

RITE AID CORP
Form 10-Q
January 06, 2015

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

FORM 10-Q

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

For the quarterly period ended November 29, 2014

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

(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 ý No o

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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 981,826,569 shares of its \$1.00 par value common stock outstanding as of December 18, 2014.

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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 to assumptions 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 (including the impact of continued high unemployment and changing consumer behavior), 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 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;

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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; 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

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Report on Form 10-K for the fiscal year ended March 1, 2014 (the "Fiscal 2014 10-K") which we filed with the SEC on April 23, 2014, our Quarterly Report on Form 10-Q for the thirteen weeks ended May 31, 2014 (the "First Quarter 2015 10-Q") which we filed on July 3, 2014, and our Quarterly Report on Form 10-Q for the thirteen weeks ended August 30, 2014 (the "Second Quarter 2015 10-Q") which we filed on October 2, 2014. 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)

	November 29, 2014	March 1, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 232,954	\$ 146,406
Accounts receivable, net	996,545	949,062
Inventories, net of LIFO reserve of \$1,023,213 and \$1,018,581	2,997,595	2,993,948
Prepaid expenses and other current assets	132,873	195,709
Total current assets	4,359,967	4,285,125
Property, plant and equipment, net	2,062,376	1,957,329
Goodwill	76,124	
Other intangibles, net	420,415	431,227
Other assets	267,104	271,190
Total assets	\$ 7,185,986	\$ 6,944,871
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	\$ 111,613	\$ 49,174
Accounts payable	1,205,887	1,292,419
Accrued salaries, wages and other current liabilities	1,147,174	1,165,859
Total current liabilities	2,464,674	2,507,452
Long-term debt, less current maturities	5,673,591	5,632,798
Lease financing obligations, less current maturities	65,483	75,171
Other noncurrent liabilities	774,896	843,152
Total liabilities	8,978,644	9,058,573
Commitments and contingencies		
Stockholders' deficit:		
Common stock, par value \$1 per share; 1,500,000 authorized; shares issued and outstanding 981,773 and 971,331	981,773	971,331
Additional paid-in capital	4,502,631	4,468,149
Accumulated deficit	(7,241,707)	(7,515,848)
Accumulated other comprehensive loss	(35,355)	(37,334)
Total stockholders' deficit	(1,792,658)	(2,113,702)

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Total liabilities and stockholders' deficit	\$	7,185,986	\$	6,944,871
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See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Thirteen Week Period Ended	
	November 29, 2014	November 30, 2013
Revenues	\$ 6,692,333	\$ 6,357,732
Costs and expenses:		
Cost of goods sold	4,769,020	4,557,066
Selling, general and administrative expenses	1,692,437	1,632,299
Lease termination and impairment charges	8,702	1,672
Interest expense	97,400	102,819
Loss on debt retirements, net	18,512	271
Gain on sale of assets, net	(455)	(9,331)
	6,585,616	6,284,796
Income before income taxes	106,717	72,936
Income tax expense	1,871	1,388
Net income	\$ 104,846	\$ 71,548
Computation of income attributable to common stockholders:		
Net income	\$ 104,846	\$ 71,548
Accretion of redeemable preferred stock		(26)
Cumulative preferred stock dividends		(2,814)
Conversion of Series G and H preferred stock		(25,603)
Income attributable to common stockholders basic	104,846	43,105
Add back interest on convertible notes	1,364	
Income attributable to common stockholders diluted	\$ 106,210	\$ 43,105
Basic income per share	\$ 0.11	\$ 0.05
Diluted income per share	\$ 0.10	\$ 0.04

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(unaudited)

	Thirteen Week Period Ended	
	November 29, 2014	November 30, 2013
Net income	\$ 104,846	\$ 71,548
Other comprehensive income:		
Defined benefit pension plans:		