

RITE AID CORP  
Form 10-Q  
January 06, 2016  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended November 28, 2015

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: 1-5742

**RITE AID CORPORATION**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**23-1614034**  
(I.R.S. Employer  
Identification No.)

**30 Hunter Lane,**  
**Camp Hill, Pennsylvania**  
(Address of principal executive offices)

**17011**  
(Zip Code)

Registrant's telephone number, including area code: **(717) 761-2633**.

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report):

**Not Applicable**

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, 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

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange act). Yes  No

The registrant had 1,046,463,323 shares of its \$1.00 par value common stock outstanding as of December 17, 2015.



Table of Contents

**RITE AID CORPORATION**

**TABLE OF CONTENTS**

	<u>Cautionary Statement Regarding Forward-Looking Statements</u>	2
	<b><u>PART I</u></b>	
	<b><u>FINANCIAL INFORMATION</u></b>	
<u>ITEM 1.</u>	<u>Financial Statements (unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets as of November 28, 2015 and February 28, 2015</u>	4
	<u>Condensed Consolidated Statements of Operations for the Thirteen Week Periods Ended November 28, 2015 and November 29, 2014</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income for the Thirteen Week Periods Ended November 28, 2015 and November 29, 2014</u>	6
	<u>Condensed Consolidated Statements of Operations for the Thirty-Nine Week Periods Ended November 28, 2015 and November 29, 2014</u>	7
	<u>Condensed Consolidated Statements of Comprehensive Income for the Thirty-Nine Week Periods Ended November 28, 2015 and November 29, 2014</u>	8
	<u>Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Week Periods Ended November 28, 2015 and November 29, 2014</u>	9
	<u>Notes to Condensed Consolidated Financial Statements</u>	10
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	46
	<b><u>PART II</u></b>	
	<b><u>OTHER INFORMATION</u></b>	
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	47
<u>ITEM 1A.</u>	<u>Risk Factors</u>	48
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u>	50
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	50
<u>ITEM 5.</u>	<u>Other Information</u>	50
<u>ITEM 6.</u>	<u>Exhibits</u>	50

Table of Contents

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This report, as well as our other public filings or public statements, include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by terms and phrases such as anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will and similar expressions and include references and relate to our future prospects, developments and business strategies.

Factors that could cause actual results to differ materially from those expressed or implied in such forward-looking statements include, but are not limited to:

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our credit facilities and other debt agreements;
- the continued impact of private and public third party payors reduction in prescription drug reimbursement and their efforts to limit access to payor networks, including mail order;
- our ability to achieve the benefits of our efforts to reduce the costs of our generic and other drugs;
- our ability to continue to improve the operating performance of our stores in accordance with our long term strategy;
- our ability to maintain or grow prescription count and realize front-end sales growth;
- our ability to hire and retain qualified personnel;
- competitive pricing pressures, including aggressive promotional activity from our competitors;
- decisions to close additional stores and distribution centers or undertake additional refinancing activities, which could result in further charges to our operating statement;
- our ability to manage expenses and working capital;
- continued consolidation of the drugstore and the pharmacy benefit management ( PBM ) industries;
- changes in state or federal legislation or regulations, and the continued impact from the ongoing implementation of the Patient Protection and Affordable Care Act as well as other healthcare reform;
- risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;

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- our ability to realize the benefits of our recent acquisition of EnvisionRx (the Acquisition );
- our ability to maintain our current pharmacy services business and obtain new pharmacy services business, including maintaining renewals of expiring contracts, avoiding contract termination rights that may permit certain of our clients to terminate their contracts prior to their expiration and early price renegotiations prior to contract expirations;
- the continued impact of declining gross margins in the PBM industry due to increased market competition and client demand for lower prices while providing enhanced service offerings,
- our ability to maintain our current Medicare Part D business and obtain new Medicare Part D business, as a result of the annual Medicare Part D competitive bidding process;
- the expiration or termination of our Medicare or Medicaid managed care contracts by federal or state governments and related tax matters;
- the inability to complete the proposed acquisition (the Merger ) of us by Walgreens Boots Alliance, Inc., a Delaware corporation ( WBA ), due to the failure to obtain stockholder approval to adopt the Merger Agreement (as defined herein) or failure to satisfy the other conditions to the completion of the Merger, including receipt of required regulatory approvals:
- the risk that the Merger Agreement may be terminated in certain circumstances that require us to pay WBA a termination fee of \$325 million and/or reimburse WBA s expenses of \$45 million, which reimbursement would be deducted from any termination fee owed to WBA;
- risks that the proposed Merger disrupts our current plans and operations or affects our ability to retain or recruit key employees;
- the effect of the announcement of the Merger on Rite Aid s business relationships (including, without limitation customers and suppliers), operating results and business generally;

Table of Contents

- the amount of the costs, fees, expenses and charges related to the Merger Agreement or the Merger;
- risks related to the Merger diverting management's or employees' attention from ongoing business operations;
- risks associated with the financing of the Merger transaction;
- the risk that our stock price may decline significantly if the Merger is not completed;
- risks related to obtaining the requisite consents to the Merger, including, without limitation, the timing (including possible delays) and expiration or termination of the applicable waiting periods under the HSR Act and other applicable antitrust laws, and the risk that such consents might not be received;
- the risk that the Merger may not be completed in a timely manner, if at all;
- risks related to other business effects, including the effects of industry, market, economic, political or regulatory conditions, future exchange or interest rates or credit ratings, changes in tax laws, regulations, rates and policies or competitive development;
- the nature, cost and outcome of pending and future litigation and other legal proceedings or governmental investigations, including any such proceedings related to the Merger and instituted against us and others; and
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (the "SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" either included herein or in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015 (the "Fiscal 2015 10-K"), which we filed with the SEC on April 23, 2015, our Quarterly Report on Form 10-Q for the thirteen weeks ended May 30, 2015 (the "First Quarter 2016 10-Q"), which we filed on June 22, 2015, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 29, 2015 (the "Second Quarter 2016 10-Q"), which we filed on October 6, 2015. These documents are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****RITE AID CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

(unaudited)

	November 28, 2015	February 28, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 226,252	\$ 115,899
Accounts receivable, net	1,555,352	980,904
Inventories, net of LIFO reserve of \$1,015,487 and \$997,528	2,871,929	2,882,980
Deferred tax assets	17,823	17,823
Prepaid expenses and other current assets	133,811	224,152
Total current assets	4,805,167	4,221,758
Property, plant and equipment, net	2,264,251	2,091,369
Goodwill	1,554,747	76,124
Other intangibles, net	1,206,105	421,480
Deferred tax assets	1,573,295	1,766,349
Other assets	314,515	286,172
Total assets	\$ 11,718,080	\$ 8,863,252
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 29,135	\$ 100,376
Accounts payable	1,663,483	1,133,520
Accrued salaries, wages and other current liabilities	1,412,694	1,193,419
Deferred tax liabilities	57,685	57,685
Total current liabilities	3,162,997	2,485,000
Long-term debt, less current maturities	7,287,911	5,483,415
Lease financing obligations, less current maturities	50,434	61,152
Other noncurrent liabilities	715,910	776,629
Total liabilities	11,217,252	8,806,196
Commitments and contingencies		
Stockholders' equity:		
	1,046,469	988,558



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Common stock, par value \$1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,046,469 and 988,558

Additional paid-in capital	4,805,243	4,521,023
Accumulated deficit	(5,306,826)	(5,406,675)
Accumulated other comprehensive loss	(44,058)	(45,850)
Total stockholders' equity	500,828	57,056
Total liabilities and stockholders' equity	\$ 11,718,080	\$ 8,863,252

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**RITE AID CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(unaudited)

	<b>Thirteen Week Period Ended</b>	
	<b>November 28, 2015</b>	<b>November 29, 2014</b>
Revenues	\$ 8,154,184	\$ 6,692,333
Costs and expenses:		
Cost of revenues	6,151,305	4,769,020
Selling, general and administrative expenses	1,777,647	1,692,437
Lease termination and impairment charges	7,011	8,702
Interest expense	106,879	97,400
Loss on debt retirements, net		18,512
Loss (gain) on sale of assets, net	3,331	