

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

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

EVENTS OF 2001 MEETING WITH GOVERNMENT

COVERT RECORDINGS

APRIL – MAY 2001

**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