end of the calendar year in which the Employment Start Date occurs that is at least as favorable as the paid time off program of Seller in effect immediately prior to the Employment Start Date.

(g) FSA. Buyer shall have in effect, or cause to be in effect, as of the Employment Start Date, health or dependent care flexible spending accounts qualifying under Section 125 of the Code (the “Buyer FSA”) in which Transferred Employees who participate in health or dependent care flexible spending accounts maintained by Seller or any of its Affiliate (the “Seller FSA”) may participate. Buyer or an Affiliate of Buyer shall cause the balance of each Transferred Employee’s accounts under the Seller FSA as of such Transferred Employee’s Employment Start Date to be credited to the Transferred Employee’s corresponding accounts under the Buyer FSA in which such employee participates following the Employment Start Date; provided, however, that no such crediting shall be required or occur for a medical flexible spending account in the event the applicable Transferred Employee elects COBRA coverage with respect to such Transferred Employee’s medical flexible spending account under the Seller FSA. On and after the Employment Start Date, Buyer shall assume and be solely responsible for all claims for reimbursement by Transferred Employees, whether incurred prior to, on or after the Employment Start Date, that have not been paid in full as of the Employment Start Date, which claims shall be paid pursuant to and under the terms of the Buyer FSA, and Buyer shall indemnify and hold harmless Seller and its Affiliates from any and all claims by or with respect to Transferred Employees for reimbursement under the Seller FSA that have not been paid in full as of the Employment Start Date. Seller will continue to process any Seller FSA claims filed before the Employment Start Date and advise Buyer as to the approval or disapproval of payment of such claims. Buyer agrees to cause the Buyer FSA to honor and continue through the end of the plan year in which the Employment Start Date occurs the elections made by each Transferred Employee under the Seller FSA in respect of the flexible spending reimbursement accounts that are in effect immediately prior to the Employment Start Date. As soon as practicable following the Employment Start Date, Seller or Seller’s Affiliate shall cause to be transferred to Buyer an amount in cash equal to (A) the sum of all contributions to any Seller FSA made by all Transferred Employees before the Employment Start Date with respect to the plan year in which the Employment Start Date occurs, reduced by (B) the sum of (i) all claims incurred by the Transferred Employees and paid by Seller during the plan year in which the Employment Start Date occurs, plus (ii) all contributions to any medical flexible spending account under the Seller FSA made by Transferred Employees who elect COBRA coverage in connection with their termination of employment by Seller (or its Affiliate) due to the transactions contemplated by this Agreement.

(h) WARN; Workers' Compensation Liabilities. Buyer shall be responsible for, and indemnify Seller against, all liabilities or obligations under the Worker Adjustment and Retraining Notification Act (the "WARN Act"), and any similar state or local law resulting from Buyer's actions following the Employment Start Date. Seller shall be responsible for, and indemnify Buyer against, all liabilities or obligations (including but not limited to reasonable attorneys fees and costs incurred by Buyer) under the WARN Act, and any similar state or local law or contractual obligation to give notice of this transaction to its employees and unions. To the extent that any of the Seller's employees are entitled to payments of wages and benefits in lieu of sufficient notice under the WARN Act (or any similar state or local law) for any plant closing or mass layoff, as defined in the WARN Act, occurring up to and including the Employment Start Date, and including any employees who are terminated by Seller either before or after the Employment Start Date for rejecting Buyer's offer of employment, Seller shall be responsible to provide such wages and benefits, and shall indemnify Buyer against all Liabilities or obligations in regard to such employees, including but not limited to reasonable attorneys fees and legal costs incurred by the Buyer. To the extent that any of the Transferred Employees are entitled to payments of wages and benefits in lieu of sufficient notice under the WARN Act (or any similar state or local law) for any plant closing or mass layoff, as defined in the WARN Act, occurring after Employment Start Date, Buyer shall be responsible to provide such wages and benefits, and shall indemnify Seller against all Liabilities or obligations in regard to such employees, including but not limited to reasonable attorneys fees and legal costs incurred by the Seller. With respect to incidents which have or will occur through the Employment Start Date, that have or will result in the payment of claims, Seller will be responsible for all liabilities and obligations under any state workers' compensation or similar requirements of Law payable to or with respect to any employee or former employee of the Acquired Stores who was employed by Seller on the date the claim arose or the incident on which the claim is based occurred. Buyer shall be responsible for all liabilities and obligations under any state workers' compensation or similar requirements of Law with respect to any Transferred Employee to the extent that such claim arises, or the incident on which the claim is based occurs, after the Employment Start Date.

(i) 401(k) Plan. Buyer shall permit each Transferred Employee participating in the Employee Plan that is a defined contribution plan with a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Seller 401(k) Plan") to effect, and Buyer agrees to cause its defined contribution plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Buyer 401(k) Plan") to accept, in accordance with requirements of Law, a "direct rollover" (within the meaning of Section 401(a)(31) of the Code) of his or her account balances (including earnings thereon through the date of transfer and any promissory note evidencing an outstanding loan but excluding any loans in default) under the Seller 401(k) Plan if such rollover to the Buyer 401(k) Plan is elected in accordance with applicable Law by such Transferred Employee.

(j) Obligations Pertaining to Multiemployer Plans. Seller and Buyer intend that no complete or partial withdrawal of Seller and its Affiliates under Section 4203 or 4205 of ERISA from any Multiemployer Plan shall occur because of the consummation of the transactions contemplated by this Agreement, by reason of compliance with all of the applicable

requirements of Section 4204 of ERISA. With respect to any Multiemployer Plan that is identified in Schedule 6.01(j)(iv), but not with respect to any Multiemployer Plan that is not identified in Schedule 6.01(j)(iv), Buyer and Seller agree to comply with the provisions of Section 4204 of ERISA as follows:

(i) To the extent needed to comply with Section 4204(a)(1)(A) of ERISA, Buyer shall assume the obligation to contribute to the Multiemployer Plan with respect to the Acquired Stores for substantially the same number of contribution base units (as defined in Section 4001(a)(11) of ERISA) for which Seller and its Affiliates had an obligation to contribute to such Multiemployer Plan, it being intended that no withdrawal liability under Section 4201 of ERISA will be incurred by Seller as a result of the consummation of the transactions contemplated by this Agreement. Buyer agrees that the determination of the number of contribution base units necessary to satisfy Section 4204 of ERISA shall be made in accordance with Section 4204 of ERISA and the applicable terms of each Multiemployer Plan.

(ii) Prior to the first plan year of each Multiemployer Plan beginning after the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), Buyer may, at Buyer's cost and expense, seek a variance from the requirements of Section 4204(a)(1)(B) of ERISA that a bond be obtained or an amount be held in escrow as provided in said section. Buyer and Seller agree to cooperate with respect to obtaining any such variance (including upon request of Buyer, Seller jointly with Buyer notifying the Multiemployer Plan of the parties intent that the transaction contemplated hereby be covered by Section 4204 of ERISA), sharing such information as may be necessary to determine whether there is a basis for applying for a variance from the applicable bonding requirements. If no such variance is timely requested by Buyer, or if a Multiemployer Plan determines that the request does not qualify for a variance, then Buyer shall, at Buyer's cost and expense, provide to the Multiemployer Plan for the first plan year beginning after the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), and for each of the four (4) plan years thereafter, a bond or escrow (or letter of credit or other security that is acceptable to the Multiemployer Plan) that complies with Section 4204(a)(1)(B) of ERISA, in an amount equal to one hundred percent (100%) (or two hundred percent (200%) if and to the extent required by Section 4204(b)(2) of ERISA) of the greater of:

- (A) the average annual contribution that Seller and its Affiliates were required to make with respect to the Acquired Stores to the applicable Multiemployer Plan for the three (3) plan years preceding the plan year in which the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) occurs, or
- (B) the annual contribution that Seller and its Affiliates were required to make with respect to the Acquired Stores to the Multiemployer Plan for the last plan year completed before the plan year in which the Closing

Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) occurs.

Any such bond or escrow (or letter of credit or other security) shall provide that it shall be paid to the Multiemployer Plan if Buyer withdraws from such Multiemployer Plan, or fails to make a contribution to such Multiemployer Plan when due, at any time during the five (5) full plan years beginning after the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable). Buyer shall deliver to the Multiemployer Plan, by the date required by Section 4204 and the regulations thereunder, with copies to Seller, either the bond, letter of credit or evidence of the establishment of an escrow described in the preceding sentence.

(iii) If Buyer withdraws from the Multiemployer Plan in a complete withdrawal, or there occurs a partial withdrawal with respect to the Acquired Stores, during such five (5) years, Seller will, to the extent required by Section 4204 of ERISA, be secondarily liable for any withdrawal liability it would have had to the Multiemployer Plan with respect to the Acquired Stores, but for this Agreement, if and to the extent the liability of Buyer with respect to the Multiemployer Plan is not paid. Buyer agrees to provide Seller with reasonable advance notice of any action or event which would reasonably be expected to result in the imposition of withdrawal liability contemplated hereunder, and in any event Buyer shall immediately furnish Seller with a copy of any notice of withdrawal liability Buyer or its Affiliates may receive with respect to the Multiemployer Plan, together with all pertinent details. In the event that any such withdrawal liability shall be assessed against Buyer or its Affiliates, Buyer further agrees to provide Seller with reasonable advance notice (but not less than sixty (60) days advance notice) of any intention on the part of Buyer or such Affiliate not to make full payment of any withdrawal liability when the same shall become due and payable.

(iv) The parties recognize and agree, for purposes of this Agreement, that certain potential withdrawal liability exists with respect to Multiemployer Plans in which Transferred Employees have participated prior to Closing, and will continue to participate after Closing based upon contributions to those plans by Buyer. In the event that Buyer incurs withdrawal liability with respect to any Multiemployer Plan during the five year period commencing on the Closing (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable), Seller shall reimburse Buyer in an amount equal to the lesser of (A) such withdrawal liability or (B) 50% of Seller's Attributable Withdrawal Liability with respect to such Multiemployer Plan. For these purposes, the term "Attributable Withdrawal Liability," with respect to each Multiemployer Plan, shall mean the amount equal to difference between (X) the estimated withdrawal liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such Multiemployer Plan in a complete withdrawal on the Closing Date (and/or each Subsequent Closing Date or Distribution Center Closing Date, as applicable) (which the parties agree to be the per store amount with respect to each Multiemployer Plan as set forth under "Column A" on Section 6.01(j)(iv) of the Disclosure Schedule multiplied by the applicable number of in scope stores

purchased by Buyer), and (Y) if applicable, any reductions attributable to (i) the estimated application of the “20 year payment cap” on Seller’s potential withdrawal liability with respect to the Acquired Stores pursuant to Section 4219(c)(1)(B) of ERISA (which the parties agree to result in the amount with respect to each Multiemployer Plan produced from taking the midpoint of the applicable amount under “Column B” and “Column C” on Section 6.01(j)(iv) of the Disclosure Schedule) and/or (ii) for each Multiemployer Plan that uses the “presumptive method” of calculating withdrawal liability as defined in Section 4211(b) of ERISA, the portion of Seller’s withdrawal liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such Multiemployer Plan in a complete withdrawal on the Closing Date that is in excess of the withdrawal liability attributable to the five year contribution history that Buyer proposes to assume pursuant to Section 4204(b)(1) of ERISA. To the extent that either Buyer or Seller makes a reasonable challenge to a withdrawal liability assessment, the parties shall bear the costs associated with such challenge in proportion to their respective percentage shares of such withdrawal liability. Buyer shall determine the allocation of any withdrawal liability assessment as between Buyer and Seller using an actuary engaged whose costs shall be borne equally by Buyer and Seller (the “Buyer’s Actuary”). The Buyer’s Actuary shall provide to Seller within fourteen (14) Business Days of any withdrawal liability assessment a report setting forth its calculations regarding the withdrawal liability allocation (the “Withdrawal Liability Allocation Report”). Seller may engage an actuary at its own cost (the “Seller’s Actuary”) to verify the Withdrawal Liability Allocation Report of the Buyer’s Actuary, and shall cause the Seller’s Actuary to notify the Buyer’s Actuary in writing in the event that the Seller’s Actuary does not agree with the Withdrawal Liability Allocation Report within thirty (30) days of its receipt of such report. If the Seller’s Actuary notifies the Buyer’s Actuary that he or she does not agree with the Withdrawal Liability Allocation Report, Buyer and Seller shall negotiate with each other in good faith with a view to agreeing to an allocation of the applicable withdrawal liability assessment. If, however, Buyer and Seller fail to agree within fifteen (15) days of the notice of disagreement by the Seller’s Actuary, the matter shall be referred to a third actuary to be appointed by agreement between the Seller’s Actuary and the Buyer’s Actuary (the “Third Party Actuary”). The Third Party Actuary shall act as an expert and not as an arbitrator; however, his or her decision shall be final and binding on the parties hereto, unless either party can demonstrate a manifest error on the part of the Third Party Actuary. The Third Party Actuary’s costs shall be borne equally by Buyer and Seller.

(v) Buyer shall notify the Multiemployer Plan of the transactions contemplated by this Agreement and agrees to provide the Multiemployer Plan with any information that the Multiemployer Plan requires to demonstrate compliance with the terms of Section 4204 of ERISA.

(vi) Notwithstanding any other provisions of this Section, Section 4204 of ERISA or anything else contained in this Agreement to the contrary, it is expressly agreed that if Seller incurs any secondary withdrawal liability pursuant to Section 4204(a)(2) of ERISA as a result of Buyer’s withdrawal from a Multiemployer Plan, Buyer shall

indemnify and hold Seller harmless from any and all losses incurred by Seller by reason of such liability, after taking into account any amount Seller has agreed to indemnify Buyer for pursuant to Section 6.01(j)(iv). In addition, if Seller or any of its Affiliates incurs any liability as a result of Buyer's failure to comply with the terms of this Agreement relating to Section 4204 of ERISA, Buyer shall indemnify and hold each of them harmless from any withdrawal liability and other losses incurred by Seller or any of its Affiliates by reason of such failure; provided, however, that such indemnification shall not apply to any amounts in excess of the estimated withdrawal liability that Seller would have incurred with respect to the Acquired Stores if it had withdrawn from such Multiemployer Plan in a complete withdrawal on the Closing Date less any reductions attributable to the estimated application of the "20 year payment cap" on Seller's potential withdrawal liability pursuant to Section 4219(c)(1)(B) of ERISA (in each case, determined in the manner set forth in Section 6.01(j)(iv)); provided, however, that the parties agree that Buyer shall not be deemed to have failed to have complied with the terms of Section 4204(a)(1)(A) of ERISA for purposes of this Section 6.01(j)(vi) where it contributes to the Multiemployer Plan for substantially the same number of contribution base units for which Seller and its Affiliates had an obligation to contribute to such Multiemployer Plan for a period beginning on the Closing Date and ending on the last day of the plan year of the Multiemployer Plan that first commences immediately following the Closing Date. In the event that the requirements of Section 4204 of ERISA are not satisfied for any reason other than Buyer's failure to comply with the terms of this Agreement relating to Section 4204, and withdrawal liability is triggered and imposed upon Seller in connection with the transaction, the Attributable Withdrawal Liability under Section 6.01(j)(iv) will be reduced by any actual withdrawal liability that Seller is required to pay in connection therewith.

(k) Nothing in this Section 6.01, express or implied, is intended to confer on any person other than the parties hereto or their respective successors or assigns any rights, remedies, obligations or liabilities under or by reason of this Section 6.01 and no Transferred Employee or current or former employee of Seller, or any beneficiary or dependent thereof, or any other person not a party to this Agreement shall be entitled to assert any claim hereunder. Nothing in this Section 6.01 is intended to be, shall constitute or shall be construed as an amendment or modification to any Employee Plans or any other employee benefit plans or arrangements of Seller, Buyer or any of their respective Affiliates or in any way limit the right of Seller, Buyer or any of their respective Affiliates to amend, modify or terminate any of their respective employee benefit plans or arrangements. Notwithstanding any provision herein to the contrary, neither Buyer nor any of its Affiliates shall be obligated to continue to employ any Business Employee or Union Business Employee for any specific period of time following the Employment Start Date, subject to applicable requirements of Laws or the terms of any applicable CBA.

(l) Leasing Arrangement. In respect of the Transferred Employees, Seller and Buyer may mutually agree to enter into an employee leasing agreement pursuant to which all Transferred Employees shall temporarily remain employed by Seller or one of its Affiliates for the period following the Closing Date until such time as the final Subsequent Closing Date has

occurred in order to reduce the administrative burdens associated with multiple closings and to facilitate a more orderly transition of employment from Seller and its Affiliates to Buyer and its Affiliates. In the event that Seller and Buyer mutually agree to enter into such an agreement, Seller and Buyer agree to negotiate in good faith to amend the terms of this Agreement and any other Transaction Agreement as necessary to appropriately reflect the terms of such arrangement.

ARTICLE VII

CONDITIONS TO CLOSING

Section 7.01. Conditions to Obligations of Parent and Seller. The obligation of Parent and Seller to consummate the Closing shall be subject to the fulfillment, or waiver by Parent in its sole discretion (and, in the case of Section 7.01(f), Parent and Seller in their respective sole discretion), at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties; Covenants. Each of (i) the representations and warranties of Buyer contained in this Agreement and in any certificate delivered pursuant hereto shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date as if made on such date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all material respects as of such date); (ii) the covenants contained in this Agreement required to be complied with by Buyer on or before the Closing shall have been complied with in all material respects; and (iii) Seller shall have received a certificate of Buyer to such effect signed by a duly authorized executive officer.

(b) Governmental Approvals. The filings or approvals of applicable state boards of pharmacy required to be made or obtained prior to Closing specified on Section 7.01(b) of the Disclosure Schedules shall have been made or obtained.

(c) No Governmental Order. There shall be no Governmental Order in existence that prohibits the sale of the Purchased Assets or the other transactions contemplated by the Transaction Agreements, and there shall be no Action pending by any Governmental Authority seeking such a Governmental Order.

(d) Ancillary Agreements. Buyer shall have executed and delivered to Seller and Parent all of the Ancillary Agreements to be delivered at Closing.

(e) FTC Preliminary Approval. The FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition and such Proposed Consent Order shall identify Fred's or the Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder.

(f) Rite Aid Closing. The Rite Aid Closing shall have occurred.

(g) Duplicate IT System. Parent shall have (a) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing using the Developed Testing Procedures and (b) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate.

Section 7.02. Conditions to Obligations of Buyer. The obligations of Buyer to consummate the Closing shall be subject to the fulfillment, or waiver by Buyer in its sole discretion, at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties; Covenants. Each of (i) (A) the representations and warranties of Seller contained in this Agreement and in any certificate delivered pursuant hereto that is qualified by Material Adverse Effect shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date as if made on such date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all respects as of such date) and (B) all other representations and warranties of Seller contained in this Agreement and in any certificate delivered pursuant hereto shall be true and correct in all respects as of the Closing as if made on the Closing Date (other than representations and warranties that address matters only as of a specified earlier date, which representations and warranties shall have been true and correct in all respects as of such date), except for breaches or inaccuracies, as the case may be, as to matters that, individually or in the aggregate, have not had a Material Adverse Effect; (ii) the covenants contained in this Agreement required to be complied with by Seller on or before the Closing shall have been complied with in all material respects; and (iii) Buyer shall have received a certificate of Seller to such effect signed by a duly authorized representative of Seller.

(b) Governmental Approvals. The filings or approvals of applicable state boards of pharmacy required to be made or obtained prior to Closing specified on Section 7.01(b) of the Disclosure Schedules shall have been made or obtained.

(c) No Governmental Order. There shall be no Governmental Order in existence that prohibits the sale of the Purchased Assets or the other transactions contemplated by the Transaction Agreements, and there shall be no Action pending by any Governmental Authority seeking such a Governmental Order.

(d) Ancillary Agreements. Seller and Parent shall have executed and delivered to Buyer all of the Ancillary Agreements to be executed and delivered by Seller and Parent, as the case may be, at Closing.

(e) Absence of Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or circumstance that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect that is continuing.

(f) FTC Preliminary Approval. The FTC shall have issued publicly the Proposed Consent Order relating to the Rite Aid Acquisition and such Proposed Consent Order

shall identify Fred's or the Buyer as being preliminarily approved as the purchaser of the Purchased Assets hereunder.

(g) Duplicate IT System. Parent shall have (a) tested the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing using the Developed Testing Procedures and (b) based upon such test certified to Buyer as to the operational readiness of the Duplicate IT System by having delivered to Buyer an Operational Duplicate IT System Certificate.

(h) Rite Aid Closing. The Rite Aid Closing shall have occurred.

Section 7.03. Frustration of Closing Conditions. Neither Seller nor Buyer may rely on the failure of any condition set forth in this ARTICLE VII to be satisfied if such failure was caused by such party's failure to act in good faith or to use its reasonable best efforts to cause the Closing to occur, including as required by Section 5.05.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

Section 8.01. Termination. This Agreement may be terminated prior to the Closing:

(a) by the mutual written consent of Parent and Buyer;

(b) by either Parent, Seller or Buyer in the event of the issuance of a final, nonappealable Governmental Order permanently restraining or prohibiting the sale of the Purchased Assets;

(c) by Buyer (i) in the event of any material breach by Seller of any of Seller's agreements, representations or warranties contained herein which breach would give rise to the failure of a condition set forth in Section 7.02 and, if such breach is curable, the failure of Seller to cure such breach within twenty (20) Business Days after receipt of notice from Buyer requesting such breach to be cured; or (ii) upon the occurrence after the date hereof of an event that has had or would reasonably be expected to have a Material Adverse Effect not arising from a breach by Seller and which is not curable by Seller within such twenty (20) Business Day notice period;

(d) by Parent in the event of any material breach by Buyer of any of Buyer's agreements, representations or warranties contained herein which breach would give rise to the failure of a condition set forth in Section 7.01 and, if such breach is curable, the failure of Buyer to cure such breach within twenty (20) Business Days after receipt of notice from Parent requesting such breach to be cured;

(e) by Parent, if Fred's or the Buyer is not preliminarily approved by the FTC or other necessary Governmental Authority as purchaser of the Purchased Assets hereunder;

(f) by Parent, if the FTC Staff informs Parent or its Affiliates in writing that the Director of the Bureau of Competition will not recommend approval of Fred's or the Buyer as purchaser of the Purchased Assets hereunder;

(g) by any of Parent, Seller or Buyer in the event that the Agreement and Plan of Merger, dated as of as of October 27, 2015, among Parent, Seller and the other parties thereto (as the same may be amended, modified or supplemented) with respect to the Rite Aid Acquisition shall have been terminated in accordance with its terms; or

(h) by Parent or Buyer, upon written notice to the other, in the event that the Closing has not occurred on or before June 30, 2017; provided, however, that the right to terminate this Agreement under this Section 8.01(h) shall not be available to any party whose failure to take any action required to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to such date.

Section 8.02. Notice of Termination. Any party desiring to terminate this Agreement pursuant to Section 8.01 shall give written notice of such termination to the other party to this Agreement.

Section 8.03. Effect of Termination. In the event of the termination of this Agreement as provided in Section 8.01, this Agreement shall forthwith become void and there shall be no liability on the part of any party to this Agreement, except as set forth in Section 5.04 and ARTICLE X; provided, however, that nothing in this Agreement shall relieve either Seller or Buyer from liability for (a) any breach or failure to perform the obligations set forth in Section 5.04 or (b) any willful breach of this Agreement or willful failure to perform its other obligations under this Agreement.

Section 8.04. Extension; Waiver; Rescission. At any time prior to the Closing, Parent or Buyer may (a) extend the time for the performance of any of the obligations or other acts of the other Person, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement, or (c) waive compliance with any of the agreements or conditions contained in this Agreement, but such waiver of compliance with such agreements or conditions shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party granting such extension or waiver. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder. If, after the public comment period, at the time the FTC determines to make final and effective its Decision and Order concerning the acquisition of the Purchased Assets, the FTC notifies Parent and Seller that Buyer is not an acceptable purchaser of the assets being transferred to Buyer pursuant to this Agreement, then

each of the Parent, Seller and Buyer shall have the right immediately to rescind this Agreement, and the termination provisions of this Agreement in ARTICLE VIII shall be applicable as if a termination of this Agreement has occurred.

ARTICLE IX INDEMNIFICATION

Section 9.01. Indemnification by Seller.

(a) From and after the Closing (with respect to the Acquired Stores to be transferred on the Closing Date) and each Subsequent Closing (with respect to the Acquired Stores to be transferred on such Subsequent Closing Date), and subject to Section 9.01(b), Section 9.03, Section 9.05, Section 9.06, Section 9.07, Section 9.08 and Section 10.01, Seller shall indemnify, defend and hold harmless Buyer and its Affiliates and Representatives (collectively, the “Buyer Indemnified Parties”) against, and reimburse any Buyer Indemnified Party for, all Losses that such Buyer Indemnified Party may suffer or incur, or become subject to, as a result of:

(i) any breach of any warranty or the inaccuracy of any representation of Seller contained or referred to in this Agreement or any certificate delivered by or on behalf of Seller pursuant hereto as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date, any Subsequent Closing Date or the Distribution Center Closing Date (except that for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of such representation or warranty will be determined with reference to such specified date); provided that the disclosure of any and all Bring-Down Exceptions shall be expressly disregarded for purposes of determining the existence of any such breach or inaccuracy;

(ii) any breach or failure by Seller to perform any of its covenants or obligations contained in this Agreement to be performed before, on or after the Closing (or such Subsequent Closing or Distribution Center Closing, as applicable);

(iii) the matters set forth in Section 6.01 with respect to which Seller may be obligated to provide indemnification thereunder; or

(iv) any Excluded Liability.

(b) Notwithstanding any other provision of this Agreement to the contrary: (i) Seller shall not be required to indemnify, defend or hold harmless any Buyer Indemnified Party against, or reimburse any Buyer Indemnified Party for, any Losses pursuant to Section 9.01(a)(i)(A) with respect to any claim unless such claim involves Losses in excess of \$25,000 and (B) until the aggregate amount of Buyer Indemnified Parties’ Losses exceeds \$1,000,000 (the “Deductible Amount”), after which Seller shall only be obligated for such aggregate Losses

of Buyer Indemnified Parties in excess of the Deductible Amount; (ii) the cumulative indemnification obligation of Seller under Section 9.01(a)(i) (other than the indemnification obligation of Seller with respect to representations and warranties made in Sections 3.01 or 3.10) shall in no event exceed \$95,000,000; and (iii) the cumulative indemnification obligation of Seller under this ARTICLE IX and Section 5.07 shall in no event exceed the Purchase Price.

(c) The Seller's obligation under this Section 9.01 to indemnify any Buyer Indemnified Party for any Loss resulting from an inaccurate representation made by Seller in this Agreement or any certificate delivered by or on behalf of Seller pursuant hereto will not be affected if the Buyer has knowledge of that inaccuracy, whether obtained before, on or after the Closing, any Subsequent Closing or the Distribution Center Closing.

Section 9.02. Indemnification by Buyer.

(a) From and after the Closing (with respect to the Acquired Stores to be transferred on the Closing Date) and each Subsequent Closing (with respect to the Acquired Stores to be transferred on such Subsequent Closing Date), and subject to Section 9.03, Section 9.05, Section 9.06, Section 9.08 and Section 10.01, Buyer shall indemnify, defend and hold harmless Seller and its Affiliates (collectively, the "Seller Indemnified Parties") against, and reimburse any Seller Indemnified Party for, all Losses that such Seller Indemnified Party may suffer or incur, or become subject to, as a result of:

(i) any breach of any warranty or the inaccuracy of any representation of Buyer contained or referred to in this Agreement or any certificate delivered by or on behalf of Buyer pursuant hereto as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date, any Subsequent Closing Date or the Distribution Center Closing Date (except that for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of such representation or warranty will be determined with reference to such specified date);

(ii) any breach or failure by Buyer to perform any of its covenants or obligations contained in this Agreement to be performed before, on or after the Closing (or such Subsequent Closing or Distribution Center Closing, as applicable);

(iii) any Assumed Liability; or

(iv) the matters set forth in Section 2.01(g) and Section 6.01 with respect to which Buyer may be obligated to provide indemnification thereunder.

(b) Notwithstanding any other provision of this Agreement to the contrary: (i) Buyer shall not be required to indemnify, defend or hold harmless any Seller Indemnified Party against, or reimburse any Seller Indemnified Party for, any Losses pursuant to Section 9.02(a)(i) until the aggregate amount of Seller Indemnified Parties' Losses exceeds the Deductible Amount, after which Buyer shall only be obligated for such aggregate Losses of

Seller Indemnified Parties in excess of the Deductible Amount; and (ii) the cumulative indemnification obligation of Buyer under Section 9.02(a)(i) shall in no event exceed the Purchase Price.

Section 9.03. Notification of Claims.

(a) A Person that may be entitled to be indemnified under this ARTICLE IX (the “Indemnified Party”), shall promptly notify the party or parties liable for such indemnification (the “Indemnifying Party”) in writing of any pending or threatened claim, demand or circumstance that the Indemnified Party has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement (including a pending or threatened claim or demand asserted by a third party against the Indemnified Party, such claim being a “Third Party Claim”), describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim, demand or circumstance; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this ARTICLE IX except to the extent the Indemnifying Party is prejudiced by such failure, it being understood that notices for claims in respect of a breach of a representation, warranty, covenant or agreement must be delivered prior to the expiration of any applicable survival period specified in Section 10.01 for such representation, warranty, covenant or agreement.

(b) Upon receipt of a notice of a claim for indemnity from an Indemnified Party pursuant to Section 9.03(a), with respect to any Third Party Claim, the Indemnifying Party shall have the right (but not the obligation) to assume the defense and control of any Third Party Claim and, in the event that the Indemnifying Party assumes the defense and control of such claim, it shall allow the Indemnified Party a reasonable opportunity to participate in the defense of such Third Party Claim with its own counsel and at its own expense. The party that shall control the defense of any such Third Party Claim (the “Controlling Party”) shall select counsel, contractors and consultants of recognized standing and competence after consultation with the other party and shall take all steps reasonably necessary in the defense or settlement of such Third Party Claim.

(c) Seller or Buyer, as the case may be, shall, and shall cause each of its Affiliates and Representatives to, cooperate fully with the Controlling Party in the defense of any Third Party Claim. The Indemnifying Party shall be authorized to consent to a settlement of, or the entry of any judgment arising from, any Third Party Claim, without the consent of any Indemnified Party; provided, that the Indemnifying Party shall (i) pay or cause to be paid all amounts arising out of such settlement or judgment concurrently with the effectiveness of such settlement (subject to Section 9.01(b) and Section 9.02(b), if applicable), (ii) not encumber any of the material assets of any Indemnified Party or agree to any restriction or condition that would apply to or materially adversely affect any Indemnified Party or the conduct of any Indemnified Party’s business and (iii) obtain, as a condition of any settlement or other resolution, a complete release of any Indemnified Party potentially affected by such Third Party Claim.

(d) If any Indemnifying Party receives a notice of a claim for indemnity from an Indemnified Party pursuant to Section 9.03(a) that does not involve a Third Party Claim, the Indemnifying Party shall notify the Indemnified Party within thirty (30) days following its receipt of such notice if the Indemnifying Party disputes its liability to the Indemnified Party under this ARTICLE IX. If the Indemnifying Party does not so notify the Indemnified Party, the claim specified by the Indemnified Party in such notice shall be conclusively deemed to be a Liability of the Indemnifying Party under this ARTICLE IX, and the Indemnifying Party shall pay, subject to the limitations set forth in Section 9.01(b) and Section 9.02(b), if applicable, the amount of such Liability to the Indemnified Party on demand or, in the case of any notice in which the amount of the claim (or any portion of the claim) is estimated, on such later date when the amount of such claim (or such portion of such claim) becomes finally determined. If the Indemnifying Party has timely disputed its liability with respect to such claim as provided above, the Indemnifying Party and the Indemnified Party shall resolve such dispute in accordance with Section 10.11.

Section 9.04. Exclusive Remedies. Except with respect to the matters covered by ARTICLE II, and other than with respect to any equitable remedies contemplated by Section 10.13, Seller and Buyer acknowledge and agree that, following the Closing, the indemnification provisions of Section 9.01 and Section 9.02 shall be the sole and exclusive remedies of any Seller Indemnified Party and any Buyer Indemnified Party, respectively, for any Losses (including any Losses from claims for breach of contract, warranty, tortious conduct (including negligence) or otherwise and whether predicated on common law, statute, strict liability, or otherwise) that it may at any time suffer or incur, or become subject to, as a result of, or in connection with, any breach of any representation or warranty in this Agreement by Buyer or Seller, respectively, or any failure by Buyer or Seller, respectively, to perform or comply with any covenant or agreement set forth herein. Without limiting the generality of the foregoing, the parties hereto hereby irrevocably waive any right of rescission they may otherwise have or to which they may become entitled. The provisions of this Section were specifically bargained for among the parties and were taken into account by the parties in arriving at the Purchase Price and the terms and conditions of this Agreement. Seller has specifically relied upon the provisions of this Section in agreeing to the Purchase Price and the terms and conditions of this Agreement. No Person who is not a party to this Agreement or the Ancillary Agreements, including any past, present or future director, officer, employee, incorporator, member, partner, manager, stockholder, Affiliate, agent, attorney, or representative of, and any financial advisor or lender to, any party hereto, or any director, officer, employee, incorporator, member, partner, manager, stockholder, Affiliate, agent, attorney, or representative of, and any financial advisor or lender to, any of the foregoing shall have any liability (whether in contract or in tort, in law or in equity, or granted by statute) for any claims, Liabilities or causes of action arising under, out of, in connection with, or related in any manner to this Agreement or the Ancillary Agreements or based on, in respect of, or by reason of this Agreement or the Ancillary Agreements or its or their negotiation, execution, performance, or breach; and, to the maximum extent permitted by law, each party hereto hereby waives and releases all such claims, Liabilities and causes of action against any such Persons.

Section 9.05. Additional Indemnification Provisions.

(a) With respect to each indemnification obligation contained in this ARTICLE IX (i) all Losses shall be net of any third-party insurance proceeds that have been recovered or are recoverable by the Indemnified Party in connection with the facts giving rise to the right of indemnification, (ii) Seller shall have no liability to indemnify any Buyer Indemnified Party with respect to any Losses caused by or resulting from any action (A) that Seller is required, permitted or requested to take pursuant to this Agreement (including with the consent of Buyer) or (B) that Seller, having sought Buyer's consent pursuant to this Agreement, did not take as a result of Buyer having withheld or delayed the requested consent and (iii) each such obligation shall be calculated on an After-Tax Basis.

(b) If an Indemnifying Party makes any payment for any Losses suffered or incurred by an Indemnified Party pursuant to the provisions of this ARTICLE IX, such Indemnifying Party shall be subrogated, to the extent of such payment, to all rights and remedies of the Indemnified Party to any insurance benefits or other claims of the Indemnified Party with respect to such Losses and with respect to the claim giving rise to such Losses.

(c) Buyer and Seller agree that, for purposes of computing the amount of any indemnification payment under this ARTICLE IX, any such indemnification payment shall be treated as an adjustment to the Purchase Price for all Tax purposes.

Section 9.06. Mitigation. Each of the parties shall, and shall cause its applicable Affiliates and Representatives to, take all reasonable steps to mitigate their respective Losses upon and after becoming aware of any event or condition that would reasonably be expected to give rise to any Losses that are indemnifiable hereunder.

Section 9.07. Third Party Remedies. If any Buyer Indemnified Party is at any time entitled (whether by reason of a contractual right, a right to take or bring an Action, availability of insurance, or a right to require a payment discount or otherwise) to recover from another Person any amount in respect of any matter giving rise to a Loss (whether before or after Seller has made a payment to an Buyer Indemnified Party hereunder and in respect thereof), Buyer shall (and shall cause its applicable Affiliate to) (i) promptly notify Seller and provide such information as Seller may require relating to such right of recovery and the steps taken or to be taken by Buyer in connection therewith, (ii) if so required by Seller (subject to Buyer being indemnified to its reasonable satisfaction by Seller against all reasonable out-of-pocket costs and expenses incurred by Buyer in respect thereof) and before being entitled to recover any amount from Seller under this Agreement, first take all steps (whether by making a claim against its insurers, commencement of an Action or otherwise) as Seller may reasonably require to pursue such recovery, and (iii) keep Seller fully informed of the progress of any action taken in respect thereof. Thereafter, any claim against Seller shall be limited (in addition to the limitations on the liability of Seller referred to in this Agreement) to the amount by which the Losses suffered by Buyer Indemnified Party exceed the amounts so recovered by Buyer Indemnified Party or any Affiliate of Buyer. If Buyer Indemnified Parties recover any amounts in respect of Losses from any third party at any time after Seller has paid all or a portion of such Losses to Buyer Indemnified Parties pursuant to the provisions of this ARTICLE IX, Buyer shall, or shall cause

such Buyer Indemnified Parties to promptly (and in any event within two (2) Business Days of receipt) pay over to Seller the amount so received (to the extent previously paid by Seller).

Section 9.08. Limitation on Liability. In no event shall any party have any liability to the other (including under this ARTICLE IX) for any consequential, special, incidental, indirect or punitive damages, lost profits or similar items (including loss of revenue, income or profits, diminution of value or loss of business reputation or opportunity relating to a breach or alleged breach hereof); provided, that such limitation with respect to lost profits shall not limit either party's right to recover contract damages in connection with the other party's failure to close in violation of this Agreement.

Section 9.09. Parent Guaranty.

(a) Parent hereby, subject to the limitations set forth in this Article IX, unconditionally and irrevocably guarantees (the "Parent Guaranty") by way of an independent obligation to Buyer the due and punctual performance of the obligations of Seller under this Agreement to the extent to be performed from or after the closing of the Rite Aid Acquisition when and as the same shall arise and become due and payable in accordance with the terms of and subject to the conditions contained in this Agreement (the "Seller Obligations").

(b) Notwithstanding anything to the contrary herein, following the Rite Aid Closing Buyer shall, prior to bringing any Action against Parent with respect to the Seller Obligations or otherwise seeking any recourse with respect thereto, use commercially reasonable efforts to seek resolution against Seller with respect to the subject matter giving rise to such Action, and provided that Buyer has made such efforts:

(i) Parent waives any and all notice of the creation, renewal, extension or accrual of the Seller Obligations, any defenses (other than those that may be available to Seller under this Agreement) and notice of or proof of reliance by Buyer upon this Parent Guaranty or acceptance of this Parent Guaranty. The Seller Obligations shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Parent Guaranty. All dealings between Buyer and Seller shall be conclusively presumed to have been had or consummated in reliance upon this Parent Guaranty. Parent agrees that any notice provided under this Agreement (including any demand for payment or notice of default or non-payment) to Seller shall be deemed to constitute notice to Parent for purposes hereof; and

(ii) this is a guaranty of payment, not merely of collection. If for any reason whatsoever Seller shall fail or be unable to perform or comply with the Seller Obligations, Parent will promptly upon receipt of notice thereof from Buyer forthwith perform the Seller Obligations then obligated.

(c) Parent represents that: (i) Parent has full right, authority and capacity to join in this Agreement and provide the guaranty as set forth in this Section 9.09; (ii) the execution, delivery and performance by Parent of this Agreement has been duly authorized, and

no other action on the part of Parent is required in connection therewith; and (iii) this Agreement constitutes a valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

Section 9.10. Fred's Guaranty.

(a) Fred's hereby, subject to the limitations set forth in this Article IX, unconditionally and irrevocably guarantees (the "Fred's Guaranty") by way of an independent obligation to Parent the due and punctual performance of the obligations of Buyer under this Agreement to the extent to be performed from or after the date of this Agreement when and as the same shall arise and become due and payable in accordance with the terms of and subject to the conditions contained in this Agreement (the "Buyer Obligations").

(b) Notwithstanding anything to the contrary herein, with respect to Buyer Obligations in respect of Purchased Assets and Assumed Liabilities that have been transferred to Buyer pursuant to this Agreement, Parent shall, prior to bringing any Action against Fred's with respect to such Buyer Obligations or otherwise seeking any recourse with respect thereto, use commercially reasonable efforts to seek resolution against Buyer with respect to the subject matter giving rise to such Action, and provided that Parent has made such efforts:

(i) Fred's waives any and all notice of the creation, renewal, extension or accrual of the Buyer Obligations, any defenses (other than those that may be available to Buyer under this Agreement) and notice of or proof of reliance by Parent upon this Fred's Guaranty or acceptance of this Fred's Guaranty. The Buyer Obligations shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon this Fred's Guaranty. All dealings between Buyer and Parent shall be conclusively presumed to have been had or consummated in reliance upon this Fred's Guaranty. Fred's agrees that any notice provided under this Agreement (including any demand for payment or notice of default or non-payment) to Buyer shall be deemed to constitute notice to Fred's for purposes hereof; and

(ii) this is a guaranty of payment, not merely of collection. If for any reason whatsoever Buyer shall fail or be unable to perform or comply with the Buyer Obligations, Fred's will promptly upon receipt of notice thereof from Parent forthwith perform the Buyer Obligations then obligated.

(c) Fred's represents that: (i) Fred's has full right, authority and capacity to join in this Agreement and provide the guaranty as set forth in this Section 9.10; (ii) the execution, delivery and performance by Fred's of this Agreement has been duly authorized, and no other action on the part of Fred's is required in connection therewith; and (iii) this Agreement constitutes a valid and binding obligation of Fred's, enforceable against Fred's in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency,

reorganization, moratorium or other laws affecting creditors' rights generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

ARTICLE X

GENERAL PROVISIONS

Section 10.01. Survival. The representations and warranties of Seller and Buyer contained in or made pursuant to this Agreement shall survive in full force and effect until the date that is twenty-four (24) months after the Closing Date, at which time they shall terminate (and no claims shall be made for indemnification for breaches of any representations or warranties under Section 9.01 or Section 9.02 thereafter); provided that the representations and warranties made in Section 3.10, Section 3.11, Section 3.14 and Section 5.07 shall survive until the expiration of the statute of limitations applicable to the matters related thereto; provided, further, that the representations and warranties made in Sections 3.01, 3.03, 4.01, 4.02 and 4.04 shall survive in full force and effect until the fifth (5th) anniversary of the Closing Date, at which time they shall terminate (and no claims shall be made for indemnification under Section 9.01 or Section 9.02 thereafter); provided, further, that the covenants and agreements that by their terms apply or are to be performed in whole or in part after the Closing Date, shall survive for the period provided in such covenants and agreements, if any, or until fully performed.

Section 10.02. Expenses. Except as may be otherwise specified in the Transaction Agreements, all costs and expenses, including fees and disbursements of counsel, financial advisers and accountants, incurred in connection with the Transaction Agreements and the transactions contemplated by the Transaction Agreements shall be paid by the Person incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 10.03. Notices. All notices, requests, claims, demands and other communications under the Transaction Agreements shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by facsimile with receipt confirmed (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10.03):

(i) if to Seller:

Rite Aid Corporation
30 Hunter Lane
Camp Hill, PA 17011
Attention: James J. Comitale
Email: jcomitale@riteaid.com
Facsimile: (717) 760-7867

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Chris Abbinante; Scott R. Williams
Email: cabbinante@sidley.com; swilliams@sidley.com
Facsimile: (312) 853-7036

and, if prior to Rite Aid Closing:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, NY 10036
Attention: Paul T. Schnell; Marie L. Gibson
Email: paul.schnell@skadden.com; marie.gibson@skadden.com
Facsimile: (212) 735-2000

(ii) if to Parent:

Walgreens Boots Alliance, Inc.
108 Wilmot Road
Deerfield, IL 60015
Attention: Marco Pagni
Email: marco.pagni@wba.com
Facsimile: (847) 315-8570

with a copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603
Attention: Chris Abbinante; Scott R. Williams
Email: cabbinante@sidley.com; swilliams@sidley.com
Facsimile: (312) 853-7036

(iii) if to Fred's:

Fred's, Inc.
4300 New Getwell Road
Memphis, TN 38118
Attention: General Counsel
with a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
First Tennessee Building

165 Madison Avenue
Suite 2000
Memphis, TN 38103
Attention: Sam Chafetz; Drew Yonchak
Email: schafetz@bakerdonelson.com; dyonchak@bakerdonelson.com
Facsimile: (901) 577-0854

(iv) if to Buyer:

AFAE, LLC
c/o Fred's, Inc.
4300 New Getwell Road
Memphis, TN 38118
Attention: General Counsel
with a copy to:

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.
First Tennessee Building
165 Madison Avenue
Suite 2000
Memphis, TN 38103
Attention: Sam Chafetz; Drew Yonchak
Email: schafetz@bakerdonelson.com; dyonchak@bakerdonelson.com
Facsimile: (901) 577-0854

Section 10.04. Public Announcements. No party to this Agreement or any Affiliate or Representative of such party shall issue or cause the publication of any press release or public announcement or otherwise communicate with any news media in respect of this Agreement or the transactions contemplated by this Agreement without the prior written consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed), except as may be required by Law or stock exchange rules, in which case the party required to publish such press release or public announcement shall allow the other party a reasonable opportunity to comment on such press release or public announcement in advance of such publication, to the extent practicable.

Section 10.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any Law or as a matter of public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in

order that the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible.

Section 10.06. Entire Agreement. The Transaction Agreements and the Expense Reimbursement Letter, dated as of November 10, 2016, among Parent and Buyer constitute the entire agreement of Parent, Seller and/or their respective Affiliates, on the one hand, and Buyer and/or its Affiliates, on the other hand, with respect to the subject matter of the Transaction Agreements and supersede all prior agreements, undertakings and understandings, both written and oral, other than the Confidentiality Agreement to the extent not in conflict with this Agreement, between or on behalf of Seller and/or its Affiliates, on the one hand, and Buyer and/or its Affiliates, on the other hand, with respect to the subject matter of the Transaction Agreements.

Section 10.07. Assignment. This Agreement shall not be assigned by operation of Law or otherwise without the prior written consent of Parent, Fred's, Seller and Buyer; provided that (i) Buyer may assign its right to acquire any of the Purchased Assets to any wholly-owned, domestic Subsidiary of Buyer, in its sole discretion (it being acknowledged and agreed that no such assignment shall relieve Buyer of any of its obligations hereunder or materially delay or impede the consummation of the transactions contemplated hereby); and (ii) Buyer may (in connection with any Debt Financing) collaterally assign and transfer to the applicable Lenders, for the benefit of the secured parties under such Debt Financing, this Agreement and any Ancillary Agreement (including all rights, remedies, powers and authority of Buyer under this Agreement and any Ancillary Agreement) and in connection therewith, Parent, Fred's, Seller and Buyer agree (A) that such Lenders (or any agent therefor) shall have the right to (1) enforce (solely in connection with the enforcement of any remedies of such Lenders in connection with the Debt Financing (an "Enforcement Event")) any rights of Fred's or Buyer under this Agreement and any Ancillary Agreement, (2) in connection with any Enforcement Event, compromise or settle any disputed claims as to rights of Fred's or Buyer under this Agreement and any Ancillary Agreement or (3) in connection with any Enforcement Event, give releases or acquittances of rights of Fred's or Buyer under this Agreement and any Ancillary Agreement; and (B) to reasonably cooperate with such Lender (or any agent thereof) in connection with the enforcement of any such rights and remedies of the Lenders in connection with any Enforcement Event; provided, that such no such cooperation results in any Liability of Parent, Seller or any of their Affiliates to Buyer, the Lenders or any other Person. Any attempted assignment in violation of this Section 10.07 shall be void. This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by the parties hereto and their successors and permitted assigns.

Section 10.08. No Third-Party Beneficiaries. Except (a) as provided in ARTICLE IX with respect to Seller Indemnified Parties and Buyer Indemnified Parties and (b) this Section 10.08, the proviso of Section 10.07, the proviso of Section 10.09, Section 10.11, Section 10.16 and Section 10.17 (in each case, with respect to the Lender Related Parties), this Agreement is for the sole benefit of the parties to this Agreement and their permitted successors and assigns and nothing in this Agreement or any other Transaction Agreements, express or implied, is intended to or shall confer upon any other Person, including any employee or former

employee of Seller or the Acquired Stores, or entity any legal or equitable right, benefit or remedy of any nature whatsoever, including any rights of employment for any specified period, under or by reason of this Agreement. This Section 10.08, the proviso of Section 10.07, the proviso of Section 10.09, Section 10.11, Section 10.16 and Section 10.17 are each intended to benefit the Lender Related Parties, and each Lender Related Party shall be deemed an intended third-party beneficiary of this Agreement with respect thereto and such provisions shall be enforceable by the Lender Related Parties.

Section 10.09. Amendment. No provision of this Agreement or any other Transaction Agreement, including any Exhibits or Schedules hereto or thereto, may be amended, supplemented or modified except by a written instrument making specific reference hereto or thereto signed by all the parties to such agreement. No consent from any Indemnified Party under ARTICLE IX (other than the parties to this Agreement) shall be required in order to amend this Agreement; provided, however, that no provisions of this Agreement to which any Lender Related Party is a third-party beneficiary may be amended in a manner materially adverse to the interests of the Lender Related Parties without the prior written consent of the Lenders.

Section 10.10. Disclosure Schedules. Any disclosure set forth in the Disclosure Schedules with respect to a Section or Schedule of this Agreement shall be deemed to be disclosed for other Sections or Schedules of this Agreement solely to the extent that such disclosure is reasonably sufficient on its face so that the relevance of such disclosure would be reasonably apparent to a reader of such disclosure. Matters reflected in any Section or Schedule of this Agreement are not necessarily limited to matters required by this Agreement to be so reflected. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. No reference to or disclosure of any item or other matter in any Section or Schedule of this Agreement shall be construed as an admission or indication that such item or other matter is material or that such item or other matter is required to be referred to or disclosed in this Agreement. Without limiting the foregoing, no such reference to or disclosure of a possible breach or violation of any Contract, Law or Governmental Order shall be construed as an admission or indication that breach or violation exists or has actually occurred.

Section 10.11. Governing Law; Submission to Jurisdiction. This Agreement and each other Transaction Agreement (and any claims, causes of action or disputes that may be based upon, arise out of or relate hereto or thereto, to the transactions contemplated hereby and thereby, to the negotiation, execution or performance hereof or thereof, or to the inducement of any party to enter herein and therein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed in accordance with the internal Laws (as opposed to the conflicts of law provisions) of the State of Delaware. Each of Seller and Buyer agrees that any dispute, controversy or claim arising out of or relating to the transactions contemplated by the Transaction Agreements, or the validity, interpretation, breach or termination of any such agreement, including claims seeking redress or asserting rights under any Law (a “Dispute”) shall be resolved only in the Courts of the State of Delaware sitting in the County of New Castle or the United States District Court for the District of Delaware and the appellate courts having

jurisdiction of appeals in such courts, provided that, any suit, action, litigation, proceeding or claim against any Lender Related Party (whether in law or equity or in contract, tort or otherwise) in connection with any aspect of the Debt Financing will be governed, including as to validity, interpretation, and effect, by the laws of the State of New York and shall be tried and litigated only in the state courts, and to the extent permitted by applicable law, federal courts, in each case located in New York County, New York and each of the parties hereto submits to the exclusive jurisdiction and venue of such courts relative to any such claim, controversy or dispute. In that context, and without limiting the generality of the foregoing, each of Parent, Seller and Buyer by this Agreement irrevocably and unconditionally:

(a) submits for itself and its property in any Action relating to the Transaction Agreements, or for recognition and enforcement of any judgment in respect thereof, to the exclusive jurisdiction of the Courts of the State of Delaware sitting in the County of New Castle, the court of the United States of America for the District of Delaware, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Action shall be heard and determined in such Delaware State court or, to the extent permitted by Law, in such federal court;

(b) consents that any such Action may and shall be brought in such courts and waives any objection that it may now or hereafter have to the venue or jurisdiction of any such Action in any such court or that such Action was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such Action may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at its address as provided in Section 10.03; and

(d) agrees that nothing in the Transaction Agreements shall affect the right to effect service of process in any other manner permitted by the Laws of the State of Delaware.

Notwithstanding the foregoing, any suit, action, litigation, proceeding or claim against any Lender Related Party (whether in law or equity or in contract, tort or otherwise) will be governed, including as to validity, interpretation, and effect, by the laws of the State of New York and shall be tried and litigated only in the state courts, and to the extent permitted by applicable law, federal courts, in each case located in New York County, New York and each of the parties hereto submits to the exclusive jurisdiction and venue of such courts relative to any such claim, controversy or dispute.

Section 10.12. Bulk Sales Laws. Buyer and Seller each hereby waive compliance by Seller and its Affiliates with the provisions of the “bulk sales”, “bulk transfer” or similar Laws of any state or any jurisdiction outside the United States that may otherwise be applicable with respect to the sale of any of the Purchased Assets.

Section 10.13. Specific Performance. Each party acknowledges and agrees that the breach of this Agreement would cause irreparable damage to the other party hereto and that neither party will have an adequate remedy at law. Therefore, the obligations of

Seller under this Agreement, including Seller's obligation to sell the Purchased Assets to Buyer, and the obligations of Buyer under this Agreement, including Buyer's obligation to purchase and acquire the Purchased Assets from Seller, shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. Such remedies shall, however, be cumulative and not exclusive and shall be in addition to any other remedies which any party may have under this Agreement or otherwise. Each of the parties hereto expressly disclaims that it is owed any duties not expressly set forth in this Agreement, and waives and releases any and all tort claims and causes of action that may be based upon, arise out of or relate to this Agreement, or the negotiation, execution or performance of this Agreement.

Section 10.14. Interpretation. For purposes of this Agreement, (a) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation," (b) the word "or" is not exclusive and (c) the words "herein," "hereof," "hereby," "hereto" and "hereunder" refer to this Agreement as a whole. Unless the context otherwise requires, references herein (i) to Articles, Sections, Annexes, Exhibits and Schedules mean the Articles and Sections of, and the Annexes, Exhibits and Schedules attached to, this Agreement, (ii) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement, (iii) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder and (iv) to a Person means such Person and its predecessors and successors and permitted assigns. The Schedules, Annexes and Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein. Titles to Articles and headings of Sections are inserted for convenience of reference only and shall not be deemed a part of or to affect the meaning or interpretation of this Agreement. This Agreement and the Ancillary Agreements shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. All payments to be made hereunder are to be made by wire transfer of immediately available funds to an account specified in writing by the party to be paid.

Section 10.15. Counterparts. Each of the Transaction Agreements may be executed in counterparts, and by the different parties to each such agreement in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to any Transaction Agreement by facsimile or .pdf shall be as effective as delivery of a manually executed counterpart of any such Agreement.

Section 10.16. Waiver of Jury Trial. EACH PARTY HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY OTHER TRANSACTION AGREEMENTS OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY (INCLUDING WITH RESPECT TO ANY DEBT

FINANCING). EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER TRANSACTION AGREEMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.16.

Section 10.17. Non-Recourse. Except as set forth in Section 9.09, no past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Seller or its Affiliates shall have any liability for any Liabilities of Seller under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Parent or its Affiliates shall have any liability for any Liabilities of Parent under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Buyer or its Affiliates shall have any liability for any Liabilities of Buyer under this Agreement or the Ancillary Agreements of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby. Notwithstanding any provision of this Agreement, each of Seller and Parent agrees on its behalf and on behalf of its past, present or future directors, officers, employees, incorporators, members, partners, stockholders, Affiliates, agents, attorneys and representatives (collectively, the "Seller Parties") that none of the Lender Related Parties shall have any liability or obligation to Seller Parties relating to this Agreement, any Ancillary Agreement or any of the transactions contemplated herein or therein (including the Debt Financing), whether at law, in equity in contract, in tort or otherwise and in no event will the Seller Parties seek or obtain any damages of any kind against any Lender Related Parties (including consequential, special, indirect or punitive damages or damages of a tortious nature), in each case, relating to or arising out of this Agreement, any Ancillary Agreement, the Debt Financing, or the transactions contemplated hereby or thereby or the failure of the transactions contemplated hereby or thereby to be consummated.

Section 10.18. Time is of the Essence. With respect to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on the date first written above by their respective duly authorized officers.

RITE AID CORPORATION

By: /s/ James J. Comitale
Name: James J. Comitale
Title: Senior Vice President, General
Counsel & Secretary

WALGREENS BOOTS ALLIANCE, INC. (solely for purposes of Section 2.06, Section 2.09 through Section 2.12, Section 5.03 through Section 5.06, Section 5.08, Section 5.11 through Section 5.19, Section 9.09, Article VIII and Article X)

By: /s/ Mark Vainisi
Name: Mark Vainisi
Title: Senior Vice President, WBA
Mergers & Acquisitions

[Signature Page to Asset Purchase Agreement]

AFAE, LLC

By: Fred's, Inc., its sole member

By: /s/ Michael K. Bloom

Name: Michael K. Bloom

Title: President and Chief Executive
Officer

**FRED'S, INC. (solely for purposes of Section 4.07, Section 5.05, Section 5.12,
Section 9.10 and Article X)**

By: /s/ Michael K. Bloom

Name: Michael K. Bloom

Title: President and Chief Executive
Officer

[Signature Page to Asset Purchase Agreement]

DEFINITIONS

“Acquired Leases” shall have the meaning set forth in Section 3.12(b).

“Acquired Stores” means the stores located at the Leased Real Property and Owned Real Property.

“Action” means any claim, action, suit, arbitration, inquiry, proceeding, audit, hearing, litigation (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) or investigation commenced, brought, conducted or heard by or before, or otherwise involving any Governmental Authority or arbitrator.

“Additional Inventory Audit” shall have the meaning set forth in Section 2.10(a)(ii).

“Affiliate” means, with respect to any specified Person, any other Person that, at the time of determination, directly or indirectly through one or more intermediaries, Controls, is Controlled by or is under common Control with such specified Person.

“After-Tax Basis” means that, in determining the amount of the payment necessary to indemnify any party against, or reimburse any party for, Losses, the amount of such Losses shall be determined taking into account all reductions in federal, state, local and foreign Taxes (including estimated Taxes) realized by the indemnified party as a result of the event giving rise to such Losses (the “Indemnified Event”) and all increases therein realized by the indemnified party as a result of receipt of such indemnification payment. All calculations shall be made at the time of the relevant indemnification payment using reasonable assumptions (as agreed to by the indemnifying and indemnified party) and present value concepts (using a discount rate equal to the applicable federal rate in effect at the time of the Indemnified Event (based on the Federal mid-term rate) using semi-annual compounding.

“Aggregate Inventory Amount” means the sum of the Inventory Amount as determined with respect to the Acquired Stores to be transferred at the Closing plus the Inventory Amount as determined with respect to the Acquired Stores to be transferred at each Subsequent Closing.

“Agreement” means this Asset Purchase Agreement dated as of December 19, 2016 between Seller and Buyer, including the Disclosure Schedules and the Exhibits, and all amendments to such agreement made in accordance with Section 10.09.

“Allocation Schedule” shall have the meaning set forth in Section 2.07(b).

“Ancillary Agreements” means the Bill of Sale, Assignment and Assumption Agreement and the Transition Services Agreement.

“ Assumed Liabilities ” shall have the meaning set forth in Section 2.03 .

“ Attributable Withdrawal Liability ” shall have the meaning set forth in Section 6.01(j)(iv) .

“ Base Purchase Price ” shall have the meaning set forth in Section 2.07(a) .

“ Benefits Arrangements ” shall have the meaning set forth in Section 2.02(f) .

“ Bill of Sale, Assignment and Assumption Agreement ” shall have the meaning set forth in Section 5.08(b) .

“ Book to Physical Adjustment Ratio ” means the Inventory Amount with respect to the Sampled Locations with respect to the Closing or the applicable Subsequent Closing, *divided by* the aggregate Reported Inventory Value with respect to such Sampled Locations.

“ Bring-Down Exception ” shall have the meaning set forth in Section 2.08(b)(i) .

“ Business Day ” means any day that is not a Saturday, a Sunday or other day on which commercial banks in the City of New York, New York are required or authorized by Law to be closed.

“ Business Employee ” means any employee of Seller or its Subsidiaries who: (a) provides services exclusively related to the Acquired Stores or the Distribution Center, including those employed at a regional or district office of Seller or its Subsidiaries, (b) is a retail operations or pharmacy field district leader or a field district support team member, serving in a function related to asset protection, human resources or administration in one or more districts, with respect to whom Acquired Stores comprise 35% or more of the total stores assigned to such leader or team member, (c) is a retail operations or pharmacy field regional leader or a field regional support member, serving in a function related to asset protection, human resources or administration in one or more regions, with respect to whom Acquired Stores comprise 50% or more of the total stores assigned to such leader or team member, (d) is a floater pharmacist across one or more districts, with respect to whom Acquired Stores comprise 50% or more of the total stores assigned to such floater pharmacist or (e) is identified by Seller with respect to an open position as described in Section 6.01(b) and listed in Section 6.01(b) of the Disclosure Schedules. For the avoidance of doubt, any employees of Seller or its Affiliates that serve in a function related to information technology, compliance or merchandising shall not be Business Employees.

“ Buyer ” shall have the meaning set forth in the Preamble.

“ Buyer 401(k) Plan ” shall have the meaning set forth in Section 6.01(i) .

“ Buyer FSA ” shall have the meaning set forth in Section 6.01(g) .

“ Buyer Indemnified Parties ” shall have the meaning set forth in Section 9.01(a) .

“Buyer Obligations” shall have the meaning set forth in Section 9.10(a).

“Buyer Plan” shall have the meaning set forth in Section 6.01(e).

“Buyer’s Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“CBA” means any collective bargaining agreement, side agreement or letter, memorandum of understanding, or other binding commitment with any labor or trade union, works council, or other labor organization representing Business Employees.

“CBSA” shall have the meaning set forth in Section 5.16.

“Closing” shall have the meaning set forth in Section 2.06(a).

“Closing Date” shall have the meaning set forth in Section 2.06(a).

“Code” means the United States Internal Revenue Code of 1986, as amended.

“Company Expenses” means any expenses, costs or fees incurred by Seller in connection with the transactions contemplated by this Agreement, including (a) any amount owed to legal counsel, accountants, brokers, financial advisors and any other agents, advisors, consultants and experts employed or engaged by Seller, (b) broker fees, if any, and (c) change in control payments, bonus payments, retention bonuses or similar payment made or required to be made to any current or former stockholder, officer, director or employee of Seller (either because of the transactions contemplated by this Agreement alone or in connection with any other event).

“Confidentiality Agreement” shall have the meaning set forth in Section 5.04.

“Contracts” means all written contracts, subcontracts, agreements, leases, licenses, commitments, sales and purchase orders, and other instruments, arrangements or understandings of any kind, that are related exclusively to the Acquired Stores and to which Seller is a party or by which it is bound, other than (i) all contracts, agreements or other arrangements or instruments of any kind relating to Tax, (ii) Benefits Arrangements, (iii) Insurance Arrangements, (iv) Intellectual Property, or (v) contracts, agreements or other arrangements or instruments that are Excluded Assets.

“Control” means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. The terms “Controlled by,” “Controlled,” “under common Control with” and “Controlling” shall have correlative meanings.

“Controlling Party” shall have the meaning set forth in Section 9.03(b).

“Copyrights” means United States and non-U.S. copyrights in works of authorship of any type, including mask works, registrations and applications for registration thereof throughout the world, all rights therein provided by international treaties and

conventions, all moral and common law rights thereto, and all other rights associated therewith, whether registered or unregistered.

“Debt Commitment Letters” shall have the meaning set forth in Section 4.07(a).

“Debt Financing” shall have the meaning set forth in Section 4.07(a).

“Deductible Amount” shall have the meaning set forth in Section 9.01(b).

“Definitive Debt Financing Agreements” shall have the meaning set forth in Section 5.12(c).

“Developed Testing Procedures” shall have the meaning set forth in Section 5.19.

“Disclosure Schedules” means the disclosure schedules dated as of the date hereof delivered by Seller to Buyer and which forms a part of this Agreement.

“Dispute” shall have the meaning set forth in Section 10.11.

“Distribution Center” shall mean Seller’s Distribution Center located in Woodland, California.

“Distribution Center Closing” shall have the meaning set forth in Section 2.06(b).

“Distribution Center Closing Date” shall have the meaning set forth in Section 2.06(b).

“Distribution Center Inventory Amount” means (x) the Retail Inventory Value of the Inventory at the Distribution Center to be transferred at the Distribution Center Closing less any Inventory thereat that is damaged, obsolete or unsalable as determined in a manner consistent with Seller’s historical valuation practices multiplied by (y) the acquisition cost per unit, as reflected in the books and records of Parent.

“Duplicate IT System” means a separate logical partition (LPAR) within Seller’s mainframe that stores a duplicate copy of Seller’s prescription dispensing system as of Closing, which is commonly referred to as “NextGen”.

“Employee Census” shall have the meaning set forth in Section 6.01(a).

“Employee Plan” shall have the meaning set forth in Section 3.11(a).

“Employment Start Date” shall have the meaning set forth in Section 6.01(a).

“Enforcement Event” shall have the meaning set forth in Section 10.07.

“Environmental Law” means any Law treaty, judicial decision, judgment, Permit or governmental restriction or any agreement with any Governmental Authority or other third party, whether now or hereafter in effect, relating to the environment, human health and safety or

to pollution, contamination, waste or chemicals, toxic, radioactive, ignitable, corrosive, reactive or the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials. Without limiting the generality of the foregoing, Environmental Laws shall include the Comprehensive Environmental Response, Compensation and Liability Act”, 42 U.S.C. § 9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; the Safe Drinking Water Act, 42 U.S.C. 300(f) et seq.; and the Hazardous Materials Transportation Act, 49 U.S.C. § 5101 et seq., each as amended to date, regulations promulgated thereunder, and analogous and state and local statutes, regulations, rule and ordinances, including, without limitation, product stewardship or extended producer responsibility laws and the California Safe Drinking Water and Toxic Enforcement Act of 1986, also known as Proposition 65.

“Environmental Liability” means any Liability or Loss, including the cost of any Remedial Action, arising in connection with (a) the use, generation, storage, treatment, manufacture, distribution, transportation, processing, handling, disposal or Release of any Hazardous Materials, (b) the violation of or liability under any Environmental Laws or of any authorization of any Governmental Authority relating to any Hazardous Materials or (c) any claim or demand by any third party or Action relating to any Hazardous Materials or Environmental Laws.

“Environmental Permits” means all Permits of any Governmental Authority required pursuant to applicable Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder.

“Excluded Assets” shall have the meaning set forth in Section 2.02.

“Excluded Liabilities” shall have the meaning set forth in Section 2.04.

“Extrapolated Inventory Value” means, with respect to the Acquired Stores to be transferred at the Closing or a Subsequent Closing (other than the Sampled Locations), the Reported Inventory Value for such Acquired Stores (other than the Sampled Locations) *multiplied by* the Book to Physical Adjustment Ratio.

“Fee Letter” has the meaning set forth in Section 4.07(a).

“Financial Statements” shall have the meaning set forth in Section 3.04.

“Fred’s” shall have the meaning set forth in the Preamble.

“Fred’s Guaranty” shall have the meaning set forth in Section 9.10(a).

“FTC” shall have the meaning set forth in Recital A.

“FTC Staff” means the staff of the FTC.

“ Government Program ” means any state program for medical assistance administered under Title XIX of the Social Security Act, including managed Medicaid programs and programs operated pursuant to a waiver and other healthcare programs administered or funded by a Governmental Authority or contractor thereof.

“ Governmental Authority ” means any United States federal, state or local or any supra-national or non-U.S. government, political subdivision, governmental, regulatory or administrative authority, instrumentality, agency, body or commission, self-regulatory organization or any court, tribunal, or judicial or arbitral body.

“ Governmental Order ” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“ Hazardous Materials ” means (a) petroleum, petroleum products, by-products or breakdown products, radioactive materials, friable asbestos or polychlorinated biphenyls, and (b) any chemical, material or substance defined in, regulated as toxic or as a pollutant, contaminant or waste under, or for which liability, obligations or standards of care are imposed by any Environmental Law.

“ Indemnified Party ” shall have the meaning set forth in Section 9.03(a).

“ Indemnifying Party ” shall have the meaning set forth in Section 9.03(a).

“ Independent Accounting Firm ” means the Memphis, Tennessee office of Ernst & Young LLP.

“ Insurance Arrangements ” shall have the meaning set forth in Section 2.02(c).

“ Intellectual Property ” means, collectively, Copyrights, Patents, Trademarks and Technology.

“ Inventory ” means all inventories owned by Seller, including (a) all pharmaceutical and non-pharmaceutical inventories for resale at the Acquired Stores, (b) all other pharmaceutical and non-pharmaceutical inventories for resale owned by Seller or in transit with respect to the Acquired Stores; (c) all of the raw materials, work-in-process and packaging items and similar items with respect to the Acquired Stores in connection with pharmaceutical and non-pharmaceutical inventories for resale; and (d) all will-call inventory (i.e., pharmaceutical inventory that is filled but not yet physically picked up by the patient as of the time of the Inventory Audit); provided, however, that with respect to the Distribution Center, Inventory shall not include any private-label inventory and shall exclude any inventory removed from the Distribution Center prior to the Distribution Center Closing in accordance with Section 5.01.

“ Inventory Amount ” means the aggregate amount of Sampled Location Inventory Value for all Sampled Locations to be transferred at the Closing or applicable Subsequent

Closing plus the Extrapolated Inventory Value for all Acquired Stores to be transferred at the Closing or a Subsequent Closing (other than the Sampled Locations).

“Inventory Audit” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Procedures” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Service” shall have the meaning set forth in Section 2.10(a)(i).

“Inventory Statement” shall have the meaning set forth in Section 2.10(b).

“IRS” means the Internal Revenue Service.

“Knowledge of Seller” means the actual or constructive knowledge of Darren Karst, James Comitale (with respect to matters of fact only) and Douglas Donley after due inquiry.

“Law” means any U.S. federal, state, local or non-U.S. statute, law, ordinance, regulation, rule, code, order or other requirement or rule of law, including the common law.

“Leased Real Property” shall have the meaning set forth in Section 3.12(b).

“Lender Related Parties” means the Lenders and any of their respective former, current or future directors, officers, employees, agents, general or limited partners, managers, management companies, members, stockholders, equityholders, Affiliates, attorneys-in-fact, representatives, successors or assigns or any former, current or future director, officer employee agent, general or limited partner, manager, management company, member, stockholder, equityholder, Affiliate, attorney-in-fact, representative, successor or assign of any of the foregoing.

“Liabilities” means any debt, liability, claim, demand, expense, commitment or obligation (whether direct or indirect, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due) of every kind and description and including all costs and expenses related thereto.

“Lien” means any mortgage, deed of trust, pledge, hypothecation, security interest, Lien, claim, lien or charge of any kind.

“Lenders” shall have the meaning set forth in Section 4.07(a).

“Losses” means all losses, damages, costs, expenses, Liabilities of any kind (including any Action brought by any Governmental Authority or Person and including reasonable attorneys’ fees); provided, that Losses shall not include (i) punitive, exemplary, incidental, special, treble, consequential or indirect damages or (ii) the loss of anticipated or future business or profits, income or revenue, loss of reputation, opportunity cost damages or diminution in value (and, in particular, no “multiple of profits” or “multiple of cash flow” or similar valuation methodology shall be used in calculating the amount of any Losses).

“ Material Adverse Effect ” means a material adverse effect on the financial condition or results of operations of the Acquired Stores, taken as a whole, but shall not be deemed to include any adverse effect arising out of, resulting from or attributable to: (a) an event or circumstance or series of events or circumstances affecting (i) the United States (or any other country or jurisdiction) or the global economy generally or capital, financial, banking, credit or securities markets generally, including changes in interest or exchange rates, (ii) political conditions generally of the United States or any other country or jurisdiction in which Seller or its Affiliates operates or (iii) any of the industries generally in which Seller or any customers thereof operates (including demand for, and the availability and pricing of, pharmaceutical drugs) or in which products or services of the Acquired Stores are used or distributed, (b) the negotiation, execution or the announcement of, the consummation of the transactions contemplated by, or the performance of obligations under, this Agreement or the other Transaction Agreements, including effects related to compliance with the covenants or agreements contained herein or the failure to take any action as a result of any restrictions or prohibitions set forth herein, and any adverse effect proximately caused by (A) shortfalls or declines in revenue, margins or profitability, (B) loss of, or disruption in, any customer, supplier, and/or vendor relationships, or (C) loss of any personnel, (c) any changes in applicable Law or U.S. GAAP, or accounting principles, practices or policies that Seller is required to adopt, or the enforcement or interpretation thereof, (d) actions specifically permitted to be taken or omitted pursuant to this Agreement or taken with Buyer’s consent, (e) the effect of any action taken by Buyer or its Affiliates with respect to the transactions contemplated hereby or with respect to Seller or its Affiliates, (f) any acts of God, including any earthquakes, hurricanes, tornadoes, floods, tsunamis, or other natural disasters, or any other damage to or destruction of assets caused by casualty, (g) any hostilities, acts of war (whether or not declared), sabotage, terrorism or military actions, or any escalation or worsening of any such hostilities, act of war, sabotage, terrorism or military actions, (h) any failure to meet internal or published projections, estimates or forecasts of revenues, earnings, or other measures of financial or operating performance for any period (provided that the underlying causes of such failures (subject to the other provisions of this definition) shall not be excluded) or (i) any adverse change or effect that is cured prior to Closing (or each Subsequent Closing, as applicable); provided, however, that if the event or circumstance described in any of the foregoing clauses (a) or (c), individually or in the aggregate, has a disproportionate effect on the Acquired Stores relative to other industry participants, the exception described in any of the foregoing clauses (a) or (c) shall not apply with respect to the portion of such event or circumstance that had such a disproportionate effect on the Acquired Stores.

“ Material Permits ” shall have the meaning set forth in Section 3.08(a).

“ Multiemployer Plan ” shall have the meaning set forth in Section 3.11(b).

“ New Debt Commitment Letter ” shall have the meaning set forth in Section 5.12(e).

“ New Fee Letter ” shall have the meaning set forth in Section 5.12(e).

“Operational Duplicate IT System Certificate” a certificate from Parent to Buyer certifying that Parent has tested the operational readiness of the Duplicate IT System with respect to the Acquired Stores to be transferred at the Closing or the applicable Subsequent Closing, as the case may be, using the Developed Testing Procedures and the results of such test were that: (i) the configuration of the LPAR and related network infrastructure within Seller’s mainframe was complete, (ii) the prescription dispensing system of Seller as of Closing commonly referred to as the “NextGen” application had been installed on the LPAR, (iii) the migration of the Seller Rx Data with respect to the applicable Acquired Stores was tested and validated as ready for use within the Duplicate IT System, (iv) the security controls and monitoring for Duplicate IT System were validated as effective within customary industry standards and (v) system integration and user acceptance testing were complete, in the case of each of clauses (i) through (v), subject to the exceptions set forth on Schedule B.

“Owned Real Property” shall have the meaning set forth in Section 3.12(a).

“Parent” shall have the meaning set forth in the Preamble.

“Parent Guaranty” shall have the meaning set forth in Section 9.09(a).

“Patents” means United States and non U.S. patents, patent applications and statutory invention registrations, continuation applications of all types, including reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof, all inventions disclosed therein and improvements thereto, and all rights therein provided by international treaties and conventions.

“Permits” shall have the meaning set forth in Section 3.08(a).

“Permitted Liens” means the following Liens: (a) Liens for Taxes, assessments or other governmental charges or levies that are not yet due or payable or that are being contested in good faith by appropriate proceedings or that may thereafter or otherwise be paid without penalty; (b) statutory and contractual Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen, workmen, repairmen and other Liens imposed by Law for amounts not yet due; (c) Liens incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance or other types of social security; (d) defects or imperfections of title, easements, covenants, rights-of-way, restrictions, rights of recapture and other similar charges or Liens not materially interfering with the ordinary conduct of business at the Acquired Stores; (e) purchase money Liens and Liens securing rental payments under capital lease arrangements of Seller incurred in the ordinary course of business at the Acquired Stores; (f) Liens not created by Seller that affect the underlying fee interest of any Leased Real Property; (g) Liens resulting from any facts or circumstances relating to Buyer or its Affiliates; (h) any set of facts an accurate up-to-date survey would show, provided such facts do not materially interfere with the ordinary conduct of business at the Acquired Stores; (i) in the case of Intellectual Property and Technology, licenses, options to license or covenants not to assert claims of infringement in each case in existence as of the date hereof from Seller or any of its Affiliates to third parties; (j) zoning, building and other generally applicable land use restrictions; and (k) Liens that have been placed by a third party on the fee title of Leased Real

Property over which Seller has easement rights, and subordination or similar agreements relating thereto.

“ Person ” means any natural person, general or limited partnership, corporation, limited liability company, limited liability partnership, firm, association or organization or other legal entity.

“ Pharmacy Approvals ” means any consents, waivers, permits or other approvals to be obtained from applicable Food and Drug Administration, DEA, Medicare/Medicaid, state boards of pharmacy and governmental controlled substances, durable medical equipment, third party administrator and liquor authorities.

“ Privacy and Security Laws ” shall have the meaning set forth in Section 3.15.

“ Programs ” shall have the meaning set forth in Section 3.16(a).

“ Proposed Consent Order ” means the proposed final judgment relating to the Acquired Stores accepted by the FTC in connection with the Rite Aid Acquisition.

“ Prorated Charges ” shall have the meaning set forth in Section 2.11(a).

“ Purchase Price ” shall have the meaning set forth in Section 2.07(a).

“ Purchased Assets ” shall have the meaning set forth in Section 2.01.

“ Purchased Cash ” shall have the meaning set forth in Section 2.01(i).

“ Release ” means (i) any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, or other release of any Hazardous Material at, in, on, into, or onto the environment; (ii) the abandonment or discard of barrels, containers, tanks, or other receptacles containing or previously containing any Hazardous Material; or (iii) any release, emission, or discharge, as those terms are defined in any applicable Environmental Laws.

“ Release Date ” shall have the meaning set forth in Section 5.18.

“ Remedial Action ” means investigation, evaluation, risk assessment, monitoring, response, removal, clean-up, remediation, corrective action or other terms of similar import and any related closure, post-closure, operations and maintenance or engineering control activities.

“ Reported Inventory Value ” means the value of Seller’s reported gross general ledger balance of inventory with respect to an Acquired Store (calculated in accordance with the Transaction Accounting Principles) *less* applicable recorded general ledger shrink reserves, in each case as of the date of the applicable Inventory Audit.

“Representative” of a Person means the directors, officers, employees, advisors, agents, attorneys, consultants, accountants, investment bankers or other representatives of such Person.

“Restricted Data” shall have the meaning set forth in Section 5.14(a).

“Restricted Period” shall have the meaning set forth in Section 5.11.

“Retail Inventory Value” shall have the meaning set forth in Section 2.10(a)(ii).

“Retail-to-cost Conversion Ratio” means Seller’s “Retail-to-cost” conversion ratio with respect to an Acquired Store (which represents the ratio of cost to retail selling price of the inventory on-hand within such Acquired Store) as shown in the general ledger of Seller.

“Retained Names and Marks” shall have the meaning set forth in Section 5.06.

“Revolver Loan Debt Commitment Letter” shall have the meaning set forth in Section 4.07(a).

“Rite Aid Acquisition” has the meaning set forth in Recital A.

“Rite Aid Closing” means the closing of the Rite Aid Acquisition.

“Rite Aid Consent Order” means that certain consent order between Seller and the FTC which terminates on November 12, 2030 and requires Seller to (among other things) (i) establish a Comprehensive Information Security Program, (ii) obtain a Biannual Independent Audit of Seller’s Information Security Program and (iii) refrain from any misrepresentations of its information security practices.

“Sampled Location Inventory Value” means, with respect to a Sampled Location, the Retail Inventory Value with respect to such Sampled Location multiplied by the Retail-to-cost Conversion Ratio.

“Sampled Locations” shall have the meaning set forth in Section 2.10(a)(i).

“Seller” shall have the meaning set forth in the Preamble.

“Seller 401(k) Plan” shall have the meaning set forth in Section 6.01(i).

“Seller FSA” shall have the meaning set forth in Section 6.01(g).

“Seller Indemnified Parties” shall have the meaning set forth in Section 9.02(a).

“Seller Obligations” shall have the meaning set forth in Section 9.09(a).

“Seller Parties” shall have the meaning set forth in Section 10.17.

“Seller Rx Data” shall have the meaning set forth in Section 2.01(g).

“Seller’s Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“Seller’s Allocable Portion” shall have the meaning set forth in Section 5.07(b).

“Software” shall mean computer software programs and software systems, including all databases, compilations, tool sets, compilers, higher level or “proprietary” languages, related documentation and materials, whether in source code, object code or human readable form.

“Subsequent Closing” shall have the meaning set forth in Section 2.06(b).

“Subsequent Closing Conditions” shall have the meaning set forth in Section 2.06(b).

“Subsequent Closing Date” shall have the meaning set forth in Section 2.06(b).

“Subsidiary” of any Person means any corporation, general or limited partnership, joint venture, limited liability company, limited liability partnership or other Person that is a legal entity, trust or estate of which (or in which) (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the board of directors (or a majority of another body performing similar functions) of such corporation or other Person (irrespective of whether at the time capital stock of any other class or classes of such corporation or other Person shall or might have voting power upon the occurrence of any contingency), (b) more than 50% of the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) more than 50% of the beneficial interest in such trust or estate, is at the time of determination directly or indirectly owned or Controlled by such Person.

“Tax” or “Taxes” means all income, excise, gross receipts, ad valorem, sales, use, employment, franchise, profits, gains, property, transfer, use, payroll, intangibles or other similar taxes, fees, stamp taxes, duties, charges, levies or assessments (whether payable directly or by withholding), together with any interest and any penalties, additions to tax or additional amounts imposed by any Tax authority with respect thereto.

“Tax Returns” means all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority relating to Taxes.

“Technology” means, collectively, all designs, formulas, algorithms, procedures, techniques, ideas, know-how, programs, models, routines, databases, tools, inventions, creations, improvements, works of authorship, and all recordings, graphs, drawings, reports, analyses, other writings, and any other embodiment of the above, in any form, whether or not specifically listed herein, all of which derive value, monetary or otherwise, from being maintained in confidence.

“Term Loan Debt Commitment Letter” shall have the meaning set forth in Section 4.07(a).

“Third Party Actuary” shall have the meaning set forth in Section 6.01(j)(iv).

“Third Party Claim” shall have the meaning set forth in Section 9.03(a).

“Third Party Rights” shall have the meaning set forth in Section 2.05.

“Trademark Assignment Agreement” shall have the meaning set forth in Section 5.08(d).

“Trademarks” means United States and non-U.S. trademarks, service marks, trade dress, logos, trade names, corporate names, URL addresses, domain names, slogans, moral rights, designs and other indicia of source or origin and general intangibles of like nature, whether registered or unregistered, including the goodwill of the business symbolized thereby or associated therewith, all common law rights thereto, registrations, pending registrations and applications for registration thereof throughout the world, all rights therein provided by international treaties and conventions, and all other rights associated therewith.

“Transaction Accounting Principles” means the principles as set forth on Exhibit B.

“Transaction Agreements” means this Agreement and each of the Ancillary Agreements.

“Transferred Employees” shall have the meaning set forth in Section 6.01(a).

“Transfer Taxes” shall have the meaning set forth in Section 5.07(b).

“Transition Services Agreement” shall have the meaning set forth in Section 5.08(a).

“Transitional Trademark License Agreement” shall have the meaning set forth in Section 5.08(c).

“U.S. GAAP” means the generally accepted accounting principles used in the United States.

“Union Business Employee” means any Business Employee whose employment is subject to a CBA.

“WARN Act” shall have the meaning set forth in Section 6.01(h).

“Withdrawal Liability Allocation Report” shall have the meaning set forth in Section 6.01(j)(iv).

27 March 2017

PRIVATE & CONFIDENTIAL

Alex Gourlay
108 Wilmot Road
Deerfield, IL 60015

Dear Alex,

Extension to your Assignment to Walgreen Co.

This letter is to confirm the extension of your secondment to Walgreen Co. under the secondment letter agreement dated 26 September 2013 between you and Walgreens Boots Alliance Services Limited (formerly Alliance Boots Management Services Ltd.), as previously extended per letter agreement dated 27 January 2016 (collectively, the "Agreement"). This extension is for an additional 12 months, with an end date of 31 July 2017, and subject to the following modifications to the Agreement:

1. Paragraph 1 of the Agreement is amended to reflect your current title, Co-Chief Operating Officer of Walgreens Boots Alliance, Inc. ("WBA"), reporting directly to the Chief Executive Officer of WBA.
2. Paragraph 6(a) of the Agreement is amended to reflect your current annual rate of salary, £704,330.

All other assignment terms and conditions remain unchanged, as detailed in the Agreement.

Please sign below to confirm that you have read, understand and agree to this extension of the Agreement.

Yours sincerely,

/s/ Kathleen Wilson-Thompson

Kathleen Wilson-Thompson,
Executive Vice President - Global Chief Human Resources Officer, WBA
Signed on behalf of Walgreens Boots Alliance Services Limited

I confirm that I have read, understand and agree to be bound by the contents of this extension letter.

Alex Gourlay

/s/ Alex Gourlay

.....
Signed

...3/29/17.....
Date signed

Walgreens Boots Alliance, Inc.
Computation of Historical Ratios of Earnings to Fixed Charges (a)
(in millions, except ratio data)

	Six Months Ended,	Twelve Months Ended,				
	February 28, 2017	2016	2015	2014	2013	2012
Income before income tax provision	\$ 2,567	\$ 5,144	\$ 5,311	\$ 3,557	\$ 4,047	\$ 3,376
Add:						
Minority Interests	—	—	—	—	5	—
Fixed Charges	1,171	2,367	2,054	1,376	1,383	1,260
Amortization of capitalized interest	—	—	1	6	7	6
Less:						
Equity earnings	(26)	(37)	(315)	(617)	(496)	—
Capitalized interest	—	—	(1)	(6)	(7)	(9)
Earnings as defined	<u>\$ 3,712</u>	<u>\$ 7,474</u>	<u>\$ 7,050</u>	<u>\$ 4,316</u>	<u>\$ 4,939</u>	<u>\$ 4,633</u>
Interest expense, net of capitalized interest	\$ 345	\$ 628	\$ 632	\$ 168	\$ 193	\$ 94
Capitalized interest	—	—	1	6	7	9
Portions of rentals representative of the interest factor	825	1,739	1,421	1,202	1,183	1,157
Fixed charges as defined	<u>\$ 1,171</u>	<u>\$ 2,367</u>	<u>\$ 2,054</u>	<u>\$ 1,376</u>	<u>\$ 1,383</u>	<u>\$ 1,260</u>
Ratio of earnings to fixed charges	3.17	3.16	3.43	3.14	3.57	3.68

(a) For the purpose of computing these ratios, "earnings" consist of earnings before income tax provision and before adjustment for income or loss from equity investees, interest, distributed income of equity-method investees, and the portions of rentals representative of the interest factor. "Fixed charges" consist of interest expense (which includes amortization of capitalized debt issuance costs), capitalized interest and the portions of rentals representative of the interest factor.

CERTIFICATION

I, Stefano Pessina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/

Stefano Pessina

Chief Executive Officer

Date: April 5, 2017

Stefano Pessina

CERTIFICATION

I, George Fairweather, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/

George Fairweather

Global Chief Financial Officer

Date: April 5, 2017

George Fairweather

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 28, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Stefano Pessina, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stefano Pessina
Stefano Pessina
Chief Executive Officer
Dated: April 5, 2017

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 28, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, George Fairweather, Global Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George Fairweather

George Fairweather

Global Chief Financial Officer

Dated: April 5, 2017

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.