CRISIS AT RITE AID
1999-2000

- 1.6 BILLION DOLLAR RESTATEMENT
  Largest in retail history
- STOCK DROPPED $100>$2
- INDICTMENTS – CONVICTIONS
  CEO – 7yrs
  CFO - 2 ½ yrs
  Vice Chairman and Chief Counsel – 10 yrs

7/25/07
RITE AID

- 1962-1995 – ALEX GRASS AND SONS
- 1995 – MARTIN GRASS – CEO – CHAIRMAN
- 1995 – TIM NOONAN – COO - PRESIDENT
GRASS – NEW AGGRESSIVE STRATEGY

• 1000 NEW STORES – 3 YEARS
• ACQUISITIONS – 1300+ STORES
• PCS ACQUISITION – 1.5 BILLION – NEW STOCK OFFERING
• NEW DISTRIBUTION CENTERS – 200 MILLION
• ROBOTIC RX SYSTEM – INNOVATION LIKE NO OTHER
• MARKETING CHANGE – MUCH HIGHER COSTS
• FINANCIAL ANALYSTS - RELATIONSHIP
STRATEGY GOOD

- BUT TOO MUCH TOO SOON
- DISCONNECT THROUGH COMPANY
- SEVERE CASH DRAIN
1998 – 1999 EVENTS
AT THE EDGE

• PURCHASE OF PCS – 1 ½ BILLION – NEW SHARES
• TERMINATION OF SENIOR EXECUTIVE
• WALL STREET JOURNAL – GRASS FAMILY – VENDOR FRAUD
• SEC – WANTS REVIEW
• KPMG – PARTNER CHANGE
• EARNINGS SHORTFALL 100 MILLION AND SHAREHOLDER LAWSUITS
• ACCOUNTANTS REVOLT – JUNE 1999
• ALL DOWNHILL IN 1999
• CHAIRMAN TERMINATED IN OCT. 1999
• NOONAN – NEW CEO – COO – PRESIDENT
• FINANCIAL CRISIS – OCT 15-16-17-18
• 650 MILLION RESTATEMENT
• AVOIDING BANKRUPTCY
WHERE IS RITE AID TODAY

• RECOVERED
• VIEW OF ANALYSTS
• GROWING AGAIN
• INDUSTRY
DECEMBER 1999
NEW MANAGEMENT

NOONAN LEAVES RITE AID
FEBRUARY 2000
INDEPENDENT BOARD OF DIRECTORS

• HIRES LAW FIRM TO INVESTIGATE EVERYTHING
• SHARES INFO WITH SEC
• SHARES INFO WITH JUSTICE DEPARTMENT
NOONAN INTERVIEWS WITH LAW FIRM

• NOT FULLY TRUTHFUL
• SOME ISSUES WERE SEVERANCE REBATES MEETINGS
NOONAN APPROACHES THE GOVERNMENT
MARCH 9, 2001

• NO AGREEMENTS
• NOT TARGET
• RUMORS
• DIRECTION OF INVESTIGATION
• CLEAN UP INTERVIEWS
GUILTY OF MISPRISION
NOVEMBER 2001
RESULTS FOR NOONAN

• YOU DO NOT WANT THIS
• FELONY – PROBATION – 2 YRS
• SEC - AGREEMENT
• SHAREHOLDERS – LAWSUIT – 125K
• SEVERANCE – LOSS - MILLIONS
• LEGAL BILLS – VERY EXPENSIVE
• REPUTATION
WHY NOT CANDID TO INTERNAL INVESTIGATORS

• MY FAULT
• LONGTERM FRIENDSHIPS AND RELATIONSHIPS
• YEARS OF LEGAL COACHING
• QUESTION AS TO WHERE INVESTIGATION GOING
ETHICAL AND MORAL DECISIONS

EARLY YEARS
CRISIS YEARS
AFTER 2000
CULTURAL ASPECT OF COMPANY

- INFLUENCE
- VERY AGGRESSIVE – HIGH RISK AND RETURN
- FAMILY – FATHER – SONS
- SILO STYLE MANAGEMENT
- KPMG – AUDITOR
- BOARD OF DIRECTORS
  - SELECTION PROCESS
  - AUDIT
  - COMPENSATION
- BEND RULES
RITE AID’S ETHICAL WEAKNESS

• NO APPARENT ETHICAL VALUES COMMUNICATED OR DISCUSSED

• CODE OF CONDUCT/HOTLINE: FORM OVER SUBSTANCE

• LACKED POSITIVE LEADERSHIP ROLE MODELS

• SHORT TERM OVER LONG TERM

• INEFFECTIVE “GATEKEEPERS”
JENNINGS’ SEVEN SIGNS

• PRESSURE TO ACHIEVE NUMBERS—EXTREME
• FEAR AND SILENCE – PERVASIVE
• LARGER THAN LIFE CEO
• WEAK BOARD – CLEARLY BY TODAY’S STANDARDS
• CONFLICTS OF INTEREST – GRASS FAMILY PLUS OTHERS
• INNOVATION LIKE NO OTHER – CLEAR FIT
• GOODNESS “THERE” ATONES FOR WRONG DOINGS HERE – MAYBE

SIX OF SEVEN EXISTED AND WERE EVIDENT!
ETHICS – END OF THE DAY

INDIVIDUAL
ENVIRONMENT
THIRD PARTY