

Rite Aid Files for Chapter 11, Jettisons 168 Store Leases

The chain has about 2,100 stores in 17 states, half as many as it did a decade ago.

By Jack Rogers

Unable to absorb the potential cost of federal, state and private lawsuits over allegations that it, along with other drugstore chains, oversupplied prescription painkillers, Rite Aid filed for bankruptcy protection over the weekend.

The Chapter 11 filing puts Rite Aid's exposure to the opioid liability suits temporarily on hold as the retailer attempts to restructure more than \$3 billion of existing debt, according to a report in the Wall Street Journal.

Rite Aid, which has already closed more than 200 stores over the past two years, is expected to shutter several hundred more as part of the restructuring. The company hasn't determined how many, but it has rejected 168 store leases as part of the bankruptcy filing, WSJ reported.

The report said that lenders have agreed to provide Rite Aid with about \$200 million in new financing as part of the restructuring. MedImpact, a pharmacy benefit firm, has offered to buy Rite Aid's Elixir segment for \$575 million, but an auction will be held to see if the company can find a higher bid, WSJ said.

The US Department of Justice alleged in a federal lawsuit filed in March that Rite Aid filled opioid prescriptions despite clear "red flags" and ignored evidence that its stores were dispensing unlawful prescriptions, deleted internal notes about suspicious opioid prescriptions and directed managers "to be mindful of everything that is put into writing."

In a statement after the bankruptcy filing stayed all pending litigation against Rite Aid, the company said it expects to settle the opioid-related litigation.

"We expect to negotiate a resolution of the opioid-related lawsuits with the various parties involved. We also intend to resolve our legacy contract disputes, government investigations and securities matters."

Philadelphia-based Rite Aid, a distant third to industry leaders Walgreens and CVS, which each have more than 10,000 outlets, has lost more than \$2 billion over the past five years. The chain is operating about half the stores it did a decade ago after two merger proposals collapsed.

In the fiscal year ending March 2023, Rite Aid reported a net loss of \$750 million on revenue of \$24 billion. As of June, that company said it was down to about \$140 million of cash reserves.

Walgreens, Walmart and CVS have agreed to pay more than \$13 billion to settle opioid-related litigation.

Troubled Past

Rite Aid was founded by Alex Grass in 1962 with a single store in Scranton, PA. Grass's son Martin took over as CEO in 1995, but Martin was pushed out by creditors in late 1999, shortly before the company took a \$1.6 billion write-down related to its business and real estate dealings.

In 2004, Martin Grass was sentenced to eight years in federal prison for accounting fraud.

Rite Aid attempting to regain its competitive footing against giants Walgreens and CVS with a \$3.4 billion acquisition of the Eckerd and Brooks drugstore chains in 2006.

In 2015, Rite Aid entered a \$9.4 billion agreement to sell the company to Walgreens, but the deal for the merger fell apart under FTC antitrust concerns. Instead, Walgreens purchased 2,200 Rite Aid stores for \$5.18 billion.

The Walgreens deal was followed by an attempt to sell Rite Aid to grocery giant Albertsons, but that proposal also fell apart.