

RITE AID CORP
Form 10-Q
October 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 29, 2015

OR

o 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 1,046,265,328 shares of its \$1.00 par value common stock outstanding as of September 28, 2015.

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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;
- general economic conditions, inflation and interest rate movements;
- 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;
- the outcome of lawsuits and governmental investigations;
- risks related to compromises of our information or payment systems or unauthorized access to confidential or personal information of our associates or customers;
- 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; and

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- 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, and 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. These documents are available on the SEC's website at 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)

	August 29, 2015	February 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 152,647	\$ 115,899
Accounts receivable, net	1,872,976	980,904
Inventories, net of LIFO reserve of \$1,009,501 and \$997,528	2,902,749	2,882,980
Deferred tax assets	17,823	17,823
Prepaid expenses and other current assets	140,939	224,152
Total current assets	5,087,134	4,221,758
Property, plant and equipment, net	2,198,674	2,091,369
Goodwill	1,533,827	76,124
Other intangibles, net	1,225,531	421,480
Deferred tax assets	1,617,311	1,766,349
Other assets	316,754	286,172
Total assets	\$ 11,979,231	\$ 8,863,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 29,002	\$ 100,376
Accounts payable	1,594,411	1,133,520
Accrued salaries, wages and other current liabilities	1,703,545	1,193,419
Deferred tax liabilities	57,622	57,685
Total current liabilities	3,384,580	2,485,000
Long-term debt, less current maturities	7,361,079	5,483,415
Lease financing obligations, less current maturities	54,232	61,152
Other noncurrent liabilities	749,637	776,629
Total liabilities	11,549,528	8,806,196
Commitments and contingencies		
Stockholders' equity:		
	1,045,622	988,558

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Common stock, par value \$1 per share; 1,500,000 shares authorized; shares issued and outstanding 1,045,622 and 988,558

Additional paid-in capital	4,795,106	4,521,023
Accumulated deficit	(5,366,370)	(5,406,675)
Accumulated other comprehensive loss	(44,655)	(45,850)
Total stockholders' equity	429,703	57,056
Total liabilities and stockholders' equity	\$ 11,979,231	\$ 8,863,252

See accompanying notes to condensed consolidated financial statements.

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	Thirteen Week Period Ended	
	August 29, 2015	August 30, 2014
Revenues	\$ 7,664,776	\$ 6,522,584
Costs and expenses:		
Cost of revenues	5,742,485	4,628,005
Selling, general and administrative expenses	1,725,826	1,640,524
Lease termination and impairment charges	9,637	7,111
Interest expense	115,410	100,950
Loss on debt retirements, net	33,205	
Loss (gain) on sale of assets, net	281	(1,715)
	7,626,844	6,374,875
Income before income taxes	37,932	147,709
Income tax expense	16,463	19,860
Net income	\$ 21,469	\$ 127,849
Computation of income attributable to common stockholders:		