- **Letter to Stockholders**
- **Notice of 2005 Annual Meeting of Stockholders**
- **Proxy Statement**
- **2005 Annual Report on Form 10-K**

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The following information includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are 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 senior secured credit facility and other debt agreements;
- our ability to improve the operating performance of our existing stores in accordance with our long term strategy;
- our ability to hire and retain pharmacists and other store personnel;
- our ability to open or relocate stores according to our real estate development program;
- the outcomes of pending lawsuits and governmental investigations;
- competitive pricing pressures and continued consolidation of the drugstore industry; and
- the efforts of third-party payors to reduce prescription drug reimbursements and encourage mail order, changes in state or federal legislation or regulations, the success of planned advertising and merchandising strategies, general economic conditions and inflation, interest rate movements, access to capital, and our relationships with our suppliers.

We undertake no obligation to revise the forward-looking statements included in the following information to reflect any future events or circumstances. 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 section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Factors Affecting Our Future Prospects" included in the Company's Annual Report on Form 10-K for the fiscal year ended February 26, 2005.

To Our Stockholders, Customers and Associates:

Fiscal 2005 was definitely a challenging year for Rite Aid.

Yes, we delivered a second consecutive profitable year. Revenues increased to $16.8 billion compared to $16.6 billion the year before. We reported net income of $302.5 million, or $.47 per diluted share, including a tax benefit of $179.5 million or $.32 per diluted share, compared to net income of $83.4 million or $.11 per diluted share last year.

Yet our adjusted EBITDA was flat as sales, particularly in the pharmacy, slowed during the second half of the year. Challenges in the marketplace, especially the increased use of mail order for prescription delivery, negatively impacted our business. Hurting our pharmacy sales the most was the switch by the United Auto Workers to a mandatory mail policy, which affected nearly one third of our stores.

Despite those challenges, we took many positive steps during fiscal 2005 to take advantage of the growth opportunity we see ahead for pharmacy and for Rite Aid.

Our balance sheet grew stronger as we reduced debt from $3.9 billion to $3.3 billion and extended maturities on the majority of our long term debt to 2009 and beyond. The repricing of a substantial portion of our debt lowered our interest expense, which will provide more capital to invest in our business.

We unveiled a great new customer-friendly Rite Aid store design that showcases our pharmacy and added 25 new and relocated stores as our new store development program got underway. Customers who experience the new store prototype say it encourages them to shop Rite Aid more often and purchase more items. The beauty of the new design is that it will work well for both remodels and new builds as we ramp up our store development to meet our goal of opening 800 to 1,000 new and relocated stores over the next five years.

We completed the chainwide rollout of new pharmacy technology designed to more efficiently fill prescriptions, enhance quality assurance and position pharmacists to more easily counsel patients. We believe our new state-of-the-art NexGen pharmacy dispensing system will help improve service in our pharmacies and already have plans for enhancements so our pharmacists have even more tools to help their patients. And our 100 percent e-prescribing capability will make it easy for doctors to use this faster and more accurate electronic way to send prescriptions to any Rite Aid.

We implemented a new customer satisfaction tracking system in all of our stores so we can measure how customers feel about shopping at Rite Aid, asking them to rate us on 30 different attributes that drive customer choice of a drugstore. Improving customer satisfaction in our pharmacies is our top priority, and we now have information on what and where we need to improve.

And we completed a strategic review and updated Rite Aid's five-year strategic plan, taking into account the competitive situation and the current and projected environment for the drugstore industry. Our plan focuses on delivering a "best in class" personalized neighborhood drugstore experience, concentrates store growth where it will be most profitable and capitalizes on the unique health and wellness proposition of a drugstore.

Here are the key initiatives that support our strategic plan:

We will acquire new pharmacy customers and grow our prescriptions:

We developed a business plan to compete with mail order, recently announcing that Rite Aid will provide pharmacy benefit management (PBM) services to employers, health plans and insurance companies. Our new PBM allows us to offer managed care programs, a 90-day prescription at retail alternative to mail so we can keep driving business into our stores and gives us more options when negotiating with managed

care plans for additional business. We've already started marketing PBM services, and our full national sales and marketing force will be in place by Fall.

We are testing Rite Care, a medication therapy management program with the University of Pittsburgh where our pharmacists partner with physicians to care for patients who take many prescriptions to control chronic diseases. We are paid a fee for these services, and our goal is to use the program as a model to show managed care providers how paying community pharmacy for medication therapy management can improve workforce productivity and save on health care costs long term. This partnership with the University of Pittsburgh and preventive services like the immunizations many of our pharmacies now provide showcase the increasingly important role retail pharmacy plays in health care delivery.

We'll continue to build our new "Living More" senior discount loyalty program, which we launched in February and already has more than one million members. By getting more seniors to shop at Rite Aid now, we can take quicker advantage of the new Medicare prescription drug benefit that starts next January and presents significant opportunities to impact pharmacy sales. And we're building partnerships with managed care companies likely to be chosen to administer the new drug plan. Our aggressive program to buy prescription files from independent pharmacies continues, and we've increased our goal for purchases this year.

We'll concentrate our real estate investments in geographies where we profitably compete:

We plan to increase our capital expenditures by more than 80 per cent this year, and most of it will be spent on 80 new and relocated stores and 200 remodels. Our development will be in existing key strategic markets, which we believe will deliver a faster return on investment than entering new markets and help protect our market share from the competitions' new store growth. Our new store development program will substantially ramp up each year over the next five years, and we'll continue to evaluate acquisition opportunities as they become available.

We'll develop marketing and merchandising programs to support our health and wellness positioning:

Research shows that as they age, customers increasingly turn to their pharmacist as an expert on health and wellness, and year after year "pharmacist" ranks near the top of the list of the most trusted professions. We plan to capitalize on this relationship to differentiate Rite Aid as the place customers go to maintain their health and improve the quality of their lives. Our goal is to provide a one-stop-shop for products, services and information that help our customers take more control of their well-being.

Our Health Condition Management Program will help us do that. It started with our very successful Diabetes Initiative, which promotes our pharmacists' expertise on managing and screening for the disease. This year we'll add other health and wellness programs, covering subjects like allergies, vitamins and nutrition and heart health. Our "Living More" newsletter with health care advice for seniors, the health care information kiosks in our new store design and the Rite Aid Health and Beauty Expos we host in major markets are all part of our commitment to our customer's well-being.

Our plan is to focus on all aspects of wellness that contribute to a healthy lifestyle. As a result, we will leverage our core health and beauty equities that support our health and wellness vision with pharmacist-endorsed over-the-counter product displays and with new categories that focus on men's grooming, spa products and skin care. And we'll increase our GNC vitamin departments, adding them to 300 more of our stores over the next three years, and develop additional private brand products as we further integrate healthcare beyond the pharmacy.

We'll focus on associates to ensure consistent delivery of a personal store experience:

Superior customer service starts with our associates, and continuous improvement in the pharmacy customer experience is our number one focus. We recently added to our pharmacy field management staff to give our supervisors more time in fewer stores to make sure we deliver on our "With Us, It's Personal" promise to our patients. Because our new dispensing system tracks actual wait times and other critical performance measures, we can pinpoint service problems more easily and fix them faster. And thanks to our new customer satisfaction tracking system, we are able to further demonstrate how critical this mission is by adding customer satisfaction improvement goals to our store, field management and corporate bonus plans.

We'll intensify our recruiting efforts and training programs that improve the quality, knowledge and service of our associates. That includes stepping up our fast-track store management program and increasing the number of pharmacy interns we hire each year. Our strong partnerships with pharmacy schools provide Rite Aid with some of the best talent out there.

We're focusing on training that will help our pharmacies deliver "best in class" customer service. Thanks to the additional capabilities of our new NexGen pharmacy system, we are able to consistently update our pharmacists about new medications, regulations and managed care programs and expand our computer-based training programs. This makes it easier for our pharmacists to meet customer expectations. A good example is the education program on the new Medicare prescription drug benefit we'll roll out this summer so our pharmacists can assist seniors with making more informed decisions when enrollment begins in November. Our new computer-based pharmacy technician training will provide our pharmacists and their patients with the most skilled assistance.

Because our associates are on the front line with customers every day, we ask them to tell us how we can help them help our customers through quarterly regional associate and pharmacist advisory panels and our Associate Attitude Survey. This information will not only help us take better care of our customers, it will also help us reach our goal of being the "employer of choice" in the drugstore industry. As will our continued emphasis on promoting a culture that recognizes, appreciates, praises and treats our associates respectfully (which we define by the acronym RAPTAR) because we know they are the most critical elements to our success.

And we'll optimize our technology and supply chain to enhance customer service:

In concert with our goal to deliver the best overall pharmacy experience, we are using process improvement tools and Six Sigma methodology to examine all aspects of how we fill prescriptions, from workflow to pharmacist capacity for face time with patients to backstage support. We'll continue to use technology to provide support for our pharmacy associates and give our customers a higher level of service. This includes adding the latest enhancements to our 900 robotic counting devices, improving pharmacy replenishment and developing central processing and central fill capability.

Going forward, we are optimistic about the business opportunity for Rite Aid and are positioning our business for the growth we see ahead. The prescription sales growth rate is expected to be in the high single digits each year over the next five years as the population ages, drugmakers boost their spending to develop new medications and biotech firms work on the next generation of life-saving drugs. A significant number of new generics are expected to come to market near-term, making prescriptions more affordable for all patients. The role the pharmacist can play in reducing long-term health care costs is just starting to gain traction. And while it's still too early to tell just how much the new Medicare drug benefit that goes into effect next January will affect our business, we're taking steps to capture more than our fair share of the estimated $720 billion the government will spend on prescription drugs for seniors over the next ten years.

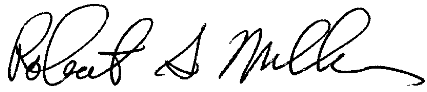
While fiscal 2005 was a challenging year in terms of financial performance and we are disappointed with our results, it was a successful year in terms of strategy. We started a PBM that can provide a low-cost retail alternative to mail when we saw how much mandatory mail programs hurt our business the second half of last year. We increased our focus on customer satisfaction and set tough goals for attaining high ratings from our customers because we believe this will have the greatest impact on growing our pharmacy business. We've significantly increased our capital expenditures for new store growth and remodels. And we laid out a vision to substantially strengthen our competitive position and guide us in the future.

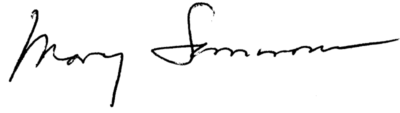
We thank our talented and dedicated associates for their hard work this past year and their commitment to our strategy and our vision. We thank our suppliers for being great partners, especially those who serve on our supplier advisory boards. We thank our customers for their loyalty and pledge we will continue to work to make their shopping experience at Rite Aid "best in class."

We thank our Board of Directors for their valuable advice and welcome Dr. Michael Friedman and Philip Satre who joined our Board this year. They each bring a wealth of experience and expertise to our board, and we appreciate their desire to help guide Rite Aid into the future.

And we thank our stockholders for their patience and continued support. We commit to you that we will continue to work with the highest of integrity on your behalf. While it will take some time to get our sales

back on track, we are focused on the right priorities and believe we have the right strategy to increase our market share and deliver long-term stockholder value.





Robert G. Miller
Chairman

Mary Sammons
President and Chief Executive Officer

RITE AID CORPORATION
P.O. BOX 3165
HARRISBURG, PENNSYLVANIA 17105

Notice of Annual Meeting of Stockholders
To Be Held on June 23, 2005

To Our Stockholders:

What: Our 2005 Annual Meeting of Stockholders

When: June 23, 2005 at 1:00 p.m., Eastern Daylight time

Where: Hilton Harrisburg
One North Second Street
Harrisburg, Pennsylvania 17101

Why: At this Annual Meeting, we plan to:

1. Elect four directors to hold office until the 2008 Annual Meeting of Stockholders and one director to hold office until the 2007 Annual Meeting of Stockholders, and in each case until their respective successors are duly elected and qualified;
2. Consider and vote upon a stockholder proposal, if properly presented, requesting that the Company's Board of Directors adopt a majority vote standard for the election of directors;
3. Consider and vote upon a stockholder proposal, if properly presented, requesting that the Company's Board of Directors prepare and make public a report concerning diversity of the Board of Directors; and
4. Transact such other business as may properly come before the Annual Meeting of Stockholders or any adjournments or postponements thereof.

Only Stockholders of record at the close of business on May 2, 2005 will receive notice of, and be eligible to vote at, the Annual Meeting and any adjournment or postponement thereof. The foregoing items of business are more fully described in the Proxy Statement accompanying this notice.

Your vote is important. Please read the Proxy Statement and the voting instructions on the enclosed proxy and then, whether or not you plan to attend the Annual Meeting in person, and no matter how many shares you own, please complete and promptly return your proxy in the envelope provided. This will not prevent you from voting in person at the meeting. It will, however, help to assure a quorum and to avoid added proxy solicitation costs. If you are a Stockholder of record, you may also authorize the individuals named on the enclosed proxy to vote your shares by calling a specially designated telephone number (TOLL FREE 877-785-2637) or via the Internet at *www.computershare.com/us/proxy/rad*. These telephone and Internet voting procedures are designed to authenticate your vote and to confirm that your voting instructions are followed. Specific instructions for Stockholders of record who wish to use telephone or Internet voting procedures are set forth on the enclosed proxy. You may revoke your proxy at any time before the vote is taken by (a) delivering to the Secretary of Rite Aid a written revocation or a proxy with a later date (including a proxy by telephone or via the Internet) or (b) voting your shares in person at the Annual Meeting.

By order of the Board of Directors

Robert B. Sari
Secretary

Camp Hill, Pennsylvania
May 18, 2005

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RITE AID CORPORATION
P.O. BOX 3165
HARRISBURG, PENNSYLVANIA 17105

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 23, 2005

GENERAL INFORMATION

The Board of Directors of Rite Aid Corporation, a Delaware corporation ("Rite Aid" or the "Company"), seeks your proxy for use in voting at our 2005 Annual Meeting of Stockholders to be held at the Hilton Harrisburg, One North Second Street, Harrisburg, Pennsylvania 17101, on June 23, 2005 at 1:00 p.m., Eastern Daylight time, or any adjournment or postponement thereof (the "Annual Meeting"). This proxy statement, the foregoing notice and the enclosed proxy are first being mailed on or about May 18, 2005 to all holders of our common stock, par value $1.00 per share ("Common Stock") and 8% Series F Cumulative Convertible Pay-in-Kind Preferred Stock, 7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock and 6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock (collectively, the "LGP Preferred Stock") (collectively, the "Stockholders") entitled to vote at the Annual Meeting.

Purpose of the Meeting

At the Annual Meeting, the Stockholders will be asked to vote on the following proposals:

Proposal No. 1: To elect four directors to hold office until the 2008 Annual Meeting of Stockholders and one director to hold office until the 2007 Annual Meeting of Stockholders, and in each case until their respective successors are duly elected and qualified;

Proposal No. 2 Consider and vote upon a stockholder proposal, if properly presented, requesting that the Board of Directors of the Company adopt a majority vote standard for the election of directors; and

Proposal No. 3: Consider and vote upon a stockholder proposal, if properly presented, requesting that the Company's Board of Directors prepare and make public a report concerning diversity of the Board of Directors.

Record Date

Only Stockholders of record at the close of business on May 2, 2005 (the "Record Date") will receive notice of, and be entitled to vote at, the Annual Meeting. At the close of business on the Record Date, the Company had outstanding and entitled to vote 520,933,856 shares of Common Stock and 3,451,804.301 shares of LGP Preferred Stock (which, on an as-if-converted basis, is entitled to an aggregate of 62,760,078 votes).

Quorum and Voting

The presence at the Annual Meeting, in person or by proxy, of the holders of 291,846,967 shares (a majority of the aggregate number of shares of Common Stock and LGP Preferred Stock (on an

as-if-converted basis) issued and outstanding and entitled to vote as of the Record Date) is necessary to constitute a quorum to transact business. Proxies marked "Abstain" and broker proxies that have not voted on a particular proposal because the broker does not have authority to vote on that proposal and has not received voting instructions ("Broker Non-Votes"), if any, will be counted in determining the presence of a quorum. In deciding all matters that come before the Annual Meeting, each holder of Common Stock as of the Record Date is entitled to one vote per share of Common Stock and each holder of LGP Preferred Stock as of the Record Date is entitled to approximately 18.18 votes per share of LGP Preferred Stock (one vote per share of Common Stock issuable upon conversion of the LGP Preferred Stock). As of the Record Date, the LGP Preferred Stock was convertible into an aggregate of 62,760,078 shares of Common Stock. The holders of the Common Stock and LGP Preferred Stock vote together as a single class.

Required Votes

Election of the director nominees named in Proposal No. 1 requires the affirmative vote of a plurality of the total number of votes cast at the Annual Meeting by the holders of shares of Common Stock and LGP Preferred Stock, voting together as a single class. Votes may be cast in favor of or withheld with respect to all of the director nominees, or any of them. Abstentions and Broker Non-Votes, if any, will not be counted as having been voted and will have no effect on the outcome on the vote on the election of directors, except to the extent the failure to vote for a nominee results in another nominee receiving a larger number of votes. Stockholders may not cumulate votes in the election of directors.

The affirmative vote of a majority of the total number of votes of the Common Stock and the LGP Preferred Stock represented and entitled to vote at the Annual Meeting, voting together as a single class, is necessary for the approval of stockholder Proposal Nos. 2 and 3. In determining whether Proposal Nos. 2 and 3 have received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as votes against the proposal, and Broker Non-Votes, if any, will have no effect on the votes for Proposal Nos. 2 and 3.

Voting Procedures

Stockholders of record can choose one of the following three ways to vote:

1. By mail: Sign, date and return the proxy in the enclosed pre-paid envelope.
2. By telephone: Call (TOLL FREE 877-785-2637) and follow the instructions.
3. Via the Internet: Access *www.computershare.com/us/proxy/rad* and follow the instructions.

By casting your vote in any of the three ways listed above, you are authorizing the individuals listed on the proxy to vote your shares in accordance with your instructions. If you want to vote in person at the Annual Meeting and you hold Common Stock in a street name, you must obtain a proxy from your broker and bring that proxy to the meeting.

Proxies

If the enclosed proxy card is properly signed and returned prior to voting at the Annual Meeting, the shares represented thereby will be voted at the Annual Meeting in accordance with the instructions specified thereon. If the proxy card is signed and returned without instructions, the shares will be voted as follows:

Proposal No. 1: FOR the nominees of the Board in the election of directors;

Proposal No. 2: AGAINST the stockholder proposal; and

Proposal No. 3: AGAINST the stockholder proposal.

Management does not intend to bring any matter before the Annual Meeting other than as indicated in the notice and does not know of anyone else who intends to do so. If any other matters properly come before the Annual Meeting, however, the persons named in the enclosed proxy, or their duly constituted substitutes acting at the Annual Meeting, will be deemed authorized to vote or otherwise act thereon in accordance with their judgment on such matters.

You may revoke your proxy by doing any of the following:

- Delivering a written notice of revocation to the Secretary of Rite Aid, dated later than the proxy, before the vote is taken at the Annual Meeting;
- Delivering a duly executed proxy to the Secretary of Rite Aid bearing a later date (including proxy by telephone or via the Internet) before the vote is taken at the Annual Meeting; or
- Voting in person at the Annual Meeting (your attendance at the Annual Meeting, in and of itself, will not revoke the proxy).

Any written notice of revocation, or later dated proxy, should be delivered to:

Rite Aid Corporation
30 Hunter Lane
Camp Hill, Pennsylvania 17011
Attention: Robert B. Sari, Secretary

Alternatively, you may hand deliver a written revocation notice, or a later dated proxy, to our Secretary at the Annual Meeting before we begin voting.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General

Rite Aid's Board of Directors is divided into three classes, with each class to be composed as equally as possible. The Board of Directors currently consists of five directors whose terms expire this year, three directors whose terms expire in 2006 and two directors whose terms expire in 2007. Generally, the term of one class of directors expires at each annual meeting of Stockholders and each class serves a three-year term. However, as discussed under "Director Nominees" below, in order to equalize the composition of the classes, four of the directors whose terms expire this year are nominated to be elected to hold office until 2008 and one such director is nominated to be elected to hold office until 2007. Although the Board of Directors has a Nominating and Governance Committee, the nominees for directors were nominated by the entire Board.

The Company's By-Laws provide that the Board of Directors may be composed of up to 15 members, with the number to be fixed from time to time by the Board of Directors. The Board of Directors has fixed the number of directors for the year commencing at the Annual Meeting at ten.

Director Nominees

The Board of Directors has nominated John G. Danhakl, Michael A. Friedman, MD, Alfred M. Gleason, Robert G. Miller and Philip G. Satre to be elected directors at the Annual Meeting. Each of the nominees for director to be elected at the Annual Meeting currently serves as a director of the Company. Each director elected at the Annual Meeting will hold office until 2008, with the exception of Mr. Satre, who will hold office until 2007. The other directors will remain in office for the remainder of their respective terms, as indicated below.

If any nominee at the time of election is unable or unwilling to serve or is otherwise unavailable for election, and as a consequence thereof other nominees are designated, then the persons named in the proxy or their substitutes will have the discretion and authority to vote or to refrain from voting for other nominees in accordance with their judgment.

RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES LISTED ABOVE

BOARD OF DIRECTORS

The following table sets forth certain information with respect to the Company's directors and the director nominees as of the Record Date:

Name	Age	Position with Rite Aid	Year First Became Director	Term as Director will Expire (1)
Robert G. Miller	61	Chairman	1999	2005
Mary F. Sammons	58	Director, President and Chief Executive Officer	1999	2007
John G. Danhakl	49	Director	2003	2005
Michael A. Friedman, MD	61	Director	2004	2005
Alfred M. Gleason	75	Director	2000	2005
George G. Golleher	57	Director	2002	2007
Colin V. Reed	57	Director	2003	2006
Philip G. Satre	56	Director	2005	2005
Stuart M. Sloan	61	Director	2000	2006
Jonathan D. Sokoloff	47	Director	1999	2006

(1) Directors' terms of office are scheduled to expire at the annual meeting of stockholders to be held in the year indicated.

Robert G. Miller. Mr. Miller has been Chairman of the Board of the Company since December 5, 1999. Mr. Miller was also the Chief Executive Officer from December 1999 until June 2003. Previously, Mr. Miller served as Vice Chairman and Chief Operating Officer of The Kroger Company, a retail food

company. Mr. Miller joined Kroger in March 1999, when The Kroger Company acquired Fred Meyer, Inc., a food, drug and general merchandise chain. From 1991 until the acquisition, he served as Chief Executive Officer of Fred Meyer, Inc. Mr. Miller also serves as a director of Harrah's Entertainment, Inc. and Wild Oats Markets, Inc.

Mary F. Sammons. Ms. Sammons has been President and a member of Rite Aid's Board of Directors since December 5, 1999 and Chief Executive Officer since June 2003. She was the Chief Operating Officer from December 1999 until June 2003. From April 1999 to December 1999, Ms. Sammons served as President and Chief Executive Officer of Fred Meyer Stores, Inc., a subsidiary of The Kroger Company. From January 1998 to April 1999, Ms. Sammons served as President and Chief Executive Officer of Fred Meyer Stores, Inc., a subsidiary of Fred Meyer, Inc. From 1985 through 1997, Ms. Sammons held several senior level positions with Fred Meyer Stores Inc., the last being that of Executive Vice President. Ms. Sammons is also a member of the Board of the National Association of Chain Drugstores, and is a director of First Horizon National Corporation and of The Rite Aid Foundation.

John G. Danhakl. Mr. Danhakl has been a Managing Partner of Leonard Green & Partners, L.P. since 1995. Leonard Green & Partners, L.P. is an affiliate of Green Equity Investors III, L.P. and is a private equity firm based in Los Angeles, California. Prior to that, he served as a Managing Director in the Los Angeles office of Donaldson, Lufkin & Jenrette, which he joined in 1990. He presently serves on the boards of directors of Big 5 Sporting Goods Corporation, Diamond Triumph Auto Glass, Inc., Leslie's Poolmart, Inc., Liberty Group Publishing, Inc., MEMC Electronic Materials Inc., Petco Animal Supplies, Inc., VCA Antech, Inc., Arden Group, Inc. and several private companies. Mr. Danhakl previously was elected as a director pursuant to director nomination rights granted to Green Equity Investors III, L.P. under an October 27, 1999 agreement between Rite Aid and Green Equity Investors with respect to the purchase of 3,000,000 shares of Rite Aid preferred stock.

Michael A. Friedman, MD. Dr. Friedman has been President and Chief Executive Officer of City of Hope, a National Cancer Institute-designated Comprehensive Cancer Center since May 2003. From October 2001 to April 2003, Dr. Friedman served as Chief Medical Officer for Biomedical Preparedness for the Pharmaceutical Research and Manufacturers of America, a pharmaceutical trade association. Additionally, he held the position of Senior Vice President of Research and Development, Medical and Public Policy for Pharmacia. He also has held executive positions in government and public health organizations. In addition to serving as Acting Commissioner of the U.S. Food and Drug Administration from 1997 to 1998, he was Associate Director of the Cancer Therapy Evaluation Program at the National Cancer Institute, National Institutes of Health from 1988 to 1995. He joined the National Cancer Institute in 1983 as Chief of the Clinical Investigations Branch of the Division of Cancer Treatment. Before that he spent nearly a decade at the University of California at San Francisco Medical Center in various positions, from Assistant Professor of Medicine in 1975 to Interim Director of the Cancer Research Institute from 1981 to 1983. Author of more than 150 scientific papers and books, Dr. Friedman has received commendations, including the Surgeon's General's Medallion in 1999.

Alfred M. Gleason. Mr. Gleason is currently a self-employed consultant. Mr. Gleason served as President of the Port of Portland Commission in Portland, Oregon, from 1996 until June 1999. From 1985 until 1995, Mr. Gleason held several positions with PacifiCorp, including Chief Executive Officer, President and Director. PacifiCorp was the parent company of Pacific Power & Light, Utah Power & Light and Pacific Telecom, Inc.

George G. Golleher. Since June 1999, Mr. Golleher has worked as a business consultant and a private equity investor following his retirement after 28 years of experience in the Southern California food industry. In May 2003, Mr. Golleher was named the Chief Executive Officer of Simon Worldwide Inc., a promotional marketing firm, and has served as a director of Simon Worldwide since November 1999. From March 1998 to May 1999, Mr. Golleher served as President, Chief Operating Officer and director of Fred Meyer, Inc. Prior to joining Fred Meyer, Inc., Mr. Golleher served for 15 years with Ralphs Grocery Company and its predecessors and was Chief Executive Officer when Ralphs merged with Fred Meyer, Inc. in March 1998. Mr. Golleher is Chairman of the Board of Directors of American Restaurant Group, Inc., which operates Black Angus Restaurants, and also serves on the Board of Directors of General Nutrition Centers.

Colin V. Reed. Mr. Reed has been President, Chief Executive Officer and a director of Gaylord Entertainment Company, a diversified entertainment corporation headquartered in Nashville, Tennessee, since April 2001 and became Chairman of its Board of Directors in May 2005. The company includes among its businesses Gaylord Hotels, Grand Ole Opry, The Ryman Auditorium, WSM Radio and Resort Quest International. Before joining Gaylord, Mr. Reed was Chief Financial Officer of Harrah's Entertainment, Inc. from April 1997 until 2001, a member of the three-executive Office of the President of Harrah's from May 1999 until 2001 and a director of Harrah's from 1998 to 2001. Joining Harrah's in 1977, he served in various executive capacities including Senior Vice President of Development where he oversaw the growth of Harrah's Casinos and was named Executive Vice President and Chief Financial Officer in 1997. He also served in various management positions for Holiday Corporation, former parent company of Harrah's, including Executive Assistant to the Chairman and Chief Financial Officer for Holiday Inn for the Europe, Middle East and Africa division. Mr. Reed serves on the Board of Directors of Bass Pro, Inc. and is a fellow in the British Association of Hotel Accountants.

Philip G. Satre. Mr. Satre is currently a private equity investor. Mr. Satre served as Chief Executive Officer of Harrah's Entertainment, Inc. from 1993 to January 2003. Mr. Satre was a director of Harrah's from 1988 through 2004, serving as Chairman of the Board of Harrah's since 1997. He presently serves on the boards of directors of the National Center for Responsible Gaming, the Nevada Cancer Institute, TABCORP Holdings Limited of Australia and Sierra Pacific Resources.

Stuart M. Sloan. Mr. Sloan has been a principal of Sloan Capital Companies, a private investment company, since 1984. Mr. Sloan was also the Chairman of the Board from 1986 to 1998 and the Chief Executive Officer from 1991 to 1996 of Quality Food Centers, Inc., a supermarket chain. He currently serves on the boards of directors of Anixter International, Inc. and J. Crew Group, Inc.

Jonathan D. Sokoloff. Mr. Sokoloff has been a Managing Partner of Leonard Green & Partners, L.P. since 1994. Leonard Green & Partners, L.P. is an affiliate of Green Equity Investors III, L.P. and is a private equity firm based in Los Angeles, California. Since 1990, Mr. Sokoloff has also been a partner in a merchant banking firm affiliated with Leonard Green & Partners, L.P. Mr. Sokoloff is also a director of Diamond Triumph Auto Glass, Inc., Dollar Financial Group, Inc. and The Sports Authority, Inc. Mr. Sokoloff previously was elected as a director pursuant to director nomination rights granted to Green Equity Investors III, L.P. under an October 27, 1999 agreement between Rite Aid and Green Equity Investors with respect to the purchase of 3,000,000 shares of Rite Aid preferred stock.

Corporate Governance

The Board of Directors recognizes that good corporate governance is an important means of protecting the interests of the Company's stockholders, associates, customers, and the community. The Company has closely monitored and implemented relevant legislative and regulatory corporate governance reforms, including provisions of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the rules of the Securities and Exchange Commission (the "SEC") interpreting and implementing Sarbanes-Oxley, and the corporate governance listing standards of the New York Stock Exchange ("NYSE").

Website Access to Corporate Governance Materials. The Company's corporate governance information and materials, including our Certificate of Incorporation, Bylaws, Corporate Governance Guidelines, Board of Director committee charters, Code of Ethics for the Chief Executive Officer and Senior Financial Officers and Code of Ethics and Business Conduct, are posted on the corporate governance section of the Company's website at *www.riteaid.com* and are available in print upon request to Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011, Attention: Corporate Secretary. A copy of the current version of the Company's Audit Committee Charter, which was amended in April 2005, is attached hereto as Appendix A. The Board regularly reviews corporate governance developments and will modify these materials and practices from time to time as warranted.

Codes of Ethics. The Board has adopted a Code of Ethics that is applicable to our Chief Executive Officer and senior financial officers. The Board has also adopted a Code of Ethics and Business Conduct that applies to all of our officers, directors and associates. Any amendment to either code or any waiver of either code for executive officers or directors will be disclosed on the corporate governance section of the Company's website at *www.riteaid.com*.

Director Independence. For a director to be considered independent under the NYSE listing standards, the Board of Directors must determine that the director does not have any direct or indirect material relationship with the Company, including any of the relationships specifically proscribed by the NYSE independence standards. Only independent directors may serve on the Audit Committee, Compensation Committee and Nominating and Governance Committee.

The Board considers all relevant facts and circumstances in making independence determinations.

The Board of Directors has determined that all of the directors, other than Ms. Sammons and Messrs. Miller, Danhakl and Sokoloff, including those who serve on the Audit, Compensation and Nominating and Governance Committees satisfy the independence requirements of the NYSE listing standards and that the members of the Audit Committee satisfy the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and the NYSE requirements for audit committee members.

Committees of the Board of Directors

Audit Committee. The Audit Committee, which held nine meetings during fiscal year 2005, currently consists of Colin V. Reed (Chairman), Alfred M. Gleason and George G. Golleher, each of whom is an independent director under the NYSE listing standards and satisfies the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and the additional requirements of the NYSE listing standards for audit committee members. See "Corporate Governance—Director Independence" above. The Board has determined that Colin V. Reed qualifies as an "audit committee financial expert" as that term is defined under applicable SEC rules. The functions of the Audit Committee include the following:

- Appointing, compensating and overseeing the Company's independent registered public accounting firm ("independent auditors"),
- Overseeing management's fulfillment of its responsibilities for financial reporting and internal control over financial reporting, and
- Overseeing the activities of the Company's internal audit function.

The independent auditors and internal auditors meet with the Audit Committee with and without the presence of management representatives. For additional information, see "Audit Committee Report" and the Company's Audit Committee Charter, which is attached to this proxy statement as Appendix A.

Compensation Committee. The Compensation Committee, which met five times during fiscal year 2005, currently consists of George G. Golleher (Chairman), Colin V. Reed and Stuart M. Sloan, each of whom is an independent director under the NYSE listing standards. See "Corporate Governance—Director Independence" above. The functions of the Compensation Committee include the following:

- Administering the Company's stock option and other equity incentive plans,
- Determining and approving the compensation levels for the Chief Executive Officer, and
- Reviewing and recommending to the Board of Directors other senior officers' compensation levels.

For additional information, see "Report of the Compensation Committee on Executive Compensation."

Nominating and Governance Committee. The Nominating and Governance Committee, which held four meetings during fiscal year 2005, currently consists of Stuart Sloan (Chairman), George G. Golleher and Michael A. Friedman, MD, each of whom is an independent director under the NYSE listing standards. See "Corporate Governance—Director Independence" above. The functions of the Nominating and Governance Committee include the following:

- Identifying and recommending to the Board individuals qualified to serve as directors of the Company;
- Recommending to the Board directors to serve on committees of the Board;
- Advising the Board with respect to matters of Board composition and procedures;
- Developing and recommending to the Board a set of corporate governance principles applicable to the Company and overseeing corporate governance matters generally; and
- Overseeing the annual evaluation of the Board and the Company's management.

The Nominating and Governance Committee will consider director candidates recommended by stockholders. In considering such recommendations, the Nominating and Governance Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Nominating and Governance Committee may also take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held. To have a candidate considered by the Nominating and Governance Committee, a stockholder must submit the recommendation in writing and must include the following information:

- The name of the stockholder and evidence of the person's ownership of Company stock, including the number of shares owned and the length of time of ownership; and
- The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company and the person's consent to be named as a director if selected by the Nominating and Governance Committee and nominated by the Board.

The stockholder recommendation and information described above must be sent to Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011, Attention: Corporate Secretary. The Nominating and Governance Committee will accept recommendations of director candidates throughout the year; however, in order for a recommended director candidate to be considered for nomination to stand for election at an upcoming annual meeting of stockholders, the recommendation must be received by the Corporate Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of stockholders.

The Nominating and Governance Committee believes that the minimum qualifications for serving as a director of the Company are that a nominee demonstrate, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company and have an impeccable record and reputation for honest and ethical conduct in his or her professional and personal activities. In addition, the Nominating and Governance Committee examines a candidate's specific experiences and skills, time availability in light of other commitments, potential conflicts of interest and independence from management and the Company. The Nominating and Governance Committee also seeks to have the Board represent a diversity of backgrounds and experience.

The Nominating and Governance Committee identifies potential nominees by asking current directors and executive officers to notify the Committee if they become aware of persons, meeting the criteria described above, who have had a change in circumstances that might make them available to serve on the Board—for example, retirement as a CEO or CFO of a public company or exiting government or military service. The Nominating and Governance Committee also, from time to time, may engage firms that specialize in identifying director candidates. As described above, the Committee will also consider candidates recommended by stockholders.

Once a person has been identified by the Nominating and Governance Committee as a potential candidate, the Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating and Governance Committee determines that the candidate warrants further consideration, the Chairman or another member of the Committee contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Nominating and Governance Committee requests information from the candidate, reviews the person's accomplishments and qualifications, including in light of any other

candidates that the Committee might be considering, and conducts one or more interviews with the candidate. In certain instances, Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accomplishments. The Committee's evaluation process does not vary based on whether or not a candidate is recommended by a stockholder, although, as stated above, the Board may take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held.

Dr. Friedman was first appointed to the Board in October 2004 and Mr. Satre was first appointed to the Board in April 2005. Both were recommended for consideration by the Nominating and Governance Committee by Robert G. Miller, Chairman of the Board, which recommendations were supported by the other directors.

Executive Committee. The members of the Executive Committee are Robert G. Miller (Chairman), Mary F. Sammons, Stuart M. Sloan and Jonathan D. Sokoloff. The Executive Committee did not meet during fiscal year 2005. However, on five occasions in fiscal year 2005, the Executive Committee acted by unanimous written consent. The Executive Committee, except as limited by Delaware law, is empowered to exercise all of the powers of the Board of Directors.

Executive Sessions of Non-Management Directors

In order to promote discussion among the non-management directors, regularly scheduled executive sessions (*i.e.,* meetings of non-management directors without management present) are held to review such topics as the non-management directors determine. These sessions are presided over by the chair of the Nominating and Governance Committee, chair of the Audit Committee or chair of the Compensation Committee depending on the subject matter to be covered in the meeting. The non-management directors met five times during fiscal year 2005 in executive session.

Communications with the Board of Directors

The Board has established a process to receive communications from stockholders and other interested parties. Stockholders and other interested parties may contact any member (or all members) of the Board, any Board committee or any chair of any such committee by mail or electronically. To communicate with the Board of Directors, the non-management directors, any individual directors or committee of directors, correspondence should be addressed to the Board of Directors or any such individual directors or committee of directors by either name or title. All such correspondence should be sent to Rite Aid Corporation, c/o Corporate Secretary, P.O. Box 3165, Harrisburg, PA 17105. To communicate with any of the directors electronically, stockholders should go to the Company's website at *www.riteaid.com*. Under the headings "Investor Information/Corporate Governance/Contact Our Board" you will find an on-line form that may be used for writing an electronic message to the Board, the non-management directors, any individual directors, or any committee of directors. Please follow the instructions on the website in order to send your message.

All communications received as set forth above will be opened by the Corporate Secretary for the purpose of determining whether the contents represent a message to the directors, and depending on the facts and circumstances outlined in the communication, will be distributed to the Board, the non-management directors, an individual director, or committee of directors, as appropriate. The Corporate Secretary will make sufficient copies of the contents to send to each director who is a member of the Board or of the committee to which the envelope or e-mail is addressed.

Directors' Attendance at Board, Committee and Annual Meetings

The Board of Directors held five regular meetings and four special meetings during fiscal year 2005. Each incumbent director of the Company attended at least 75% of the aggregate of the meetings of the Board of Directors and meetings held by all committees on which such director served, during the period for which such director served.

It is the Company's policy that directors are invited and encouraged to attend the Annual Meeting of Stockholders. Seven of our eight directors were in attendance at the 2004 Annual Meeting of Stockholders.

Directors' Compensation

Except for Robert G. Miller, whose compensation arrangements are discussed below and in the section entitled "Employment and Employment-Related Agreements and Termination of Employment —Agreement with Mr. Miller as Chairman," and except as noted below under the director compensation plan, each non-employee director other than Messrs. Danhakl and Sokoloff (who are affiliated with Leonard Green & Partners L.P., an entity that provides services to the Company, as discussed under "Certain Relationships and Related Transactions") receives an annual payment of $50,000 in cash, payable quarterly in arrears, except that the annual payment to each non-employee director who is a member of the Audit Committee is $60,000. In addition, the chair of the Audit Committee receives an additional annual payment of $15,000. Each non-employee director who chairs a committee of the Board other than the Audit Committee receives an additional annual payment of $7,500. Directors who are officers and full-time employees of the Company and Messrs. Danhakl and Sokoloff receive no separate compensation for service as directors or committee members. Directors are reimbursed for travel and lodging expenses associated with attending Board of Directors meetings.

Non-employee directors other than Messrs. Danhakl and Sokoloff are entitled to annually receive non-qualified stock options to purchase 50,000 shares of Common Stock. However, each person who was first elected or appointed as a director after January 1, 2002 and who is eligible to receive compensation for serving as a director shall, on the date first elected or appointed, receive non-qualified stock options to purchase 100,000 shares of Common Stock. All of the options received by the directors vest ratably over a three-year period beginning on the first anniversary of the date they were granted. None of such options vests after the non-employee director ceases to be a director, except in the case of a director whose service terminates after he or she reaches age 72, in which case such options will vest immediately upon termination. All of the options vest immediately upon a change in control. In accordance with the foregoing, the following number of shares of Common Stock were issued under the Company's 1999 Stock Option Plan to the following directors: on April 7, 2004, Messrs. Gleason, Golleher, Reed and Sloan each received options to purchase 50,000 shares, with an exercise price of $5.40 per share; on June 24, 2004, Mr. Miller received options to purchase 50,000 shares, with an exercise price of $5.38 per share; on October 7, 2004, the date that Michael A. Friedman, MD was appointed to the Board of Directors, he received non-qualified stock options to purchase 100,000 shares with an exercise price of $3.53 per share; on April 6, 2005, the date that Phillip Satre was appointed to the Board of Directors, he received non-qualified stock options to purchase 100,000 shares with an exercise price of $3.77 per share.

In fiscal year 2005, Rite Aid's non-employee directors also received $1,000 for each Board of Directors and committee meeting attended or $1,500 for each meeting attended at which such non-employee director served as the chairman of a committee, except that Jonathan D. Sokoloff and John G. Danhakl received no such compensation.

On April 28, 2005, Rite Aid entered into an amendment to the agreement with its Chairman, Robert G. Miller, pursuant to which, effective as of June 23, 2005, Mr. Miller will continue serving solely as Chairman of the Board and will do so through June 30, 2008, or the date of Rite Aid's 2008 Annual Meeting of Stockholders, whichever is earlier. Please see "Employment and Employment-Related Agreements and Termination of Employment—Agreement with Mr. Miller as Chairman" for details regarding Mr. Miller's compensation and other material terms of this agreement.

PROPOSAL NO. 2

STOCKHOLDER PROPOSAL—MAJORITY VOTE STANDARD IN THE ELECTION OF DIRECTORS

The Carpenters Benefit Funds, 350 Fordham Road, Wilmington, Massachusetts 01887, owner of 1,600 shares of Common Stock (based on information provided to us by the Carpenters Benefit Funds), has notified the Company that it intends to present the following proposal at the Annual Meeting:

RESOLVED: That the shareholders of Rite Aid Corporation ("Company") hereby request that the Board of Directors initiate the appropriate process to amend the Company's governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

Supporting Statement: Our Company is incorporated in Delaware. Among other issues, Delaware corporate law addresses the issue of the level of voting support necessary for a specific action, such as the election of corporate directors. Delaware law provides that a company's certificate of incorporation or bylaws may specify the number of votes that shall be necessary for the transaction of any business, including the election of directors. (DGCL, Title 8, Chapter 1, Subchapter VII, Section 216). Further, the law provides that if the level of voting support necessary for a specific action is not specified in the certificate of incorporation or bylaws of the corporation, directors "shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors."

Our Company presently uses the plurality vote standard for the election of directors. We feel that it is appropriate and timely for the Board to initiate a change in the Company's director election vote standard. Specifically, this shareholder proposal urges that the Board of Directors initiate a change to the director election vote standard to provide that in director elections a majority vote standard will be used in lieu of the Company's current plurality vote standard. Specifically, the new standard should provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or re-elected to the Board.

Under the Company's current plurality vote standard, a director nominee in a director election can be elected or re-elected with as little as a single affirmative vote, even while a substantial majority of the votes cast are "withheld" from that director nominee. So even if 99.99% of the shares "withhold" authority to vote for a candidate or all the candidates, a 0.01% "for" vote results in the candidate's election or re-election to the board. The proposed majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.

It is our contention that the proposed majority vote standard for corporate board elections is a fair standard that will strengthen the Company's governance and the Board. Our proposal is not intended to limit the judgment of the Board in crafting the requested governance change. For instance, the Board should address the status of incumbent directors who fail to receive a majority vote when standing for re-election under a majority vote standard or whether a plurality director election standard is appropriate in contested elections.

We urge your support of this important director election reform.

THE BOARD OF DIRECTORS' STATEMENT IN OPPOSITION:

The Board of Directors recommends a vote "against" Proposal No. 2.

The Board believes that electing directors under a majority vote standard would not serve the best interests of Rite Aid and its stockholders. Accordingly, the Board recommends a vote **AGAINST** the proposal for the reasons discussed below.

The Board believes that active stockholder participation in the election of directors is important for effective corporate governance. It is equally important, however, to ensure that the mechanisms through which stockholders participate are those that best serve the interests of the company and its stockholders.

Rite Aid is incorporated under the laws of the State of Delaware. Pursuant to Delaware law and Rite Aid's Bylaws, directors are elected by a plurality of the votes cast by stockholders, which means those director nominees receiving the largest number of votes cast "For" the nominee are elected, regardless of whether those nominees receive a certain percentage of the votes cast. Under the majority vote system proposed above, nominees instead would be required to receive a majority (*i.e*., greater than 50%) of the votes cast to be elected.

The Board believes that the plurality vote standard is superior to the proposed majority vote standard for several reasons.

First, the administration of the proposed majority vote standard could cause unnecessary expense and waste of resources in connection with the election of directors. The administration of a majority vote standard may have the unintended consequence of unnecessarily increasing the cost of soliciting stockholder votes as Rite Aid may need to employ a proactive telephone solicitation, multiple mailings or other vote-getting strategies in order to obtain the additional votes needed under a majority vote standard to elect directors. The end result may be increased spending by Rite Aid in routine elections. The Board believes this would not be a good use of stockholder assets.

Second, the majority vote standard presents complex legal and practical issues that the proposal does not resolve. The Board believes that although, conceptually, the proposed standard appears straightforward, adoption of the proposal would establish a potentially disruptive voting requirement that the Board does not believe is appropriate for our Company. For example, under the proposed standard, it would be possible for the entire slate of director nominees to fail to receive the requisite vote, thereby leaving the Company with no newly elected directors. This could have unintended consequences such as permitting the prior directors, including those the Board was proposing to replace, to remain in office until successors are elected and qualified.

Third, the proposed majority vote standard could disrupt Board operations and Rite Aid's financial performance in the event that certain or all director nominees do not receive majority support and are not elected. The Board follows established procedures for screening and interviewing potential candidates to fill vacancies on the Board and to ensure that such individuals meet our enumerated qualification criteria —a process that, to be done properly, can take many months to complete. The instability caused by such vacancies could deter the most qualified individuals from even agreeing to serve as director nominees. Furthermore, vacancies caused by the loss of the Board's independent directors could impact the Company's ability to comply with the New York Stock Exchange's corporate governance listing requirements.

The proposal's statement in support, particularly the 99.99% withhold vote example, suggests that the Board is being elected by minimal affirmative votes and that change is in order. The Board believes this statement is misleading. Rite Aid has a history of electing, under a plurality vote standard, strong and independent boards. For each of the past 10 years, the director nominees have received an average affirmative vote of greater than 85% of the votes cast at each annual meeting (that is, taking into account the number of votes withheld), with an overall ten-year average of more than 97% of the votes cast. This established track record of strong affirmative votes suggests that plurality voting is working and need not be changed.

We urge you to vote against Proposal No. 2.

RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "AGAINST" THE STOCKHOLDER PROPOSAL

PROPOSAL NO. 3

STOCKHOLDER PROPOSAL—BOARD OF DIRECTORS' DIVERSITY REPORT

The General Board of Pension and Health Benefits of the United Methodist Church, 1201 Davis Street, Evanston, Illinois 60201, the owner of 59,395 shares of Common Stock (based on information provided to us by The General Board of Pension and Health Benefits of the United Methodist Church) and the Board of Pensions of the Evangelical Lutheran Church in America, 800 Marquette Avenue, Suite 1050, Minneapolis, Minnesota 55402, the owner of 4,533 shares of Common Stock (based on information provided to us by the Board of Pensions of the Evangelical Lutheran Church in America), have notified the Company that they intend to jointly present the following resolution at the Annual Meeting:

DIVERSITY ON THE BOARD OF DIRECTORS

Rite-Aid Corporation

In response to the recent corporate scandals, the U.S. Congress (Sarbanes-Oxley Act), the stock exchanges and the SEC each have taken actions to enhance the independence, accountability and responsiveness of corporate boards, including requiring greater board and committee independence. We believe that in order to achieve such independence it is necessary for corporations to abandon the cozy clubbiness that has all too often characterized boards in the past.

As companies seek new board members to meet the new independence standards, there is a unique opportunity to enhance diversity on the board. A number of corporations have included their commitment to board diversity (by sex and race) in the Charter for their nominating committee (a charter now being required for NYSE and NASDAQ listed companies). We believe that the judgments and perspectives that women and members of minority groups bring to board deliberations improve the quality of board decision making, are likely to reduce the clubbiness of the board, and will enhance business performance by enabling a company to respond more effectively to the needs of customers worldwide.

We note that fewer than 20% percent of companies in the S&P 500 have all white male boards and that many have several women and/or minorities on their board. We believe that many publicly-held corporations have benefited from the perspectives brought by their many well-qualified board members who are women or minority group members. Thus, Sun Oil's former CEO, Robert Campbell, stated (Wall Street Journal, 8/12/96): "Often what a woman or minority person can bring to the board is some perspective a company has not had before—adding some modern-day reality to the deliberation process. Those perspectives are of great value, and often missing from an excluded gathering. They can also be inspirational to the company's diverse workforce."

Increasingly, institutional investors have supported the call for greater board diversity. For example, the 2003 corporate governance guidelines of America's largest institutional investor (TIAA-CREF) call for "diversity of directors by experience, sex, age, and race."

WHEREAS

We believe that our Board should take every reasonable step to ensure that women and persons from minority racial groups are in the pool from which Board nominees are chosen; therefore be it

RESOLVED that the shareholders request the Board:

1 In connection with its search for suitable Board candidates to ensure that women and persons from minority racial groups are among those it considers for nomination to the Board.

2. To publicly commit itself to a policy of board inclusiveness, including steps to be taken and a timeline for implementing that policy.

3. To report to shareholders, at reasonable expense, by November 2004 [sic]:

   a. On its efforts to encourage diversified representation on the board

   b. Whether, in the nominating committee's charter or its procedures, diversity is included as a criterion in selecting the total membership of the Board.

SUPPORTING STATEMENT

We urge the Board to enlarges [sic] its search for qualified members by casting a wider net.

THE BOARD OF DIRECTORS' STATEMENT IN OPPOSITION:

The Board of Directors recommends a vote "against" Proposal No. 3.

The Board of Directors urges a vote against this stockholder proposal. A similar proposal was submitted by The General Board of Pension and Health Benefits of the United Methodist Church and voted on at the 2004 Annual Meeting. The proposal submitted last year called for publication of reports concerning the Company's efforts to increase gender and ethnic diversity in hiring, promotion and contracting, while this year's proposal focuses solely on the Company's efforts to diversify membership of the Board of Directors. Last year's proposal was overwhelmingly rejected by stockholders at the 2004 Annual Meeting, with 176,790,698 votes cast against its adoption, representing more than 87% of the total number of votes cast for and against the proposal.

Consistent with the Board's views expressed in response to last year's diversity proposal, the Board believes that adoption of Proposal No. 3 is not necessary to increase the gender and ethnic diversity of the Board — and could in fact impede the Board's ability to select the most suitable candidates for membership on the Board.

First, the Company's existing policies are effective for identifying a diverse body of qualified candidates for Board membership. Rite Aid is fully committed to gender and ethnic diversity throughout the Company and offers equal employment opportunity to all persons without regard to race, color, religion, sex, national origin, age, disability, or veteran status in accordance with applicable laws. This commitment is evidenced in no small part by the fact the Company's President and Chief Executive Officer is Mary Sammons, who also has served as a member of the Board for over five years.

The Company also has established criteria for the Board to consider when evaluating director candidates. The Company's Corporate Governance Guidelines direct the Board's Nominating and Governance Committee to consider a variety of factors, including whether a candidate has "broad experience in areas important to the operation of the Company, such as business, science, finance/accounting, law, education or government" and has "qualities reflecting integrity, independence, wisdom, an inquiring mind, vision, a proven record of accomplishment and ability to work with others." Furthermore, Section 4 of the Nominating and Governance Committee's charter instructs the Committee to consider "personal and professional integrity, demonstrated exceptional ability and judgment and an assessment of effectiveness, in conjunction with the other nominees to the Board, in collectively serving the long-term interests of the Corporation's stockholders." These attributes are desirable in any candidate, regardless of the candidate's gender or minority status.

Second, the Board believes the stockholder proposal would overly restrict the Board's ability to select qualified candidates. The Board recognizes that qualified Board members with diverse backgrounds and perspectives can enhance Company performance. The proposal, however, would go so far as to require the Board to publicly commit itself to a policy of "board inclusiveness" and to "take every reasonable step" to ensure that women and persons from minority racial groups are in the pool from which Board nominees are chosen. Consistent with the Company's policies, the Board believes that the primary criteria should be whether such individuals have the qualifications, experience, skills and talents required to oversee the operations of a corporation as large and as complex as Rite Aid, and the ability to contribute to the success of the Company (and thereby contribute to the enhancement of stockholder value) -- without regard to such individuals' gender, ethnicity or other minority status. Of course, the Board is supportive of qualified candidates who would also provide the Board with additional diversity. The Board evaluates each candidate based upon the totality of his or her experience and credentials, and believes no single criterion should be determinative or required.

As a related matter, the Board would be reluctant to publicly announce any new initiatives to increase board diversity, as this could suggest that the Board had not previously considered, or in the future would not consider, the most qualified candidates without regard to such person's minority status.

The Board also believes that the proposal's directive to the Board to provide reports regarding its efforts to encourage diversity and whether the charter of the Nominating and Governance Committee includes diversity as a criterion for Board membership would not be a beneficial use of Company resources. The Company already complies with applicable governmental reporting requirements regarding compliance with equal employment opportunity laws and regulations. Thus, the preparation and

distribution of an additional report will not enhance the Company's commitment to equal employment opportunity, including diversity with respect to the Board. It also is not necessary to prepare a separate report to disclose the evaluation criteria set forth in the Nominating and Governance Committee's charter, because this charter, as well as the Company's Corporate Governance Guidelines and other corporate governance documents, are already publicly available on the Company's website.

Gender and ethnic diversity is a worthy goal to which the Board and the entire Company have always been committed. The Board believes, however, that Proposal No. 3 is not the appropriate approach for achieving this goal and would, in fact, detract from the Board's efforts to identify the most qualified director candidates. The proposal would limit our ability to select the best qualified Board members and result in incremental costs without providing corresponding benefits to the Company and our stockholders. Accordingly, the Board strongly believes that the proposal is unnecessary in most respects and, in other respects, is potentially harmful to the Company and not in the best interest of our stockholders.

We urge you to vote against Proposal No. 3.

RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "AGAINST" THE STOCKHOLDER PROPOSAL

EXECUTIVE OFFICERS

Officers are appointed annually by the Board of Directors and serve at the discretion of the Board of Directors. Set forth below is information regarding the current executive officers of Rite Aid.

Name	Age	Position with Rite Aid
Mary F. Sammons*	58	Director, President and Chief Executive Officer
James P. Mastrian	62	Senior Executive Vice President, Marketing, Logistics and Pharmacy Services
Mark C. Panzer	48	Senior Executive Vice President, Store Operations
John T. Standley	42	Senior Executive Vice President, Chief Administrative Officer and Chief Financial Officer
Robert B. Sari	49	Senior Vice President, General Counsel and Secretary
Kevin Twomey	54	Senior Vice President and Chief Accounting Officer

* Ms. Sammons' biographical information is provided above in the section identifying the director nominees.

James P. Mastrian. Mr. Mastrian was appointed Senior Executive Vice President, Marketing, Logistics and Pharmacy Services in November 2002. He had been Senior Executive Vice President, Marketing and Logistics of Rite Aid from October 2000 until November 2002, and was Executive Vice President, Marketing from November 1999 to October 2000. Mr. Mastrian was also Executive Vice President, Category Management of Rite Aid from July 1998 to November 1999. Mr. Mastrian was Senior Executive Vice President, Merchandising and Marketing of OfficeMax, Inc. from June 1997 to July 1998 and Executive Vice President, Marketing of Revco D.S., Inc. from July 1994 to June 1997.

Mark C. Panzer. Mr. Panzer has been Senior Executive Vice President, Store Operations since June 2002. He had been Executive Vice President, Store Operations since June 2001. Prior to that, he served as Senior Vice President, Marketing & Sales, General Merchandise at Albertson's, Inc. from 1998 to 2001, when Albertson's, Inc. merged with his former employer American Stores Company. From 1989 to 1998, Mr. Panzer held several senior positions at American Stores Company including District Manager, Director of Sales and Marketing, Vice President of Sales, Marketing & Advertising and Senior Vice President of Marketing & Formats.

John T. Standley. Mr. Standley was appointed Senior Executive Vice President and Chief Administrative Officer of Rite Aid in June 2002 and, in addition, in January 2004 was appointed Chief Financial Officer. He had served as Senior Executive Vice President and Chief Financial Officer from September 2000 to June 2002 and had served as Executive Vice President and Chief Financial Officer from December 1999 until September 2000. Previously, he was Executive Vice President and Chief Financial Officer of Fleming Companies, Inc., a food marketing and distribution company from May 1999 to December 1999. Between July 1998 and May 1999, Mr. Standley was Senior Vice President and Chief Financial Officer of Fred Meyer, Inc. Mr. Standley served as Senior Vice President and Chief Financial Officer of Ralphs Grocery Company between January 1997 and July 1998. Mr. Standley also served as Senior Vice President of Administration at Smith's Food & Drug Stores, Inc. from May 1996 to February of 1997 and as Chief Financial Officer of Smitty's Supervalue, Inc. from December 1994 to May 1996.

Robert B. Sari. Mr. Sari has been Senior Vice President, General Counsel and Secretary since June 2002. Mr. Sari served as Senior Vice President, Deputy General Counsel and Secretary from October 2000 until May 2002. From May 2000 to October 2000, he served as Vice President, Law and Secretary. Mr. Sari served as Associate Counsel from May 1997 to May 2000. Prior to May 1997, Mr. Sari was Vice President, Legal Affairs for Thrifty PayLess, Inc.

Kevin Twomey. Mr. Twomey has been Senior Vice President and Chief Accounting Officer since December 2000. From September 1989 to November 2000, Mr. Twomey held several accounting and finance management positions at Fleming Companies, Inc., a food marketing and distribution company. He was Senior Vice President – Finance and Control at Fleming, a position he held from October 1999 to November 2000, when he left Fleming. Prior to joining Fleming, he was an audit partner at Deloitte & Touche.

Executive Officer Compensation

The following table provides a summary of compensation paid during the last three fiscal years to Rite Aid's Chief Executive Officer and the four other most highly compensated executive officers who were serving as executive officers at the end of fiscal year 2005. As used herein, the term "Named Executive Officers" means all persons identified in the Summary Compensation Table.

SUMMARY COMPENSATION TABLE

	Annual Compensation				Long-Term Compensation		
Name and Principal Position	Fiscal Year	Salary(1)	Bonus(2)	Other Annual Compensation	Restricted Stock Awards (3)	Securities Underlying Option Grants/ SARs	All Other Compensation
Mary F. Sammons	2005	1,240,000	—	72,468(4)	599,999(7)	292,208	4,902(9)
Director, President &	2004	1,240,000	1,498,161	123,776(5)	—	—	4,902
Chief Executive Officer	2003	1,232,308	2,000,000	51,412(6)	—	500,000	4,743
James P. Mastrian	2005	650,000	—	61,341(4)	259,999(7)	126,623	148,737(10)
Senior Executive	2004	610,096	702,263	—	680,000(8)	—	88,402
Vice President, Marketing, Logistics and Pharmacy Services	2003	598,077	720,000	—	—	300,000	88,295
Mark C. Panzer	2005	575,000	—	71,432(4)	230,000(7)	112,013	129,938(11)
Senior Executive Vice	2004	509,134	589,901	—	326,400(8)	—	84,752
President, Store Operations	2003	447,692	546,250	72,369(6)	—	600,000	84,577
John T. Standley	2005	830,000	—	72,408(4)	259,999(7)	126,623	718(9)
Senior Executive	2004	805,000	702,263	—	—	—	690
Vice President, Chief Administrative Officer & Chief Financial Officer	2003	803,077	750,000	—	—	300,000	626
Kevin Twomey	2005	328,000	—	175,246(4)	78,716(7)	37,725	79,613(12)
Senior Vice President and	2004	316,808	189,967	—	—	—	76,812
Chief Accounting Officer	2003	310,615	218,400	—	—	75,000	75,112

(1) Salary amounts for Ms. Sammons and Mr. Standley include amounts contributed by Rite Aid to each such executive officer's account under the supplemental executive retirement plan in which they participate.

(2) Bonus amounts represent amounts earned in each respective fiscal year, not necessarily paid in each year.

(3) The amounts shown in this column represent the dollar value of common stock of the Company on the date of grant of the unvested restricted stock. With respect to restricted stock awards (but not with respect to awards of restricted stock units, discussed in footnote 7 below), each Named Executive Officer has the right to vote the shares of restricted stock and to receive any dividends paid on such shares.

(4) "Other Annual Compensation" includes the following for fiscal year 2005: For Ms. Sammons: $60,468 for personal use of the Company aircraft and a $12,000 car allowance. For Mr. Mastrian: $23,876 for personal use of the Company aircraft, $37,158 for personal use of company car and $307 in employer paid taxes. For Mr. Panzer: $44,052 for personal use of the Company aircraft, $27,134 for personal use of company car and $246 in employer paid taxes. For Mr. Standley: $36,496 for

personal use of the Company aircraft, $31,664 for personal use of company car, a $4,000 car allowance and $248 in employer paid taxes. For Mr. Twomey: $12,000 car allowance, $2,367 in employer paid taxes and $160,879 in reimbursable moving expenses.

(5) ''Other Annual Compensation'' includes the following for fiscal year 2004: For Ms. Sammons: $111,776 for personal use of the Company aircraft and a $12,000 car allowance.

(6) ''Other Annual Compensation'' includes the following for fiscal year 2003: For Ms. Sammons: $33,556 for personal use of the Company aircraft and a $17,856 car allowance. For Mr. Panzer: $45,699 in reimbursed moving expenses and $20,337 for personal use of the Company aircraft.

(7) During fiscal year 2005, the named executive officers received two types of restricted stock awards: (1) restricted shares that vest with the passage of time, and (2) restricted stock units that will vest only if certain performance targets are met.

With respect to time-based restricted shares, on June 24, 2004, the following executives were awarded the following number of shares of restricted common stock: Ms. Sammons was awarded 27,881 shares, Mr. Mastrian was awarded 12,082 shares, Mr. Panzer was awarded 10,688 shares and Mr. Standley was awarded 12,082 shares; restrictions on one-third of such respective shares lapsed or will lapse on each of June 24, 2005, June 24, 2006, and June 24, 2007. The value of the unvested shares of restricted stock as of February 26, 2005 was as follows: $95,911 for Ms. Sammons', $41,562 for Mr. Mastrian's, $36,767 for Mr. Panzer's and $41,562 for Mr. Standley's. On April 7, 2004, Mr. Twomey was awarded 3,644 shares of restricted common stock; restrictions on one-third of such shares lapsed or will lapse on each of April 7, 2005, April 7, 2006, and April 7, 2007. The value of the unvested shares of Mr. Twomey's restricted stock as of February 26, 2005 was $12,535.

With respect to performance-based stock units, on June 24, 2004, the following executives were awarded the following number of stock units: Ms. Sammons was awarded 83,643 units, Mr. Mastrian was awarded 36,245 units, Mr. Panzer was awarded 32,063 units and Mr. Standley was awarded 36,245 units; on April 7, 2004, Mr. Twomey was awarded 10,933 units. Vesting for all such performance units will occur, provided performance targets are met, on March 3, 2007 (the end of the Company's fiscal year 2007) or such later date that EBITDA performance for the period of fiscal years 2005 to 2007 is determined. The value of the unvested restricted stock units as of February 26, 2005 was as follows: $287,732 for Ms. Sammons', $124,683 for Mr. Mastrian's, $110,297 for Mr. Panzer's, $124,683 for Mr. Standley's and $37,610 for Mr. Twomey's.

(8) On September 23, 2003, Mr. Mastrian was awarded 125,000 shares of restricted stock and Mr. Panzer was awarded 60,000 shares of restricted common stock; in each case, restrictions on one-third of such shares lapsed or will lapse on each of September 23, 2004, September 23, 2005, and September 23, 2006.

(9) Represents supplemental life insurance premiums paid by the Company.

(10) Represents $4,737 in supplemental life insurance premiums paid by the Company and $144,000 compensation deferred by Mr. Mastrian.

(11) Represents $938 in supplemental life insurance premiums paid by the Company and $129,000 compensation deferred by Mr. Panzer.

(12) Represents $893 in supplemental life insurance premiums paid by the Company and $78,720 compensation deferred by Mr. Twomey.

Option Grants in the Fiscal Year

The following table sets forth certain information regarding options granted in fiscal year 2005 to the Named Executive Officers.

Name	Number of Securities Underlying Options Granted (#)(1)	Percent of Total Options Granted To Employees in Fiscal Year	Exercise Price ($/Sh)(2)	Expiration Date	Grant Date Present Value ($)(3)
Mary F. Sammons	292,208	4.70%	$5.38	6/24/14	$864,936
James P. Mastrian	126,623	2.04%	5.38	6/24/14	374,804
Mark C. Panzer	112,013	1.80%	5.38	6/24/14	331,558
John T. Standley	126,623	2.04%	5.38	6/24/14	374,804
Kevin Twomey	37,725	0.61%	5.40	4/7/14	117,325

(1) Options vest ratably over a four-year period beginning on the first anniversary of the date of grant.

(2) All options have an exercise price equal to the fair market value on the date of grant.

(3) The hypothetical present values on the grant date were calculated under the Black-Scholes option pricing model, which is a mathematical formula used to value options traded on stock exchanges. The formula considers a number of assumptions in hypothesizing an option's present value. Assumptions used to value the options for Ms. Sammons and Messrs. Mastrian, Panzer and Standley include the stock's expected volatility rate of 71%, projected dividend yield of 0%, and a risk-free rate of return of 3.1%. Assumptions used to value the options for Mr. Twomey include the stock's expected volatility rate of 74%, projected dividend yield of 0%, and a risk-free rate of return of 3.4%. For all options, the estimated life of the options was assumed to be four years. The ultimate realizable value of an option will depend on the actual market value of the Common Stock on the date of exercise as compared to the exercise price of the option. Consequently, there is no assurance that the hypothetical present value of the stock options reflected in this table will be realized.

Option Exercises and Fiscal Year-End Values

The following table summarizes the aggregate value of all stock options held as of February 26, 2005 by the Named Executive Officers. No options were exercised during fiscal year 2005. No Named Executive Officer holds any stock appreciation rights.

			Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options At Fiscal Year-End ($) (1)	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Mary F. Sammons	0	$0	7,247,216	592,208	$2,967,215	$394,000
James P. Mastrian	0	0	2,181,250	314,123	586,022	245,250
Mark C. Panzer	0	0	800,000	512,013	467,500	319,500
John T. Standley	0	0	4,440,796	314,123	1,566,889	245,250
Kevin Twomey	0	0	490,000	92,725	112,700	70,900

(1) ''In-the-Money'' options are options with an exercise price less than the market price of the Common Stock on February 26, 2005. The value of such options is calculated using a stock price of $3.44, which was the closing price of the Common Stock on the NYSE on February 25, 2005.

EMPLOYMENT AND EMPLOYMENT-RELATED AGREEMENTS AND TERMINATION OF EMPLOYMENT

Executive Employment Agreements

On December 5, 1999, Rite Aid entered into employment agreements with Mary F. Sammons and John T. Standley. On November 18, 2000, Rite Aid entered into an employment agreement, effective as of September 27, 2000, with James P. Mastrian; on June 27, 2001, Rite Aid entered into an employment agreement with Mark C. Panzer; and on September 1, 2003, Rite Aid entered into an employment agreement with Kevin Twomey (collectively, the "Executives").

Pursuant to their above-referenced individual employment agreements, each as amended:

- Ms. Sammons was appointed President and Chief Operating Officer of Rite Aid and was appointed to Rite Aid's Board of Directors, and is now President and Chief Executive Officer;
- Mr. Mastrian was appointed Senior Executive Vice President, Marketing and Logistics, and is now Senior Executive Vice President, Marketing, Logistics and Pharmacy Services;
- Mr. Panzer was appointed Executive Vice President of Store Operations and is now Senior Executive Vice President of Store Operations;
- Mr. Standley was appointed Executive Vice President and Chief Financial Officer and is now Senior Executive Vice President, Chief Administrative Officer and Chief Financial Officer; and
- Mr. Twomey was appointed Senior Vice President, Chief Accounting Officer.

Term. The term of Ms. Sammons' and Messrs. Mastrian's, Panzer's, Standley's and Twomey's employment agreements commenced on the date of his or her employment agreement. Unless terminated earlier, each employment agreement will terminate on its third anniversary, and in the case of Mr. Twomey's employment agreement, the agreement will terminate on the second anniversary (such respective period, the "Employment Period"), but will automatically renew for an additional year on each anniversary of the effective date of the agreement ("Renewal Date"), unless either the Executive or Rite Aid provides the other with notice of non-renewal at least 180 days prior to a Renewal Date.

Salary and Incentive Bonus. The respective agreements provide each Executive with a base salary and incentive compensation (which may be reviewed periodically for increase by the Compensation Committee) that includes, with respect to fiscal year 2005:

- Ms. Sammons is entitled to receive an annual base salary of not less than $750,000 (and received an annualized base salary of $1,000,000 in fiscal year 2005). Ms. Sammons received a bonus of $1,498,161 for fiscal year 2004 pursuant to her employment agreement, and in the future may, if Rite Aid's performance meets certain targets, receive an annual bonus that, if awarded, will equal or exceed 150% of her annual base salary then in effect.
- Mr. Mastrian is entitled to receive an annual base salary of not less than $575,000 (and received an annualized base salary of $650,000 in fiscal year 2005). Mr. Mastrian received a bonus of $702,263 for fiscal year 2004 pursuant to his employment agreement, and in the future may, if Rite Aid's performance meets certain targets, receive an annual bonus that, if awarded, will equal or exceed 100% of his annual base salary then in effect.
- Mr. Panzer is entitled to receive an annual base salary of not less than $375,000 (and received an annualized base salary of $575,000 in fiscal year 2005). Mr. Panzer received a bonus of $589,901 for fiscal year 2004 pursuant to his employment agreement, and in the future may, if Rite Aid's performance meets certain targets, receive an annual bonus that, if awarded, will equal or exceed 100% of his annual base salary then in effect.
- Mr. Standley is entitled to receive an annual base salary of not less than $500,000 (and received an annualized base salary of $650,000 in fiscal year 2005). Mr. Standley received a bonus of $702,263 for fiscal year 2004 pursuant to his employment agreement, and in the future may, if Rite Aid's performance meets certain targets, receive an annual bonus that, if awarded, will equal or exceed 100% of his annual base salary then in effect.

- Mr. Twomey is entitled to receive an annual base salary of not less than $317,000 (and received an annualized base salary of $328,000 in fiscal year 2005). Mr. Twomey received a bonus of $189,967 for fiscal year 2004 pursuant to his employment agreement, and in the future may, if Rite Aid's performance meets certain targets, receive an annual bonus that, if awarded, will equal or exceed 50% of his annual base salary then in effect.

Other Benefits. Pursuant to their employment agreements, each of the Executives is also entitled to participate in Rite Aid's fringe benefit and perquisite programs and savings plans.

Restricted Stock and Options. Pursuant to their employment agreements and individual stock option agreements, in December 1999, Ms. Sammons and Mr. Standley, in June 2001, Mr. Panzer and, in January 2001, Mr. Twomey received awards of restricted Rite Aid Common Stock and were granted options to purchase additional Rite Aid Common Stock as follows:

- Ms. Sammons was granted an option to purchase 2,000,000 shares of Common Stock and was awarded 200,000 shares of restricted Common Stock.
- Mr. Panzer was granted an option to purchase 500,000 shares of Common Stock and was awarded 65,000 shares of restricted Common Stock.
- Mr. Standley was granted an option to purchase 1,000,000 shares of Common Stock and was awarded 100,000 shares of restricted Common Stock.
- Mr. Twomey was granted an option to purchase 200,000 shares of Common Stock and was awarded 25,000 shares of restricted Common Stock.

Mr. Mastrian did not receive any grants of options to purchase shares of Common Stock under his employment agreement.

Termination of Employment. Upon written notice, the employment agreement of each of the Executives is terminable by either Rite Aid or the individual Executive seeking termination.

If Ms. Sammons or Mr. Standley is terminated by Rite Aid "without cause" (as defined in the employment agreement of such Executive) or if such Executive's employment is terminated by the Executive for "good reason" (as defined in the employment agreement of such Executive), then:

- the Executive will be paid an amount equal to three times the sum of the individual Executive's annual base salary and target bonus plus any accrued but unpaid salary and bonus, with the maximum bonus that the Executive is eligible to earn being pro-rated through the date of termination;
- the Executive will be paid the deferred compensation amounts that would otherwise have been credited to the Executive pursuant to the Deferred Compensation Plan (as discussed below) had the Executive continued employment with Rite Aid through the end of the then-remaining Employment Period and the Executive will continue to receive certain medical benefits for the remainder of such Employment Period; and
- all of the stock options awarded pursuant to the Executive's employment agreement will immediately vest and be exercisable for the remainder of their stated terms, the restrictions on the restricted Common Stock will immediately lapse and any performance or other conditions applicable to any other equity incentive awards will be considered to have been satisfied.

If Messrs. Mastrian, Panzer or Twomey is terminated by Rite Aid "without cause" or if such Executive's employment is terminated by the Executive for "good reason" (as such terms are defined in his employment agreement), then he shall be entitled to receive:

- an amount equal to two times the sum of his annual base salary and target bonus plus any accrued but unpaid salary and bonus, with the maximum bonus that the Executive is eligible to earn being pro-rated through the date of termination; and
- all of his stock options will immediately vest and be exercisable, generally, for a period of 90 days following the termination of employment and the restrictions on the restricted Common Stock will immediately lapse to the extent his options would have vested and restrictions would have lapsed had he remained employed by Rite Aid for two years following the termination.

If Rite Aid terminates any of the Executives "for cause" (as defined in the employment agreements):

- Rite Aid shall pay him or her all accrued but unpaid salary and benefits,
- any portion of any then-outstanding stock option grant that was not exercised prior to the date of termination shall immediately terminate, and
- any portion of any restricted stock award, or other equity incentive award, as to which the restrictions have not lapsed or as to which any other conditions were not satisfied prior to the date of termination shall be forfeited.

The employment agreement of each Executive prohibits the Executive from competing with Rite Aid during his or her Employment Period and for a period of one year, or with respect to Messrs. Mastrian, Panzer and Twomey, two years, thereafter.

Change-in-Control Arrangements. Under Ms. Sammons's and Mr. Standley's December 5, 1999 employment agreements, any termination of employment by the Executive within the six month period commencing on the date of a "change in control" of Rite Aid will be treated as a termination of employment by the Executive for "good reason." Under each of Messrs. Mastrian's, Panzer's and Twomey's employment agreements, upon a "change in control" of Rite Aid, all of the respective Executive's stock options will immediately vest and be exercisable and any restrictions on restricted stock will immediately lapse. Each employment agreement provides that the Executive will receive an additional payment to reimburse the Executive for any excise taxes imposed pursuant to Section 4999 of the Internal Revenue Code, together with reimbursement for any additional taxes incurred by reason of such payments.

Agreement with Mr. Miller as Chairman

Mr. Miller's December 5, 1999 employment agreement continued in full force and effect until June 25, 2003, the date of Rite Aid's 2003 annual meeting of stockholders. Following June 25, 2003, the December 5, 1999 employment agreement was amended and restated as provided in the April 9, 2003 employment agreement. On April 28, 2005 Rite Aid amended the April 9, 2003 agreement with Mr. Miller pursuant to which, effective as of June 23, 2005, Mr. Miller will continue serving solely as Chairman of the Board and will do so through June 30, 2008, or the date of Rite Aid's 2008 annual meeting of stockholders, whichever is earlier. Additional terms of this agreement are as follows:

Term. Mr. Miller will serve as Chairman from June 23, 2005 until June 30, 2008 or the date of Rite Aid's 2008 annual stockholders meeting, whichever is earlier (the "Employment Period"), subject to the other terms and conditions of the agreement.

Salary and Incentive Bonus. Mr. Miller receives annual base pay of $350,000 and is entitled to continued benefits, in their entirety, including participation in Rite Aid's fringe benefit and perquisite programs and savings plans, and continued deferred compensation as provided under the December 5, 1999 employment agreement. However, he is not entitled to participate in any incentive compensation or bonus plans.

Restricted Stock and Options. During the Employment Period, Mr. Miller is eligible to receive option and restricted stock awards in accordance with Rite Aid's policy for members of the Board of Directors as in effect from time to time. Mr. Miller's existing stock options and shares of restricted stock continue to vest and be fully exercisable for the remainder of their stated terms.

Termination of Employment and Change-in-Control Arrangements. The termination provisions of the April 9, 2003 employment agreement became effective immediately and remain in effect until the agreement expires. The termination provisions and change in control arrangements are substantially similar to those in the December 5, 1999 employment agreement. Effective June 23, 2005, if Mr. Miller is not re-elected as Chairman, he can be terminated and receive one year base salary (as compared to three years provided under the December 5, 1999 agreement for termination without cause).

Other Directorships. Effective June 23, 2005, Mr. Miller must receive approval from the Board of Directors prior to accepting any new directorships outside of the Company.

Supplemental Executive Retirement Plans

In addition to the base salary and bonus provisions of the employment agreements of the Executives and Mr. Miller, Rite Aid established a defined contribution supplemental executive retirement plan for the benefit of Mr. Miller, Ms. Sammons and Mr. Standley. Under the defined contribution supplemental executive retirement plan, Rite Aid makes monthly investments that are specific to Mr. Miller, Ms. Sammons and Mr. Standley. The investments are made each month during the term of the participants' service with Rite Aid. Each of Mr. Miller, Ms. Sammons and Mr. Standley is fully vested in the plan at all times. Generally, however, they may not receive payments until three years after an election to receive a payment. Each month, $20,000 is invested for Mr. Miller, $20,000 is invested for Ms. Sammons and $15,000 is invested for Mr. Standley. Under the defined contribution supplemental executive retirement plan, the participants are able to direct the investment of the amounts by selecting one or more investment vehicles from a group of deemed investments offered pursuant to the defined contribution supplemental executive retirement plan.

Messrs. Mastrian, Panzer and Twomey receive benefits under a defined contribution supplemental executive retirement plan ("Plan"), which is different from the one noted above. Under the Plan, Rite Aid credits a specific sum to an individual account established for Messrs. Mastrian, Panzer and Twomey, and other participating executive officers, on a monthly basis. The amount credited is equal to 2% of the Executive's annual base compensation, up to a maximum of $15,000 per month. The participants are able to select among a choice of earnings indexes, and their accounts are credited with earnings which mirror the investment results of such indexes. Annually Rite Aid makes investments for all participants in the Plan. Participants vest in their accounts at the rate of 20% per year for each full year of participation in the Plan at a five-year rolling rate, provided that the entire account balance for each participate shall vest upon a "change in control" of the Company. Participants will receive their vested account balance upon the earlier to occur of: (i) their retirement at age 60 or greater, with at least five years of participation in the Plan; (ii) termination of employment with the Company (including due to death or disability); (iii) change in control of the Company; (iv) a hardship withdrawal pursuant to the terms of the Plan; and (v) a withdrawal election pursuant to the terms of the Plan.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the "Committee") is comprised of three directors, each of whom is an independent director under the New York Stock Exchange listing standards. The Committee reviews the performance of the Company's executive personnel and develops and makes recommendations to the Board of Directors with respect to executive compensation policies. The Compensation Committee is empowered by the Board of Directors to award to executive officers appropriate bonuses, stock options, stock appreciation rights ("SARs") and stock-based awards. The Compensation Committee met five times during fiscal year 2005.

The Compensation Committee has access to independent compensation data and from time to time engages outside compensation consultants. In fiscal year 2005, the Compensation Committee considered the report of outside compensation consultants with respect to the design of the 2004 Omnibus Equity Plan.

The objectives of the Compensation Committee are to support the achievement of desired Company performance, to provide compensation and benefits that will attract and retain superior talent and reward performance and to fix a portion of compensation to the outcome of the Company's performance.

The executive compensation program is generally composed of base salary, performance bonuses and long-term incentives in the form of stock options, SARs, stock-based awards and restricted stock awards. The compensation program also includes various benefits, including the Deferred Compensation Program, and health insurance plans and programs and pension and profit sharing and retirement plans in which substantially all of the Company's full-time employees participate.

Base salaries for the executive officers of the Company are generally competitively set relative to salaries of officers of companies comparable in business and size. The base salary and other compensation

arrangements for the Named Executive Officers were individually negotiated with each executive and are reviewed periodically by the Compensation Committee for a possible increase. The CEO's annual base salary is reviewed by the Compensation Committee for possible increase at least annually. All compensation for the CEO other than base salary is performance-based. The Compensation Committee sets both financial and strategic performance goals for the CEO and reviews the CEO's performance against these goals. In each instance, base salary for the CEO and the other executive officers takes into account individual experience and performance specific to the Company. The Compensation Committee generally attempts to provide compensation approximating the median of comparable companies. Except for increases associated with promotions or increased responsibility, increases in base salaries for executive officers of the Company from year to year are generally limited to adjustments to reflect increases in the rate of inflation.

For fiscal year 2005, the Compensation Committee reviewed and set Ms. Sammons' base salary at $1,000,000, the same level that it was for fiscal year 2004. The Committee increased Ms. Sammons' target bonus for fiscal year 2005 to 150% of her base salary to provide a further incentive to meet the Company's performance targets. (As discussed below, Ms. Sammons and the other executives at the senior vice president level and higher did not in fact receive bonuses for fiscal year 2005.)

The Compensation Committee is aware that the Internal Revenue Code of 1986, as amended, treats certain elements of executive compensation in excess of $1,000,000 a year as an expense not deductible by the Company for federal income tax purposes.

The Compensation Committee is empowered to approve the payment of cash performance bonuses to employees, including the CEO and other executive officers, of the Company. Each year, the Compensation Committee determines an adjusted EBITDA goal and a targeted incentive as a percentage of salary. Depending upon the adjusted EBITDA achieved during such year, participants are entitled to a percentage, ranging from 0% to 200%, of the targeted incentive award fixed by the Compensation Committee. No bonuses were approved for fiscal year 2005 for executives that are at the senior vice president level or higher because the Company did not meet such incentive targets.

The Compensation Committee believes that employee equity ownership provides significant additional motivation to executive officers to maximize value for the Company's stockholders and, therefore, periodically grants stock options to the Company's employees, including executive officers. Stock options typically are granted at the prevailing market price and, therefore, will only have value if the Company's stock price increases over the exercise price. The Compensation Committee believes that the grant of stock options and stock-based awards provides a long-term incentive to such persons to contribute to the growth of the Company and establishes a direct link between compensation and stockholder return, measured by the same index used by stockholders to measure Company performance. The terms of options granted by the Compensation Committee, including vesting, exercisability and option term, are determined by the Compensation Committee, based upon relative position and responsibilities of each executive officer, historical and expected contributions of each officer, previous option grants to executive officers and a review of competitive equity compensation for executive officers of similar rank in companies that are comparable to the Company's industry and size.

Specifically, under the Company's equity compensation plans (which are discussed below under the caption "Equity Compensation Plan Information"), the Compensation Committee has discretion to determine the type and number of equity awards for executive officers, which may include stock options, restricted common stock and performance units. The Compensation Committee also has discretion to impose restrictions or conditions to the vesting of such awards, including but not limited to the achievement of performance goals based on one or more business criteria. Should the Company not achieve such performance goals in a given period, the executives could be deemed not to have earned, and thus could be required to forego, the awards for that period. In fiscal year 2005, the Compensation Committee made awards of stock options, which vest over a four year period, restricted stock, which vest over a three year period and performance units, which vest after a three year performance period

provided that certain EBITDA levels are achieved by the Company, for each of fiscal years 2005, 2006 and 2007. At the end of the performance period, the actual number of performance units may be higher or lower than the target number depending on performance relative to the EBITDA targets.

George G. Golleher, Compensation Committee Chairman
Stuart M. Sloan, Compensation Committee Member
Colin V. Reed, Compensation Committee Member

AUDIT COMMITTEE REPORT

The Board of Directors maintains an Audit Committee comprised of three of our outside directors. The Board of Directors has determined that each member of the Audit Committee is an independent director under the New York Stock Exchange listing standards and satisfies the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and the additional NYSE requirements for audit committee members. The Board has determined that Colin V. Reed qualifies as an "audit committee financial expert" as that term is defined under SEC rules.

The Board has adopted a written charter of the Audit Committee which further describes the role of the Audit Committee. A copy of the current version of the Audit Committee Charter is attached as Appendix A to this proxy statement. The Audit Committee, among other things, appoints and engages our independent auditors and oversees our financial reporting and internal control over financial reporting processes on behalf of the Board. Management has the primary responsibility for our financial statements, our accounting principles and our internal control over financial reporting. Our independent auditors are responsible for auditing our financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States. Our independent auditors also are responsible for expressing an opinion on management's assessment of the effectiveness of our internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee met nine times during fiscal year 2005.

During those meetings the Audit Committee:

- Met with our internal and independent auditors, with and without management present, to discuss the overall scope and plans for their respective audits, the results of their examinations, their evaluations of management's assessment of the effectiveness of our internal control over financial reporting and the overall quality of our financial reporting.
- Reviewed and discussed with management and our independent auditors, for their respective purposes, the audited financial statements included in our Annual Report on Form 10-K. The discussions included the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements and the Annual Report on Form 10-K.
- Reviewed and updated the Audit Committee charter.
- Reviewed and discussed with our independent auditors those matters required to be communicated by the standards of the Public Company Accounting Oversight Board. Also reviewed and discussed critical accounting policies and practices, alternative accounting treatments, and other material written communications between management and our independent auditors, as required by Rule 2-07 of Regulation S-X under the Securities Exchange Act of 1934.
- Preapproved audit, other audit-related and tax services performed by our independent auditors. Our preapproval policy requires us to preapprove all audit, audit-related and other permissible services provided by the independent auditors on a case-by-case basis.
- Discussed with our independent auditors matters relating to their independence and received the written disclosures and the letter from our independent auditors required by Independence Standards Board Standard No. 1, as modified and supplemented. The Audit Committee has considered whether the level of non-audit related services provided by our independent auditors is consistent with maintaining their independence.

As outlined in the table below, we incurred the following fees, including expenses billed to the Company for the fiscal years ended February 26, 2005 and February 28, 2004 by the Company's

independent auditors, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche").

In addition, the Audit Committee requests fee estimates associated with each proposed service. Providing a fee estimate for a service incorporates appropriate oversight and control of the independent auditor relationship. On a quarterly basis, the Audit Committee reviews the status of services and fees incurred year-to-date against pre-approved services and fee estimates.

Description of Fees	Year Ended February 26, 2005	Year Ended February 28, 2004
	(Amounts in millions)	
Audit fees, including reviews of interim financial statements, registration statement filings and comfort letters related to various refinancing activities	$4.2	$2.4
Audit-related fees:		
Audits of employee benefit plans' financial statements	0.2	0.3
Acquisition due diligence assistance	—	0.5
Total audit-related fees	0.2	0.8
Tax fees, primarily assistance in amending prior years' income tax returns	0.5	1.3
All other fees	—	0.1
Grand total	$4.9	$4.6

In reliance on the meetings and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended February 26, 2005 for filing with the SEC.

Colin V. Reed, Audit Committee Chairman
Alfred M. Gleason, Audit Committee Member
George G. Golleher, Audit Committee Member

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of February 26, 2005 with respect to the compensation plans under which the Company's common stock may be issued:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Further Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	29,361,022	$5.65	14,587,759
Equity compensation plans not approved by stockholders*	35,569,566	$4.06	1,648,539
Total	64,930,588		16,236,298

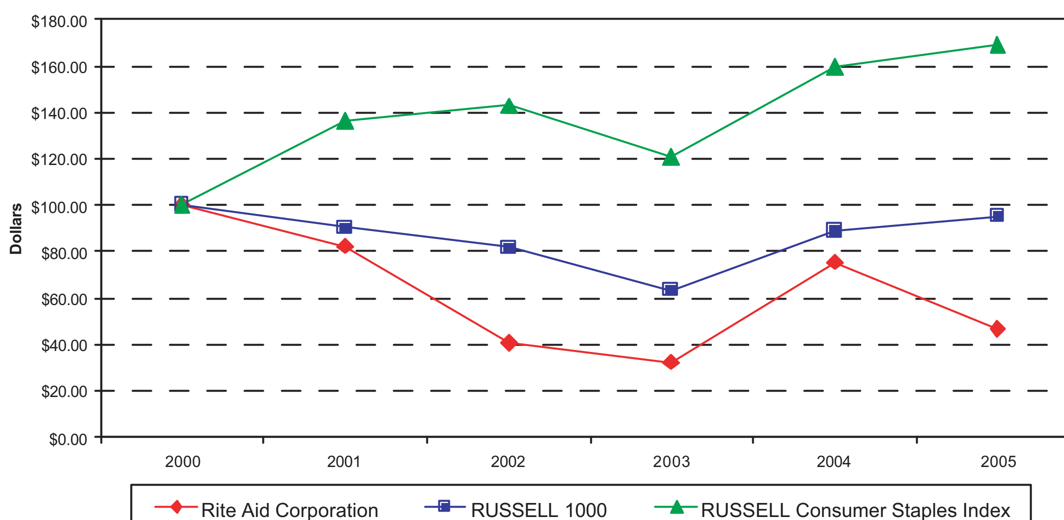
* These plans include the Company's 1999 Stock Option Plan, under which 10,000,000 shares of Common Stock are authorized for the granting of stock options at the discretion of the Compensation Committee, and the 2001 Stock Option Plan, under which 20,000,000 shares of common stock are

authorized for granting of stock options, also at the discretion of the Compensation Committee. Both plans provide for the Compensation Committee to determine both when and in what manner options may be exercised; however, option terms may not extend for more than 10 years from the applicable date of grant. The plans provide that stock options may only be granted with exercise prices that are not less than the fair market value of a share of common stock on the date of grant. In addition to the options issued under the aforementioned plans, approximately 8,550,000 options are outstanding pursuant to option grants made in accordance with the provisions of individual agreements with certain of the Company's executives.

STOCK PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on the Common Stock for the last five fiscal years with the cumulative total return on (i) the Russell 1000 Consumer Staples Index, and (ii) the Russell 1000 Index, over the same period (assuming the investment of $100.00 in the Common Stock and such indexes on February 27, 2000 and reinvestment of dividends).

For comparison of cumulative total return, the Company has elected to use the Russell 1000 Consumer Staples Index, consisting of 88 companies including the three largest drugstore chains, and the Russell 1000 Index. This allows comparison of the Company to a peer group of similar sized companies. We are one of the companies included in the Russell 1000 Consumer Staples Index and the Russell 1000 Index. The Russell 1000 Consumer Staples Index is a capitalization-weighted index of companies that provide products directly to consumers that are typically considered nondiscretionary items based on consumer purchasing habits. The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index and represents the universe of large capitalization stocks from which many active money managers typically select.



	2000	2001	2002	2003	2004	2005
Rite Aid Corporation	$100.00	$ 82.52	$ 40.92	$ 32.52	$ 75.61	$ 46.61
Russell 1000 Index	$100.00	$ 90.27	$ 81.65	$ 63.51	$ 88.72	$ 95.35
Russell Consumer Staples Index	$100.00	$136.57	$142.78	$120.77	$159.28	$168.75

* The Company's fiscal year ends on the Saturday closest to February 29 or March 1. Fiscal year 2005 included 52 weeks and ended on February 26, 2005.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires Rite Aid's executive officers, directors and persons who own more than 10% of the Common Stock to file reports of ownership and changes in ownership with the SEC and the NYSE. Such persons are required by SEC regulations to furnish Rite Aid with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to Rite Aid, the Company has determined that during fiscal year 2005 no persons subject to Section 16(a) reporting submitted late filings under Section 16(a) of the Exchange Act.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the Record Date, certain information concerning the beneficial shareholdings of (a) each director, (b) each nominee for director, (c) each individual named in the Summary Compensation Table appearing elsewhere herein, (d) each holder of more than five percent of the Common Stock and (e) all directors and executive officers as a group (based on 520,933,856 shares of Common Stock outstanding as of the Record Date, plus the number of shares of Common Stock into which the outstanding shares of LGP Preferred Stock are convertible). Each of the persons named below has sole voting power and sole investment power with respect to the shares set forth opposite his or her name, except as otherwise noted.

Beneficial Owners	Number of Common Shares Beneficially Owned (1)	Percentage of Class
Named Executive Officers and Directors:		
John G. Danhakl	63,925,287 (2)	10.93%
Michael A. Friedman, MD.	0	*
Alfred M. Gleason	378,301 (3)	*
George G. Golleher	200,001 (4)	*
James P. Mastrian	2,352,965 (5)	*
Robert G. Miller	9,911,208 (6)	1.87%
Mark C. Panzer	1,179,191 (7)	*
Colin V. Reed	108,334 (8)	*
Mary F. Sammons	8,073,660 (9)	1.53%
Philip G. Satre	12,500 (10)	*
Stuart M. Sloan	216,645 (11)	*
Jonathan D. Sokoloff	64,564,072 (12)	11.04%
John T. Standley	4,687,148 (13)	*
Kevin Twomey	540,576 (14)	*
All Executive Officers and Directors (15 persons)	92,728,703	15.86%
5% Stockholders:		
Green Equity Investors III, L.P 11111 Santa Monica Blvd. Suite 2000 Los Angeles, CA 90025	63,858,636 (15)	10.92% (16)

* Percentage less than 1% of class.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under Exchange Act, thereby including options exercisable within 60 days of the Record Date of May 2, 2005.

(2) This amount includes 63,858,636 shares beneficially owned by Green Equity Investors III, L.P., which is affiliated with Leonard Green & Partners, L.P., of which Mr. Danhakl is a managing director and equity owner.

(3) This amount includes 71,500 shares owned by Mr. Gleason's spouse and 200,001 shares which may be acquired within 60 days by exercising stock options.

(4) This amount includes 150,001 shares which may be acquired within 60 days by exercising stock options.

(5) This amount includes 2,212,906 shares which may be acquired within 60 days by exercising stock options.

(6) This amount includes 9,398,429 shares which may be acquired within 60 days by exercising stock options.

(7) This amount includes 1,053,004 shares which may be acquired within 60 days by exercising stock options.

(8) This amount includes 83,334 shares which may be acquired within 60 days by exercising stock options.

(9) This amount includes 7,320,268 shares which may be acquired within 60 days by exercising stock options.

(10) This amount represents 12,500 shares owned jointly by Mr. Satre and his spouse.

(11) This amount includes 200,001 shares which may be acquired within 60 days by exercising stock options.

(12) This amount includes 705,436 shares owned jointly by Mr. Sokoloff and his spouse and 63,858,636 shares beneficially owned by Green Equity Investors III, L.P., which is affiliated with Leonard Green & Partners, L.P., of which Mr. Sokoloff is an executive officer and equity owner.

(13) This amount includes 4,472,452 shares which may be acquired within 60 days by exercising stock options.

(14) This amount includes 499,432 shares which may be acquired within 60 days by exercising stock options.

(15) Green Equity Investors III, L.P. beneficially owns 63,858,636 shares of common stock. This number represents (i) the number of shares issuable within 60 days of May 2, 2005 upon the conversion of 3,451,804.301 shares of convertible preferred stock, and (ii) the number of shares, on a converted basis, that will be paid as a dividend on June 30, 2005 on preferred stock held by Green Equity Investors III, L.P.

(16) Based upon the number of shares outstanding as of the record date and assuming conversion of all LGP Preferred Stock by Green Equity Investors III, L.P.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Rite Aid has entered into a one-year agreement with Leonard Green & Partners L.P., effective January 1, 2005 whereby Rite Aid has agreed to pay Leonard Green & Partners L.P. a fee of $300,000 per year for its consulting services. The consulting agreement also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green & Partners, L.P. This agreement is an extension of Rite Aid's existing consulting agreement with Leonard Green & Partners, L.P. Pursuant to the consulting agreement, Rite Aid may engage Leonard Green & Partners, L.P. to provide financial advisory and investment banking services in connection with major financial transactions that it undertakes in the future. During fiscal year 2005, Rite Aid paid Leonard Green & Partners, L.P. a consulting fee of $875,000. Both John G. Danhakl and Jonathan D. Sokoloff, each a director of Rite Aid, are equity owners of Leonard Green & Partners, L.P.

STOCKHOLDER PROPOSALS

Proposals received from stockholders are given careful consideration by the Company in accordance with Rule 14a-8 under the Exchange Act. Any Stockholder desiring to present a proposal for inclusion in the Company's Proxy Statement for the 2006 Annual Meeting of Stockholders must present the proposal to the Company not later than January 18, 2006. Only those proposals that comply with the requirements of Rule 14a-8 will be included in the Company's Proxy Statement for the 2006 Annual Meeting. Written notice of stockholder proposals submitted outside the process of Rule 14a-8 for consideration at the 2006 Annual Meeting of Stockholders (but not included in the Company's Proxy Statement) must be received by the Company by April 3, 2006 in order to be considered timely, subject to any provisions of the Company's bylaws. The Chairman of the meeting may determine that any proposal for which the Company did not receive timely notice shall not be considered at the meeting. If in the discretion of the Chairman any such proposal is to be considered at the meeting, the persons designated in the Company's Proxy Statement shall be granted discretionary authority with respect to the untimely stockholder proposal.

INCORPORATION BY REFERENCE

In accordance with SEC rules, notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Exchange Act, that might incorporate this Proxy Statement or future filings made by the Company under those statutes, the information included under the captions "Report of the Compensation Committee on Executive Compensation" and "Stock Performance Graph," and those portions of the information included under the caption "Audit Committee Report" required by the SEC's rules to be included therein, shall not be deemed filed with the SEC and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by the Company under those statutes, except to the extent that the Company specifically incorporates these items by reference.

OTHER MATTERS

The Board of Directors knows of no other matters that have been submitted for consideration at this Annual Meeting. If any other matters come before the Stockholders at this Annual Meeting, the persons named on the enclosed proxy intend to vote the shares they represent in accordance with their best judgment.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP served as the Company's independent auditors for fiscal year 2005 and the Company's Audit Committee is in the process of negotiating with Deloitte the terms of an arrangement to audit the consolidated financial statements of the Company and its subsidiaries for fiscal year 2006. A representative of Deloitte is expected to be present at the Annual Meeting, and the representative will have the opportunity to make a statement and will be available to respond to appropriate questions.

SOLICITATION OF PROXIES

The entire cost of the solicitation of proxies will be borne by the Company. In addition to the use of the mails, solicitations may be made by telephone, internet and personal interviews by officers, directors and regularly engaged employees of the Company. The Company has retained W. F. Doring & Co., Inc. to assist in the solicitation of proxies for approximately $5,000, plus out-of-pocket expenses. Brokerage houses, custodians, nominees and fiduciaries that receive the solicitation materials will be requested to forward this proxy statement to the beneficial owners of the stock held of record by such persons, and the Company will reimburse them for their charges and expenses in this connection.

IMPORTANT NOTICE REGARDING DELIVERY OF STOCKHOLDER DOCUMENTS

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy proxy material delivery requirements with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is referred to as "householding," potentially provides extra convenience for stockholders and reduces printing and postage costs for companies.

Rite Aid and some brokers utilize the householding process for proxy materials. In accordance with a notice sent to certain Stockholders who share a single address, only one copy of this Proxy Statement and the Company's 2005 Annual Report is being sent to that address, unless we received contrary instructions from any Stockholder at that address. Stockholders who participate in householding will continue to receive separate proxy cards. Householding will continue until you are notified otherwise or until one or more Stockholders at your address revokes consent. If you revoke consent, you will be removed from the householding program within 30 days of receipt of the revocation. If you hold your Rite Aid stock in "street name," additional information regarding householding of proxy materials should be forwarded to you by your broker.

However, if you wish to receive a separate copy of this Proxy Statement or the Company's 2005 Annual Report, or would like to receive separate proxy statements and annual reports in the future, or if you are receiving multiple copies of annual reports and proxy statements at an address shared with another Stockholder and would like to participate in householding, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011, Attention: Robert B. Sari, Secretary, or by calling the Corporate Secretary at (717) 761-2633.

ANNUAL REPORT

A copy of Rite Aid's Annual Report on Form 10-K for fiscal year 2005 is being mailed together with this Proxy Statement to all Stockholders entitled to notice of and to vote at the Annual Meeting.

Appendix A

CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF RITE AID CORPORATION

1. **Purpose**. The purpose of the Audit Committee of the Board of Directors of Rite Aid Corporation (the "Corporation") is to:

   a. Provide assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to:

      i. Matters involving the accounting, auditing, financial reporting, internal control over financial reporting and disclosure control functions of the Corporation and its subsidiaries,

      ii. The performance of the Corporation's internal audit department ("internal auditors"), and

      iii. Compliance by the Corporation with legal and regulatory requirements; and

   b. Be directly responsible for the appointment, compensation and oversight of the Corporation's registered independent public accounting firm ("independent auditors"), including the independent auditor's qualifications and independence.

2. **Composition**. The Audit Committee shall be comprised of three or more independent directors as determined from time to time by resolution of the Board of Directors based upon the recommendation of the Nominating and Governance Committee. Each member of the Audit Committee shall be qualified to serve on the Audit Committee pursuant to the requirements of the Securities and Exchange Commission (the "SEC"), the New York Stock Exchange (the "NYSE") and any additional requirements that the Board deems appropriate. The Chairman of the Audit Committee shall be designated by the Board of Directors, *provided* that if the Board of Directors does not so designate a Chairman, the members of the Audit Committee, by majority vote, may designate a Chairman. Each member of the Audit Committee shall have a working knowledge of financial and accounting practices and be qualified to serve on the Audit Committee pursuant to the requirements of the NYSE, and at least one Audit Committee member shall meet the definition of an "audit committee financial expert", as defined under the applicable SEC rules, as determined by the Board of Directors.

3. **Meetings**. The Audit Committee shall meet or confer with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities. The Audit Committee, in its discretion, may ask members of management or others to attend its meetings and conferences (or portions thereof) and to provide pertinent information as necessary. The Audit Committee shall maintain minutes of its meetings and conferences and records relating to those meetings and conferences and provide copies of such minutes to the Board of Directors.

4. **Duties and Responsibilities**. In carrying out its duties and responsibilities, the Audit Committee's policies and procedures should remain flexible, so that it may be in a position to best react or respond to changing circumstances or conditions. While there is no "blueprint" to be followed by the Audit Committee in carrying out its duties and responsibilities, the following should be considered within the authority of the Audit Committee:

   Oversight of the Corporation's Relationship with the Independent Auditors

   (a) In its sole discretion, appoint, determine funding for and oversee the independent auditors to audit the financial statements of the Corporation and its subsidiaries for each fiscal year.

   (b) Instruct the independent auditors that they are ultimately accountable to the Audit Committee and that the Audit Committee is directly responsible for the selection, appointment, compensation, evaluation, oversight and termination of the independent auditors.

(c) Review, discuss and approve the annual audit plan of the independent auditors, including the scope of audit activities, and monitor such plan's progress and results during the year.

(d) Review and approve the independent auditors' annual engagement letter, including the proposed fees contained therein.

(e) Review and discuss the results of the annual audit with the independent auditors including their the opinion on the financial statements, a schedule of unadjusted differences, any audit problems or difficulties encountered with management's response, any restrictions on the scope of the independent auditor's activities or restrictions on access to requested information, and any significant disagreements with management.

(f) Review and discuss the results of the annual audit with the independent auditors including their opinion on management's assessment of the design and effectiveness of internal control over financial reporting, material weaknesses and significant deficiencies.

(g) Review and discuss the quarterly results with the independent auditors.

(h) Obtain from the independent auditors any information with respect to illegal acts that would have a direct and material effect on the determination of financial statement amounts pursuant to Section 10A of the Securities Exchange Act of 1934.

(i) Review material written communications from the independent auditors to management.

(j) Review, discuss and pre-approve audit and other permissible non-audit services provided by the independent auditors.

(k) Oversee the independence of the independent auditors by, among other things:

1) Requiring the independent auditors to deliver to the Audit Committee on an annual basis a formal written statement delineating all relationships between the independent auditors and the Corporation;

2) Actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and recommending that the Board of Directors take appropriate action to satisfy itself of the auditors' independence; and

3) Pre-approving the hiring of professionals who were members of the audit engagement team of the independent auditors and will be employed by the Corporation in any financial management role.

(l) Obtain from the independent auditors and review a formal written statement describing their internal quality control procedures and any material issues raised by such procedures or raised by any inquiry or investigation by governmental or professional authorities, within the preceding five years, relating to one or more independent audits carried out by the firm and any other steps taken to deal with any such issues.

(m) Review the performance of the independent auditors and, in its sole discretion, make decisions regarding the replacement or termination of the independent auditors when circumstances warrant.

Oversight of the Corporation's Internal Auditors

(n) Review, discuss and approve the annual audit plan of the internal auditors and monitor such plan's progress and results during the year.

(o) Review and discuss the internal auditors' department budget and staffing.

(p) Review and discuss the internal auditors' reports and management's response as well as the related follow-up to open matters.

Internal Control Over Financial Reporting Matters

(q) Review and discuss management's current fiscal year risk assessment and risk management summary which is coordinated by the internal auditors. The summary serves as the basis for prioritizing and allocating resources for the Corporation's plans and also serves as a reference for developing audit plans.

(r) Review and discuss with management, internal auditors and independent auditors the annual plan to assess the effectiveness of the Corporation's internal control over financial reporting and disclosure control policies and procedures and monitor such plan's progress and results during the year.

(s) Review and discuss as frequently as necessary with management, internal auditors and independent auditors all significant changes in staff, processes or systems related to internal control over financial reporting along with the related disclosures in the Annual Report on Form 10-K and interim reports on Form 10-Q.

(t) Review and discuss as frequently as necessary with management, internal auditors and independent auditors all noted material weaknesses and significant deficiencies related to internal control over financial reporting along with the related disclosures in the Annual Report on Form 10-K and interim reports on Form 10-Q.

(u) Review and discuss internal auditors' monitoring of the established procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls over financial reporting or auditing matters. Procedures are to cover all complaints related to accounting, internal controls over financial reporting or auditing matters whether such complaints are from employees or non-employees and whether submitted confidentially or anonymously.

(v) Review and discuss as frequently as necessary with management, internal auditors and independent auditors any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting including any changes to internal control over financial reporting prompted by such fraud.

(w) Review and discuss with management, internal auditors and independent auditors conflicts or violations of the Corporation's Code of Ethics for the CEO and Senior Financial Officers and conflicts or violations of the Corporation's Code of Ethics and Business Conduct that relate to internal control over financial reporting. Also review and discuss with the internal auditors the annual process for obtaining signed receipt and acknowledgment forms for both codes from the appropriate employees.

(x) Review the appropriateness of the Corporation's policies and procedures with respect to officers' expense reimbursement and perquisites, including use of corporate assets. Discuss with the internal auditors the effectiveness and compliance with these policies and procedures.

(y) Advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations and with the Corporation's Code of Ethics and Business Conduct and Code of Ethics for the CEO and Senior Financial Officers.

Financial Reporting and Disclosure Matters

(z) Review and discuss with management and the independent auditors the quarter and annual results of operations, financial position, cash flows and disclosures including unusual, significant or non-operating items.

(aa) Review and discuss with management and the independent auditors material transactions, including alternative treatments within generally accepted accounting principles, ramifications of the use of such alternatives and the treatment preferred by the independent auditors.

(bb) Review and discuss with management and the independent auditors the actual critical accounting principles and policies and changes in accounting principles and policies, including all alternative treatments of financial information within generally accepted accounting principles, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors.

(cc) Review and discuss with management and the independent auditors significant new or proposed accounting principles or financial reporting developments that are applicable to the Corporation.

(dd) Review and discuss with management and the general counsel, and outside counsel when appropriate, contingencies and legal matters, including the accounting and disclosure treatments.

(ee) Review and discuss with management, the general counsel, internal auditors and the independent auditors any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Corporation's financial reporting.

(ff) Review with management and the Corporation's independent auditors major areas requiring use of estimates and judgment.

(gg) Review and discuss with management and the independent auditors significant related party transactions and the disclosure treatment.

(hh) Review and discuss with management the Corporation's earnings press releases, including the use of non-GAAP financial measures and related reconciliations.

(ii) Review and discuss with management the Corporation's earnings guidance and other financial projections provided the public, bankers, investment bankers and rating agencies.

(jj) Meet to review and discuss with management and the independent auditors the annual audited financial statements, including the specific disclosures made, content of management's discussion and analysis, officers' certificates and other disclosures in the Annual Report on Form 10-K prior to filing the Form 10-K and recommend to the Board that: (i) the audited financial statements should be included in the filing and (ii) the Annual Report on Form 10-K as drafted should be filed with the SEC.

(kk) Meet to review and discuss with management and the independent auditor the unaudited quarterly financial statements, including the specific disclosures made, content of management's discussion and analysis, officers' certificates and other disclosures in the Form 10-Q prior to the filing of the Form 10-Q and approve its filing with the SEC.

(ll) Prior to any filing with the SEC requiring the issuance of the independent auditors' consent, review and discuss with management and the independent auditors: i) material written communications between management and the independent auditors, ii) changes in critical accounting principles and policies, and iii) material transactions and alternative accounting treatments.

Other Matters

(mm) Establish and maintain free and open means of communication between and among the Board of Directors, the Audit Committee, the Corporation's independent auditors, the Corporation's internal auditing department and management, including providing such parties with appropriate opportunities to meet privately with the Audit Committee.

(nn) Review and reassess annually, or more frequently as circumstances dictate, the adequacy of the Audit Committee's purpose, duties, responsibilities and charter and the performance of the Audit Committee.

(oo) Prepare the report required by the rules of the SEC to be included in the Corporation's annual proxy statement.

(pp) Secure independent expert advice as the Audit Committee deems necessary, including retaining independent counsel, accountants, consultants or others, the cost of such expert advisors to be borne by the Corporation, to assist the Audit Committee in fulfilling its duties and responsibilities.

(qq) Report regularly to the Board of Directors on its activities, as appropriate.

(rr) Perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Audit Committee or the Board of Directors deems necessary or appropriate.

5. **Limitation of Audit Committee Role.** While the Audit Committee has the duties and responsibilities set forth in this charter, the Audit Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Audit Committee to ensure that the Corporation complies with all laws and regulations.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended February 26, 2005

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

(Exact name of registrant as specified in its charter)

Delaware	**23-1614034**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
30 Hunter Lane, Camp Hill, Pennsylvania	**17011**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold on the New York Stock Exchange on August 28, 2004 was approximately $2,269,154,395. For purposes of this calculation, executive officers, directors and 5% shareholders are deemed to be affiliates of the registrant.

As of April 22, 2005 the registrant had outstanding 520,946,894 shares of common stock, par value $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's annual meeting of shareholders to be held on June 23, 2005 are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are 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 senior secured credit facility and other debt agreements;
- our ability to improve the operating performance of our existing stores in accordance with our long term strategy;
- our ability to hire and retain pharmacists and other store personnel;
- our ability to open or relocate stores according to our real estate development program;
- the outcomes of pending lawsuits and governmental investigations;
- competitive pricing pressures and continued consolidation of the drugstore industry; and
- the efforts of third-party payors to reduce prescription drug reimbursements and encourage mail order, changes in state or federal legislation or regulations, the success of planned advertising and merchandising strategies, general economic conditions and inflation, interest rate movements, access to capital, and our relationships with our suppliers.

We undertake no obligation to revise the forward-looking statements included in this report to reflect any future events or circumstances. 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 section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Factors Affecting Our Future Prospects" included in this annual report on Form 10-K.

PART I

Item 1. Business

Overview

We are the third largest retail drugstore chain in the United States based on revenues and number of stores. We operate our drugstores in 28 states across the country and in the District of Columbia. As of February 26, 2005, we operated 3,356 stores.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2005, prescription drug sales accounted for 63.6% of our total sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to our on-going program of purchasing prescription files from independent pharmacies and favorable industry trends, including an aging population, increased life expectancy, a new federally funded prescription drug benefit to begin in calendar 2006, which is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003, and the discovery of new and better drug therapies. We offer approximately 24,000 front-end products, which accounted for the remaining 36.4% of our total sales in fiscal 2005. Front end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, seasonal merchandise and numerous other everyday and convenience products, as well as photo processing. We distinguish our stores from other national chain drugstores, in part, through our private brands and our strategic alliance with GNC, a leading retailer of vitamin and mineral supplements. We offer approximately 2,400 products under the Rite Aid private brand, which contributed approximately 11.5% of our front-end sales in the categories where private brand products were offered in fiscal 2005.

Our stores range in size from approximately 5,000 to 40,000 square feet. The overall average size of each store in our chain is approximately 12,750 square feet. The larger stores are concentrated in the western United States. Approximately 54% of our stores are freestanding; approximately 39% of our stores include a drive-thru pharmacy; approximately 75% include one-hour photo shops; and approximately 31% include a GNC store-within-Rite Aid store.

Our headquarters are located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011, and our telephone number is (717) 761-2633. Our common stock is listed on the New York Stock Exchange and the Pacific Exchange under the trading symbol of "RAD". We were incorporated in 1968 and are a Delaware corporation.

Strategy

Our strategy is to continue to focus on improving the productivity of our existing stores and developing new stores in our strongest existing markets. We believe that improving the sales of existing stores and growing our existing markets is critical to improving our profitability and cash flow.

The following paragraphs describe in more detail the components of our strategy:

Develop Stores in Existing Markets. We have resumed our new store, store relocation and store remodeling program. Our goal is to open or relocate 80 stores by the end of fiscal 2006, of which we expect that approximately 70% will be relocated stores and the remaining 30% will be new stores. As part of this program, we plan to remodel a significant number of stores. The program is focused on our strongest existing markets. An integral part of the program is a new prototype store. Two pilot stores have recently been constructed and opened utilizing the new prototype. One of the pilot stores is a new 14,500 square foot prototype that is about 30% larger than our current prototype. The other pilot store utilizes the features of the new design in a smaller store. We believe that this program over the longer term, along with the execution of the near term strategy of improving store productivity, will continue to increase our sales.

Grow our Pharmacy Sales and Attract More Customers. We believe that customer service and convenience are key factors to growing pharmacy sales. To improve customer service, we are focused

on our "With us it's personal program" that is aimed at delivering more personalized service along with timely delivery to our customers. To help our pharmacists do this, we have completed the development and roll out of our new pharmacy management and dispensing system. This new system, which we call "Nexgen", provides our pharmacists with better tools and information to meet our customers' needs. In addition, the new system provides management with important information about the performance of each pharmacy in critical operating areas that drive customer service. We provide our customers with an easy and convenient way to order refills over the telephone or the internet using our automatic refill program. To provide better value to our customers we recommend, when appropriate, the utilization of generic drugs. Generic drugs, which often cost our customers significantly less than a branded drug, are also more profitable for us. We also plan to grow sales of prescriptions to senior citizens through a program called "Living More" that provides newsletters and discounts. Our Living More program also positions us for greater participation in Medicare endorsed prescription programs.

To help grow sales and script count, we acquire pharmacy files from other drug stores and have initiatives designed to attract and retain those customers. We have also recently added the capability to provide pharmacy benefit management ("PBM") services to employers, health plans and insurance companies. We intend to offer, through our PBM capabilities, a 90 day at retail alternative to mail order. We also believe that providing PBM services will create opportunities to direct customers to our stores.

Grow Front-End Sales. We intend to grow front-end sales through continued emphasis on core drugstore categories, a committment to health and wellness products to enhance our pharmacy position, a focus on seasonal and cross-merchandising, offering a wider selection of products and services to our customers and effective promotions in our weekly advertising circulars. Our focus for expanding our products and services includes a continued strengthening of our collaborative relationship with our suppliers, an emphasis on our Rite Aid private brand products, which provide better value for our customers and higher margins for us, offering ethnic products targeted to selected markets and utilizing digital technology in our one-hour photo development. We believe that the new store and relocation program described above will also contribute to an increase in our front-end sales.

Focus on Customers and Associates. Our "With us, it's personal" commitment encourages associates to provide customers with a superior customer service experience. We obtain feedback on our customer service performance by utilizing an automated survey system that collects store specific information from customers shortly after the point of sale and frequent customer surveys by an independent third party. We also have several programs in place that enhance customer satisfaction, examples of which are the maintenance of a customer support center that centrally receives and processes all customer calls and our "never out of stock" program. We continue to develop and implement associate training programs to improve customer satisfaction and educate our associates about the products we offer. We have implemented programs that create compensatory and other incentives for associates to provide customers with excellent service. We believe that these steps further enable and motivate our associates to deliver superior customer service.

Products and Services

Sales of prescription drugs represented approximately 63.6% of our total sales, in both fiscal 2005 and 2004, an increase from 63.2% in fiscal 2003. In fiscal years 2005, 2004 and 2003, prescription drug sales were $10.7 billion, $10.5 billion, and $9.9 billion, respectively.

We sell approximately 24,000 different types of non-prescription, or front-end products. The types and number of front-end products in each store vary, and selections are based on customer needs and preferences and available space. No single front-end product category contributed significantly to our sales during fiscal 2005, although certain front-end product classes contributed in excess of 10% to our sales. Our principal classes of products in fiscal 2005 were the following:

Product Class	Percentage of Sales
Prescription drugs	63.6%
Over-the-counter medications and personal care	10.8
Health and beauty aids	4.8
General merchandise and other	20.8

We offer approximately 2,400 products under the Rite Aid private brand, which contributed approximately 11.5% of our front-end sales in the categories where private brand products were offered in fiscal 2005. During fiscal 2005, we added approximately 228 products under our private brand. We intend to continue to increase the number of private brand products, which we believe will result in increased sales.

We have a strategic alliance with GNC under which we have opened 1,049 GNC "stores-within-Rite Aid-stores" and have agreed to open an additional 251 GNC stores-within-Rite Aid-stores across the country by December 31, 2006. GNC is a leading nationwide retailer of vitamin and mineral supplements and personal care, fitness and other health-related products.

Technology

All of our stores are integrated into a common information system, which enables our pharmacists to fill prescriptions more accurately and efficiently and reduces chances of adverse drug interactions. This system can be expanded to accommodate new stores. Our customers may also order prescription refills over the Internet through www.riteaid.com powered by drugstore.com, or over the phone through our telephonic rapid automated refill systems. As of February 26, 2005 we had installed ScriptPro automated pharmacy dispensing units, which are linked to our pharmacists' computers and fill and label prescription drug orders, in 885 stores. The efficiency of ScriptPro units allows our pharmacists to spend an increased amount of time consulting with our customers. Additionally, each of our stores employs point-of-sale technology that supports sales analysis and recognition of customer trends. This same point-of-sale technology facilitates the maintenance of perpetual inventory records which together are the basis for our automated inventory replenishment process.

In fiscal 2005, we completed the roll-out of our next generation pharmacy dispensing system, and expanded e-prescribing services to all of our stores. We believe our next generation pharmacy system is state of the art and will enhance management of customers' prescription orders, assignment of responsibilities within the pharmacy, quality control and measurement and monitoring of each of our pharmacies' key performance indicators, which include timeliness, completeness, and backlog. Our next generation pharmacy system was designed with optimal ease of use in mind so as to further enable our pharmacists to work directly with customers and doctors.

Suppliers

During fiscal 2005, we purchased approximately 93% of the dollar volume of our prescription drugs from a single supplier, McKesson Corp ("McKesson"), under a contract, which runs through March 2009. Under the contract, with limited exceptions, we are required to purchase all of our branded pharmaceutical products from McKesson. If our relationship with McKesson was disrupted, we could temporarily have difficulty filling prescriptions until we executed a replacement strategy, which could negatively affect our business. We purchase generic (non-brand name) pharmaceuticals from a variety of sources. We purchase our non-pharmaceutical merchandise from numerous manufacturers and wholesalers. We believe that competitive sources are readily available for substantially all of the non-pharmaceutical merchandise we carry and that the loss of any one supplier would not have a material effect on our business.

We sell private brand and co-branded products that generally are supplied by numerous competitive sources. The Rite Aid and GNC co-branded PharmAssure vitamin and mineral supplement products and the GNC branded vitamin and mineral supplement products that we sell in our stores are developed by GNC, and along with our Rite Aid brand vitamin and mineral supplements, are manufactured by GNC.

Customers and Third-Party Payors

During fiscal 2005, our stores served an average of 1.8 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2005, 93.5% of our pharmacy sales were to customers covered by health plan contracts which typically contract with third-parties payors (such as insurance companies, prescription benefit management companies, governmental agencies, private employers, health maintenance organizations or other managed care providers) that agree to pay for all or a portion of a customer's eligible prescription purchases and negotiate with us for reduced prescription rates. During fiscal 2005, the top five third-party payors accounted for approximately 31.6% of our total sales, the largest of which represented 10.4% of our total sales. During fiscal 2005, sponsored Medicaid agencies accounted for approximately 12.4% of our total sales, the largest of which was less than 3% of our total sales. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations.

Competition

The retail drugstore industry is highly competitive. We compete with, among others, retail drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, dollar stores and mail order pharmacies. We compete on the basis of store location and convenient access, customer service, product selection and price. We believe continued consolidation of the drugstore industry, continued new store openings and increased mail order will further increase competitive pressures in the industry.

Marketing and Advertising

In fiscal 2005, marketing and advertising expense was $278.9 million, which was spent primarily on nationwide weekly circular advertising. We have implemented various programs that are designed to support our health and wellness vision and improve our image with customers by delivering upon our "With Us, It's Personal" brand promise. These include health condition marketing platforms focused on specific health conditions, increased GNC presence through expanded locations and promotional activity, continuation of our Rite Aid Health and Beauty Expos, and marketing and merchandising strategies that capitalize on emerging beauty trends such as men's grooming, spa products, proprietary cosmetics and skincare. We continue to implement programs that are specifically directed to our pharmacy business. These include a card-based loyalty program for senior citizens called "Living More" that provides meaningful discounts and targeted newsletters and offers, direct marketing programs, a comprehensive diabetes disease state management program, and other educational materials to help customers with their healthcare decisions. We are creating a more inviting store environment for our Hispanic customers through tailored product assortments and bi-lingual signing and advertising in stores with large Hispanic customer bases.

Associates

We believe that our relationships with our associates are good. As of February 26, 2005, we had 71,200 associates, 12% of which were pharmacists, 46% of which were part-time and 38% of which were unionized. Associate satisfaction is critical to the success of our strategy. We have surveyed our associates to obtain feedback on various employment-related topics, including job satisfaction and their understanding of our core values and mission.

There is a national shortage of pharmacists. We have implemented various associate incentive plans in order to attract and retain qualified pharmacists. We have also expanded our efforts in recruitment of pharmacists through an increase in the number of recruiters, a successful pharmacist intern program, improved relations with pharmacy schools and the development of an international recruiting effort.

Research and Development

We do not make significant expenditures for research and development.

Licenses, Trademarks and Patents

The Rite Aid name is our most significant trademark and the most important factor in marketing our stores and private brand products. We hold licenses to sell beer, wine and liquor, cigarettes and lottery tickets. As part of our strategic alliance with GNC we have a license to operate GNC "stores-within-RiteAid stores". Additionally, we hold licenses granted to us by the Nevada Gaming Commission that allow us to place slot machines in our Nevada stores. We also hold licenses to operate our pharmacies and our distribution facilities. Together, these licenses are material to our operations.

Seasonality

We experience moderate seasonal fluctuations in our results of operations concentrated in the first and fourth fiscal quarter as the result of the concentration of the cold and flu season and the holidays. We tailor certain front-end merchandise to capitalize on holidays and seasons. We increase our inventory levels during our third fiscal quarter in anticipation of the seasonal fluctuations described above. Our results of operations in the fourth and first fiscal quarter may fluctuate based upon the timing and severity of the cold and flu season, both of which are unpredictable.

Regulation

Our business is subject to various federal and state regulations. For example, pursuant to the Omnibus Budget Reconciliation Act of 1990 ("OBRA") and comparable state regulations, our pharmacists are required to offer counseling, without additional charge, to our customers about medication, dosage, delivery systems, common side effects and other information deemed significant by the pharmacists and may have a duty to warn customers regarding any potential adverse effects of a prescription drug if the warning could reduce or negate such effect.

The appropriate state boards of pharmacy must license our pharmacies and pharmacists. Our pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration and are subject to Federal Drug Enforcement Agency regulations relative to our pharmacy operations, including regulations governing purchasing, storing and dispensing of controlled substances. Applicable licensing and registration requirements require our compliance with various state statutes, rules and/or regulations. If we were to violate any applicable statute, rule or regulation, our licenses and registrations could be suspended or revoked.

In recent years, an increasing number of legislative proposals have been enacted, introduced or proposed in Congress and in some state legislatures that effect or would effect major changes in the healthcare system, either nationally or at the state level. The legislative initiatives include drug importation and a prescription drug benefit for Medicare participants, changes in qualified participants and changes in reimbursement levels. Although we believe we are well positioned to respond to these developments, we cannot predict the long-term outcome or effect of legislation from these efforts.

Our pharmacy business is subject to patient privacy and other obligations, including corporate, pharmacy and associate responsibility imposed by the Health Insurance Portability and Accountability Act. As a covered entity, we are required to implement privacy standards, train our associates on the permitted uses and disclosures of protected health information, provide a notice of privacy practice to our pharmacy customers and permit pharmacy customers to access and amend their records and receive an accounting of disclosures of protected health information. Failure to properly adhere to these requirements could result in the imposition of civil as well as criminal penalties.

We are also subject to laws governing our relationship with our associates, including minimum wage requirements, overtime and working conditions. Increases in the federal minimum wage rate, associate benefit costs or other costs related to associates could adversely affect our results of operations.

In addition, in connection with the ownership and operations of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment

and health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites. Violations of or liabilities under these laws and regulations as a result of our current or former operations or historical activities at our sites, such as gasoline service stations and dry cleaners, could result in significant costs.

Corporate Governance and Internet Address

We recognize that good corporate governance is an important means of protecting the interests of our stockholders, associates, customers, and the community. We have closely monitored and implemented relevant legislative and regulatory corporate governance reforms, including provisions of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the rules of the Securities and Exchange Commission interpreting and implementing Sarbanes-Oxley, and the corporate governance listing standards of the New York Stock Exchange.

Our corporate governance information and materials, including our Certificate of Incorporation, Bylaws, Corporate Governance Guidelines, the charters of our Audit Committee, Compensation Committee and Nominating and Governance Committee, our Code of Ethics for the Chief Executive Officer and Senior Financial Officers and our Code of Ethics and Business Conduct are posted on the corporate governance section of our website at *www.riteaid.com* and are available in print upon request to Rite Aid Corporate, 30 Hunter Lane, Camp Hill, Pennsylvania 17011, Attention: Corporate Secretary. Our Board will regularly review corporate governance developments and modify these materials and practices as warranted.

Our website also provides information on how to contact us and other items of interest to investors. We make available on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, as soon as practical after we file these reports with the SEC.

Item 2. Properties

As of February 26, 2005, we operated 3,356 retail drugstores. The overall average selling square feet of each store in our chain is 11,100 square feet. The overall average total square feet of each store in our chain is 12,750. The stores in the eastern part of the U.S. average 8,700 selling square feet per store (9,700 average total square feet per store). The stores in the central part of the U.S. average 9,500 selling square feet per store (10,200 average total square feet per store). The stores in the western part of the U.S. average 16,600 selling square feet per store (20,500 average total square feet per store).

Our new store prototype, which is being utilized in our new store and store relocation program, has an overall average selling square footage of 13,000 and an overall average total square feet of 15,900. The new store prototype in the eastern and central parts of the U.S. will average 11,900 square feet (14,600 average total square feet per store). The new store prototype in the western part of the U.S. will average 14,100 selling square feet (17,300 average total square feet per store).

The table below identifies the number of stores by state as of February 26, 2005:

State	Store Count
Alabama	115
Arizona	3
California	580
Colorado	27
Connecticut	35
Delaware	24
District of Columbia	8
Georgia	48
Idaho	20
Indiana	9
Kentucky	115
Louisiana	82
Maine	79
Maryland	135
Michigan	320
Mississippi	30
Nevada	36
New Hampshire	39
New Jersey	160
New York	382
Ohio	237
Oregon	71
Pennsylvania	347
Tennessee	47
Utah	26
Vermont	12
Virginia	134
Washington	132
West Virginia	103
Total	3,356

Our stores have the following attributes at February 26, 2005:

Attribute	Number	Percentage
Freestanding	1,799	54%
Drive through pharmacy	1,295	39%
One-hour photo development department	2,530(1)	75%
GNC stores-within a Rite Aid-store	1,049	31%

(1) All have digital capabilities.

We own our corporate headquarters, which is located in a 205,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease a 100,000 square foot building near Harrisburg, Pennsylvania for use by additional administrative personnel. We lease 3,111 of our operating drugstore facilities under non-cancelable leases, many of which have original terms of 10 to 22 years. In addition to minimum rental payments, which are set at competitive market rates, certain leases require additional payments based on sales volume, as well as reimbursement for taxes, maintenance and insurance. Most of our leases contain renewal options, some of which involve rent increases.

We operate the following distribution centers and overflow storage locations, which we own or lease as indicated:

Location	Owned or Leased	Approximate Square Footage
Rome, New York	Owned	283,000
Utica, New York(1)	Leased	172,000
Poca, West Virginia	Owned	255,000
Dunbar, West Virginia(1)	Leased	110,000
Perryman, Maryland	Owned	885,000
Belcamp, Maryland(1)	Leased	252,000
Tuscaloosa, Alabama	Owned	230,000
Cottondale, Alabama(1)	Leased	155,000
Pontiac, Michigan	Owned	325,000
Woodland, California	Owned	513,000
Woodland, California(1)	Leased	200,000
Wilsonville, Oregon	Leased	517,000
Lancaster, California	Owned	914,000

(1) Overflow storage locations.

The original terms of the leases for our distribution centers range from five to 22 years. In addition to minimum rental payments, certain distribution centers require tax reimbursement, maintenance and insurance. Most leases contain renewal options, some of which involve rent increases. Although from time to time, we may be near capacity at some of our distribution facilities, particularly at our older facilities, we believe that the capacity of our facilities is adequate. Our strategic growth plan could require additional distribution capacity in the future.

We also own a 55,800 square foot ice cream manufacturing facility located in El Monte, California.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, under performing or otherwise deemed unsuitable. When we reduce in size, close or relocate a store, we often continue to have leasing obligations or own the property. We attempt to sublease this space. As of February 26, 2005, we have 6,708,237 square feet of excess space, of which 4,403,111 square feet was subleased.

Item 3. Legal Proceedings

Federal investigations

There are currently pending federal governmental investigations, both civil and criminal, by the United States Attorney, involving various matters related to prior management's business practices. We are cooperating fully with the United States Attorney. We have begun settlement discussions with the United States Attorney for the Middle District of Pennsylvania. The United States Attorney has proposed that the government would not institute any criminal proceeding against us if we enter into a consent judgment providing for a civil penalty payable over a period of years. The amount of the civil penalty has not been agreed to and there can be no assurance that a settlement will be reached or that the amount of such penalty will not have a material adverse effect on our financial condition and results of operations. We have recorded an accrual of $20.0 million in fiscal 2003 in connection with the resolution for these matters; however, we may incur charges in excess of that amount and we are unable to estimate the possible range of loss. We will continue to evaluate our estimate and to the extent that additional information arises or our strategy changes, we will adjust our accrual accordingly.

These investigations and settlement discussions are ongoing and we cannot predict their outcomes. If we were convicted of any crime, certain licenses and government contracts such as

Medicaid plan reimbursement agreements that are material to our operations may be revoked, which would have a material adverse effect on our results of operations, financial condition or cash flows. In addition, substantial penalties, damages or other monetary remedies assessed against us, including a settlement, could also have a material adverse effect on our results of operations, financial condition or cash flows.

Other

In June 2000, we were sued by the Lemelson Foundation in a complaint which alleges that portions of the technology included in our point-of-sale system infringe upon a patent held by the plaintiffs. The Lemelson Foundation has brought a similar suit against a significant number of major U.S. retailers. The amount of damages sought is unspecified and may be material. We cannot predict the outcome of this litigation or whether it could result in a material adverse effect on our results of operations, financial conditions or cash flows.

We are subject from time to time to lawsuits arising in the ordinary course of business. In the opinion of our management, these matters are adequately covered by insurance or, if not so covered, are without merit or are of such nature or involve amounts that would not have a material adverse effect on our financial conditions, results of operations or cash flows if decided adversely.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our security holders, through the solicitation of proxies or otherwise, during the fourth quarter of our fiscal year covered by this report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuers Purchases of Equity Securities.

Our common stock is listed on the New York and Pacific Stock Exchanges under the symbol "RAD." On April 22, 2005, we had approximately 22,999 record shareholders. Quarterly high and low stock prices, based on the New York Stock Exchange composite transactions, are shown below.

Fiscal Year	Quarter	High	Low
2006 (through April 22, 2005)	First	$4.24	$3.50
2005	First	5.75	4.53
	Second	5.38	4.38
	Third	4.58	3.35
	Fourth	3.81	3.41
2004	First	3.90	2.17
	Second	5.05	3.67
	Third	6.30	4.73
	Fourth	6.40	5.25

We have not declared or paid any cash dividends on our common stock since the third quarter of fiscal 2000 and we do not anticipate paying cash dividends on our common stock in the foreseeable future. Our senior secured credit facility does not allow us to pay cash dividends on our common stock. Some of the indentures that govern our other outstanding indebtedness also restrict our ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

During fiscal 2005, we exchanged 3.5 million shares of our Series D preferred stock for shares of our Series F, G and H preferred stock.

Other than as set forth above, we have not sold any unregistered equity securities during the period covered by this report, nor have we repurchased any equity securities during the period covered by this report.

The Chief Executive Officer of the Company certified to the NYSE on June 28, 2004 that she was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes appearing on pages 44-83.

	Fiscal Year Ended				
	February 26, 2005 (52 weeks)	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks)(1)
	(Dollars in thousands, except per share amounts)				
Summary of Operations:					
Revenues	$ 16,816,439	$ 16,600,449	$ 15,791,278	$ 15,166,170	$ 14,516,865
Costs and expense:					
Cost of goods sold, including occupancy costs	12,608,988	12,568,729	12,036,003	11,695,871	11,152,285
Selling, general and administrative expenses (2)	3,721,442	3,624,226	3,476,379	3,406,492	3,458,307
Goodwill amortization (3)	—	—	—	21,007	20,670
Store closing and impairment charges	35,655	22,074	135,328	251,617	388,078
Interest expense	294,871	313,498	330,020	396,064	649,926
Interest rate swap contracts	—	—	278	41,894	—
Loss (gain) on debt modifications and retirements, net	19,229	35,315	(13,628)	221,054	100,556
Share of loss from equity investments	—	—	—	12,092	36,675
Loss (gain) on sale of assets and investments, net	2,247	2,023	(18,620)	(42,536)	(6,030)
Total cost and expenses	16,682,432	16,565,865	15,945,760	16,003,555	15,800,467
Income (loss) from continuing operations before income taxes	134,007	34,584	(154,482)	(837,385)	(1,283,602)
Income tax (benefit) expense	(168,471)	(48,795)	(41,940)	(11,745)	148,957
Income (loss) from continuing operations	302,478	83,379	(112,542)	(825,640)	(1,432,559)
Income (loss) from discontinued operations, net of income tax expense of $13,846	—	—	—	—	11,335
Loss on disposal of discontinued operations, net of income tax benefit of $734	—	—	—	—	(168,795)
Net income (loss)	$ 302,478	$ 83,379	$ (112,542)	$ (825,640)	$ (1,590,019)
Basic and diluted net income (loss) per share:					
Income (loss) from continuing operations	$ 0.50	$ 0.11	$ (0.28)	$ (1.81)	$ (5.15)
Loss from discontinued operations	—	—	—	—	(0.50)
Basic net income (loss) per share	$ 0.50	$ 0.11	$ (0.28)	$ (1.81)	$ (5.65)
Diluted net income (loss) per share	$ 0.47	$ 0.11	$ (0.28)	$ (1.81)	$ (5.65)
Year-End Financial Position:					
Working capital	$ 1,335,017	$ 1,894,247	$ 1,676,889	$ 1,580,218	$ 1,955,877
Property, plant and equipment, net	1,733,694	1,882,763	1,867,830	2,095,552	3,040,790
Total assets	5,932,583	6,245,634	6,132,766	6,491,281	7,913,693
Total debt (4)	3,311,336	3,891,666	3,862,628	4,056,468	5,894,548
Redeemable preferred stock (5)	—	—	19,663	19,561	19,457
Stockholders' equity (deficit)	322,934	(8,277)	(129,938)	(7,527)	(373,619)
Other Data:					
Cash flows from continuing operations provided by (used in):					
Operating activities	518,446	227,515	305,383	16,343	(704,554)
Investing activities	(118,985)	(242,150)	(72,214)	342,531	677,653
Financing activities	(571,395)	(15,931)	(211,903)	(107,109)	(64,324)
Capital expenditures	222,417	267,373	116,154	187,383	141,504
Cash dividends declared per common share	$ 0	$ 0	$ 0	$ 0	$ 0
Basic weighted average shares	518,716,000	515,822,000	515,129,000	474,028,000	314,189,000
Diluted weighted average shares (6)	634,062,000	525,831,000	515,129,000	474,028,000	314,189,000
Number of retail drugstores	3,356	3,382	3,404	3,497	3,648
Number of associates	71,200	72,500	72,000	75,000	75,500

(1) PCS was acquired on January 22, 1999. On October 2, 2000, we sold PCS. Accordingly, our Pharmacy Benefit Management (''PBM'') segment was reported as a discontinued operation in the fiscal year ended March 3, 2001.

(2) Includes stock-based compensation expense (benefit). Stock-based compensation expense for the fiscal years ended February 26, 2005 and February 28, 2004 was determined using the fair value method set forth in Statement of Financial Accounting Standards (''SFAS'') No. 123, ''Accounting for Stock-Based Compensation''. Stock-based compensation expense (benefit) for the fiscal years ended March 1, 2003, March 2, 2002 and March 3, 2001 was determined using the intrinsic method set forth in Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees''.

(3) Effective March 3, 2002 we adopted Statement of Financial Accounting Standards (''SFAS'') No. 142, ''Goodwill and Intangible Assets'', which specifies that goodwill and indefinite life intangibles shall no longer be amortized. Accordingly, no goodwill amortization expense was recorded for the fiscal years ended February 26, 2005, February 28, 2004, and March 1, 2003.

(4) Total debt included capital lease obligations of $168.3 million, $183.2 million, $176.2 million and $182.6 million, and $1.1 billion, as of February 26, 2005, February 28, 2004, March 1, 2003, March 2, 2002, March 3, 2001, respectively.

(5) Redeemable preferred stock of $19,868 and $19,766 was included in ''Other Non-current liabilities'' as of February 26, 2005 and February 28, 2004, respectively.

(6) Diluted weighted average shares for the year ended February 26, 2005 included the impact of stock options, convertible debt and preferred stock, as calculated under the treasury stock method. Diluted weighted average shares for the year ended February 28, 2004 included the impact of stock options, as calculated under the treasury stock method.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Net income for fiscal 2005 was $302.5 million, compared to $83.4 million in fiscal 2004, and a loss of $112.5 million in fiscal 2003. Reasons for the improvement in our results are described in more detail in the Results of Operations and Liquidity and Capital Resources sections of this Item 7. However, some of the key factors that impacted this improvement are summarized as follows:

Sales Trends. Our revenue growth for fiscal 2005 compared to fiscal 2004 was 1.3%. Factors effecting our growth are discussed more thoroughly in the Results of Operations section of this Item 7. Compared to the prior year, our revenue grew 4.9% and 1.8% in the first and second quarters, respectively, was flat in the third quarter and declined 1.3% in the fourth quarter. A significant factor negatively effecting our revenue as the year progressed was the continuing penetration of mail order prescription programs, particularly the mandatory mail program that the United Auto Workers implemented between January 2004 and June 2004. Additionally, our revenue growth was negatively effected by the difficult comparisons to prior year revenues for our stores in Southern California that benefited from the effects of a strike at several Southern California grocery chains that lasted from October 2003 until February 2004. As described in the Strategy section of Item 1 of this Form 10-K, we are taking steps to address this declining revenue trend by working to increase sales at our existing stores through improved customer service and developing new stores in our strongest markets. We also believe that the introduction of a 90-day mail option through our PBM capabilities will have a positive impact on our revenue trend. However, we expect our revenue results to continue to face significant pressures from the existing competitive environment.

Income Tax Valuation Allowance Adjustment. Until the fourth quarter of fiscal 2005, we provided a full valuation allowance against our net deferred tax assets. Based upon a review of a number of factors, including historical operating performance and our expectation that we can

generate sustainable consolidated net income for the foreseeable future, we now believe it is more likely than not that a portion of these net deferred tax assets will be utilitzed. Based upon our expectation of future utilization, we have reduced a portion of our valuation allowance at year end resulting in a non-cash increase in net income of $179.5 million during fiscal 2005. An additional reduction in the valuation allowance of $5.3 million was recorded as additional paid-in capital in fiscal 2005 to reflect the tax benefit associated with previously recorded stock based compensation. We will continue to monitor all available evidence related to our ability to utilize our remaining net deferred tax assets. To the extent that it becomes more likely than not that those net deferred tax assets would be realized, we would be required to reverse all or a portion of the remaining valuation allowance. We continue to maintain a valuation allowance of $1.4 billion against remaining net deferred tax assets at fiscal year end 2005.

Debt Refinancing and Receivables Securitization. In fiscal 2005 and in fiscal 2004, we took several steps to improve our leverage and extend the terms of a substantial amount of our debt. In fiscal 2005, we replaced our senior secured credit facility with a new credit facility, entered into receivable securitization agreements, issued new senior secured notes, and repurchased portions of several existing notes prior to maturity. As a result of entering into the new senior secured credit facility and the receivables securitization agreements, we recorded a loss on debt modifications of $20.0 million, offset by net gains of $0.8 million related to the note repurchases described above. In fiscal 2004, we replaced our then existing senior secured credit facility with a new senior secured credit facility, issued new senior notes, and repurchased portions of several existing notes prior to maturity. These activities resulted in a loss of $43.2 million related to the termination of the old senior secured credit facility and the issuance of the new senior secured credit facility, offset by net gains of $7.9 million related to the note repurchases described above. These steps have enabled us to reduce our debt from $3.9 billion as of March 1, 2003 to $3.3 billion as of February 26, 2005, and to extend the maturity of the majority of our debt to 2009 and beyond. These transactions are discussed in more detail in the Liquidity and Capital Resources section below.

Dilutive Equity Issuances. At February 26, 2005, 520.4 million shares of common stock were outstanding and an additional 200.0 million shares of common stock were issuable related to outstanding stock options, convertible notes and preferred stock.

Our 200.0 million shares of potentially issuable common stock consist of the following:

(Shares in thousands)

Strike price	Outstanding Stock Options (a)	Convertible Notes (b)	Preferred Stock	Total
		(Shares in thousands)		
$5.50 and under	56,310	—	96,597	152,907
$5.51 to $7.50	2,407	38,462	—	40,869
$7.51 and over	6,214	—	—	6,214
Total issuable shares	64,931	38,462	96,597	199,990

(a) The exercise of these options would provide cash of $310.1 million

(b) The conversion of these notes to equity would reduce the principal amount of debt by $250.0 million

Working Capital. We generally finance our inventory and capital expenditure requirements with internally generated funds, funds generated from our securitization facility, funds generated from sale-leaseback transactions and borrowings under our senior secured credit facility. We expect to use cash from operating activities, proceeds from our securitization facility and, when necessary, borrowings under our revolving credit facility to finance inventories and to support our continued growth. The majority of our front-end sales are in cash. Third-party payors, which typically settle in fewer than 30 days, accounted for 93.5% of our pharmacy sales and 63.6% of our revenues in fiscal 2005.

Industry Trends. We believe pharmacy sales in the United States will increase at least 20% over the next three years based upon studies published by pharmacy benefit management companies and a pharmaceutical market intelligence firm. This rate of increase is lower than it has been in the past five years. The anticipated increase of 20% over the next three years is expected to be driven by the "baby boom" generation entering their fifties, the increasing life expectancy of the American population, the new Medicare endorsed prescription program, the introduction of several new drugs and the rate of inflation.

The retail drugstore industry is highly competitive and has been experiencing consolidation. We believe that the continued consolidation of the drugstore industry, continued new store openings, increased mail order and drug importation will further increase competitive pressures in the industry. In addition, sales of potential generic pharmaceuticals continue to grow as a percentage of total prescription drug sales, which has a dampening effect on sales growth. The growth rate of prescription drug sales has also been impacted by slower introductions of successful new prescription drugs and safety concerns related to recalls of prescription medications, such as the recent antiarthritic drug recalls.

The retail drugstore industry relies significantly on third party payors at an increasing rate. Third party payors, especially state sponsored Medicaid agencies, have recently evaluated and reduced certain reimbursement levels. Also, modifications to the Medicare program will expand coverage of prescription drugs. If third-party payors, including state sponsored Medicaid agencies, reduce their reimbursement levels, or if Medicare covers prescription drugs at lower reimbursement levels, sales and margins in the industry could be reduced, and profitability of the industry could be adversely affected.

Results of Operations

Revenue and Other Operating Data

	Year Ended		
	February 26, 2005 (52 Weeks)	February 28, 2004 (52 Weeks)	March 1, 2003 (52 Weeks)
		(Dollars in thousands)	
Revenues	$16,816,439	$16,600,449	$15,791,278
Revenue growth	1.3%	5.1%	4.1%
Same store sales growth	1.6%	5.7%	6.7%
Pharmacy sales growth	1.3%	5.8%	7.1%
Same store pharmacy sales growth	1.6%	6.4%	9.7%
Pharmacy sales as a % of total sales	63.6%	63.6%	63.2%
Third-party sales as a % of total pharmacy sales	93.5%	93.3%	92.7%
Front-end sales growth (decline)	1.1%	3.9%	(0.5)%
Same store front-end sales growth	1.6%	4.6%	1.9%
Front-end sales as a % of total sales	36.4%	36.4%	36.8%
Store data:			
Total stores (beginning of period)	3,382	3,404	3,497
New stores	7	2	3
Closed stores	(38)	(26)	(97)
Store acquisitions, net	5	2	1
Total stores (end of period)	3,356	3,382	3,404
Remodeled stores	169	170	138
Relocated stores	13	7	12

Revenues

Fiscal 2005 compared to Fiscal 2004: The 1.3% growth in revenues for fiscal 2005 was driven by pharmacy sales growth of 1.3%, and front-end sales growth of 1.1%. Sales growth in both pharmacy and front end was driven by increases in same store sales, which are discussed in more detail in the paragraphs below. We include in same store sales all stores that have been open at least one year. Stores in liquidation are considered closed. Relocated stores are included in same store sales.

Fiscal 2005 pharmacy same store sales increased by 1.6%, due to increases in price per prescription. The increase in price per prescription is due to inflation, offset by an increase in generic sales and lower reimbursement rates. Offsetting the increase in price per prescription was a decrease in the number of prescriptions filled. This reduction is due primarily to certain third-party payors requiring or encouraging customers to use mail order, safety concerns in hormone therapy, psychotherapeutic and antiarthritic prescriptions, the movement of certain prescription drugs to over-the-counter and a milder cold and flu season than in the prior year. We expect the negative impact from mail order activity to continue for the foreseeable future. The lower rate of increase in fiscal 2005 is also partially attributable to our Southern California stores benefiting from an increase in business in fiscal 2004 related to a union strike at several grocery store chains.

Fiscal 2005 front-end same store sales increased 1.6%, primarily as a result of improvement in our consumable over-the-counter and health and beauty care categories, partially offset by a decrease in photo and film sales, sales decreases in categories negatively impacted by a milder cold and flu season and decreased traffic in stores that were negatively impacted by mail order programs. The lower rate of increase in fiscal 2005 is also partially attributable to our Southern California stores benefiting from an increase in business in fiscal 2004 related to a union strike at several grocery store chains.

Fiscal 2004 compared to Fiscal 2003: The 5.1% growth in revenues for fiscal 2004 was driven by pharmacy sales growth of 5.8% and front-end sales growth 3.9%. Sales growth in both pharmacy and front end was driven by same store sales which are discussed in more detail in the paragraphs below.

Fiscal 2004 pharmacy same store sales increased by 6.4% due primarily to increases in price per prescription and, to a lesser extent, increases in the number of prescriptions filled. The increase in price per prescription was driven by inflation, partially offset by an increase in generic sales mix. The increase in the number of prescriptions filled was aided by prescription file purchases, a more severe flu season and favorable industry trends. Favorable industry trends include an aging population, the use of pharmaceuticals to treat a growing number of healthcare problems, and the introduction of a number of successful prescription drugs. Partially offsetting increases in the number of prescriptions filled was an increase in third-party payors requiring customers to use mail order for certain prescriptions and a reduction in hormone replacement and non-sedating antihistamine prescriptions.

Fiscal 2004 front-end same store sales increased by 4.6%, primarily as a result of improvements in core categories, such as over-the-counter items, consumables and vitamins and improved assortments. Also contributing to front-end same store sales increases was the switch of certain drugs from prescription to over-the-counter products.

Pharmacy and front-end same store sales increases in fiscal 2004 benefited from increased business in Southern California stores, driven by the migration of customers impacted by a union strike at several grocery store chains. The union strike ended in the beginning of March 2004.

The 4.1% growth in revenues for fiscal 2003 was driven by pharmacy sales growth of 7.1%, offset slightly by front-end sales decline of 0.5%. The decline in front-end sales was a direct result of closing 97 stores in fiscal 2003, partially offset by same store sales growth of 1.9%.

Fiscal 2003 compared to Fiscal 2002: Fiscal 2003 pharmacy same store sales increased by 9.7%, due to increases in both the number of prescriptions filled and sales price per prescription. Factors contributing to our pharmacy same store sales increases include inflation, improved attraction and retention of managed care customers, our increased focus on pharmacy initiatives, such as predictive refill, and favorable industry trends. These favorable factors were partially offset by the increase in generic sales mix, a reduction in hormone replacement therapy prescriptions and the impact of a less severe flu season than in the prior year.

Fiscal 2003 front-end same store sales increased 1.9%, primarily as a result of improvement in most core categories, such as over-the-counter items, consumables and vitamins, and improved assortments.

Costs and Expenses

	Year Ended		
	February 26, 2005 (52 Weeks)	February 28, 2004 (52 Weeks)	March 1, 2003 (52 Weeks)
	(Dollars in thousands)		
Costs of goods sold, including occupancy costs	$12,608,988	$12,568,729	$12,036,003
Gross profit	$ 4,207,451	$ 4,031,720	$ 3,755,275
Gross margin	25.0%	24.3%	23.8%
Selling, general and administrative expenses	3,721,442	$ 3,624,226	$ 3,476,379
Selling, general and administrative expenses as a percentage of revenues	22.1%	21.8%	22.0%
Store closing and impairment charges	35,655	22,074	135,328
Interest expense	294,871	313,498	330,020
Interest rate swap contracts	—	—	278
Loss (gain) on debt modifications and retirements, net	19,229	35,315	(13,628)
Loss (gain) on sale of assets and investments, net	2,247	2,023	(18,620)

Cost of Goods Sold

Gross margin was 25.0% for fiscal 2005 compared to 24.3% in fiscal 2004. Gross margin was positively impacted by improvements in pharmacy margin, which was driven by improved generic product mix and reduced inventory costs resulting from purchasing improvements. These items were partially offset by lower reimbursement rates. Gross margin was also positively impacted by the recording of a LIFO credit in fiscal 2005, which resulted from a decrease in the pricing indices caused by generic drug deflation. Partially offsetting these items was a decrease in front-end margin, which was caused by increased markdowns and a decrease in one-hour photo margins.

Gross margin was 24.3% for fiscal 2004 compared to 23.8% in fiscal 2003. Gross margin was positively impacted by improvements in both pharmacy and front-end margin. Improvement in pharmacy margin was driven by improved generic product mix and reduced inventory costs resulting from purchasing improvements, partially offset by lower reimbursement rates. Front-end gross margin improved due to more efficient promotional markdowns and lower inventory costs due to purchasing improvement. Overall gross margin was also positively impacted by lower occupancy and depreciation and amortization charges. Gross margin was negatively impacted by an increase in pharmacy sales mix.

We use the last-in, first-out (LIFO) method of inventory valuation. The LIFO (credit) charge was $(18.9) million in fiscal 2005, $19.9 million in fiscal 2004, and $19.7 million in fiscal 2003. The credit in fiscal 2005 was caused by generic drug deflation.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses (“SG&A”) for fiscal 2005 was 22.1% as a percentage of revenues, compared to 21.8% for fiscal 2004. Increased costs for pharmacy labor, union sponsored benefits and increased advertising and bad debt expenses were partially offset by reductions in incentive compensation expense and professional fees, decreased self-insurance expense for general liability insurance, decreased depreciation and amortization costs resulting from certain store equipment and intangible assets becoming completely depreciated and amortized in the current year and a decrease in stock-based compensation expense, which was primarily due to awards granted becoming fully vested in the prior year.

SG&A expense for fiscal 2004 was 21.8% as a percentage of revenues, compared to 22.0% for fiscal 2003. SG&A expenses for fiscal 2004 include $15.1 million incurred primarily to defend against litigation related to prior management’s business practices and to defend prior management. Offsetting these charges are net credits of $20.7 million related to favorable litigation settlements.

SG&A expense for fiscal 2003 includes $20.7 million incurred primarily to defend against litigation related to prior management's business practices and to defend prior management. SG&A for fiscal 2003 also includes net charges of $20.0 million for an investigation by the United States Attorney into various matters related to former management, a credit of $10.9 million related to favorable litigation settlements and a credit of $27.7 million related to the elimination of severance liabilities for former executives.

After considering the items described in the previous paragraphs, SG&A was lower in fiscal 2004 than fiscal 2003 due to decreased depreciation and amortization charges resulting from certain store equipment and intangible assets becoming completely depreciated and amortized, a reduction in professional fees and better leveraging of our fixed costs resulting from higher sales volume, partially offset by higher associate benefit costs.

Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
	(Dollars in thousands)		
Impairment charges	$30,014	$24,914	$ 69,508
Store and equipment lease exit charges (credits)	5,641	(2,840)	65,820
	$35,655	$22,074	$135,328

Impairment Charges

In fiscal 2005, 2004 and 2003, store closing and impairment charges include non-cash charges of $30.0 million, $24.9 million and $69.5 million, respectively, for the impairment of long-lived assets at 291, 208 and 262 stores, respectively. These amounts include the write-down of long-lived assets to estimated fair value at stores that were assessed for impairment as part of our on-going review of the performance of our stores or management's intention to relocate or close the store.

Store and Equipment Lease Exit Charges (Credits)

In fiscal 2005, 2004 and 2003, we recorded charges for 13, 5 and 40 stores, respectively, to be closed or relocated under long-term leases. Effective January 1, 2003, charges to close a store, which principally consist of lease termination costs, were recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities." Prior to January 1, 2003, charges incurred to close a store were recorded at the time management committed to closing the store. We calculate our liability for closed stores on a store-by-store basis. The calculation includes the future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. This liability is discounted using a risk-free rate of interest. We evaluate these assumptions each quarter and adjust the liability accordingly. The effect of adjustments to the risk-free rate of interest and the reversal of reserves established for stores that were previously committed for closure by management, but ultimately were not closed, resulted in a net credit for fiscal 2004.

As part of our ongoing business activities, we will continue to assess stores for potential closure. There can be no assurance that other such actions may not be required in the future, or that such actions would not have a material adverse effect on our operating results for the period in which we take those actions.

Interest Expense

Interest expense was $294.9 million in fiscal 2005 compared to $313.5 million in fiscal 2004. Interest expense for fiscal 2005 decreased from fiscal 2004 due to the lower outstanding balance and lower interest rate on our senior secured credit facility resulting from the fiscal 2005 refinancing.

Interest expense was $313.5 million in fiscal 2004 compared to $330.0 million in fiscal 2003. Interest expense for fiscal 2004 decreased from fiscal 2003 due to a decrease in debt issue cost amortization and reclassification of closed store interest expense, which pursuant to SFAS No. 146, is classified as a component of store closing and impairment charges.

The annual weighted average interest rates on our indebtedness in fiscal 2005, fiscal 2004 and fiscal 2003 were 7.0%, 6.8%, and 7.3% respectively.

Interest Rate Swap Contracts

We entered into two year interest rate swap contracts in June and July of 2000 to hedge the exposure to increasing rates with respect to our variable rate debt. As a result of the June 2001 refinancing, the interest rate swap contracts no longer qualified for hedge accounting treatment, and therefore the changes in fair value of these interest rate swap contracts were required to be recorded as components of net loss. Changes in market value of the interest rate swaps in fiscal 2003 were not significant. These contracts expired and were fully funded during fiscal 2003 and have not been renewed.

Income Taxes

Income tax benefits of $168.5 million, $48.8 million and $41.9 million have been recorded for fiscal 2005, fiscal 2004 and fiscal 2003, respectively. The fiscal 2005 benefit was comprised of a tax benefit of $179.5 million offset by tax expense of $11.0 million consisting primarily of state income taxes. The fiscal 2005 benefit was principally the result of a reduction of the valuation allowance on federal and state net deferred tax assets that were previously fully reserved. The fiscal 2004 benefit was comprised of a federal tax benefit of $54.6 million and state tax expense of $5.8 million. The federal tax benefit was related to the conclusion of the Internal Revenue Service examination for fiscal years 1996 through 2000, representing recoverable federal and state income taxes and interest, as well as a reduction of previously recorded liabilities. The state tax expense of $5.8 million was the result of the provision from operations for state income taxes for which the use of net operating losses ("NOLs") was temporarily suspended by certain jurisdictions. The fiscal 2003 benefit resulted primarily from a federal tax law change that increased the carry back period of net operating losses incurred in fiscal 2001 and 2002 from two to five years.

Generally accepted accounting principles require that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, we take into account all available positive and negative evidence with regard to the utilization of a deferred tax asset including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. Significant judgment is required in making these assessments.

Until the fourth quarter of fiscal 2005, we provided a full valuation allowance against our net deferred tax assets. Based upon a review of a number of factors, including historical operating performance and our expectation that we can generate sustainable consolidated taxable income for the foreseeable future, we now believe it is more likely than not that a portion of these net deferred tax assets will be utilized. Based upon our expectation of future utilization, we have reduced a portion of our valuation allowance at year end resulting in a non-cash tax benefit of $179.5 million during fiscal 2005. An additional reduction in the valuation allowance of $5.3 million was recorded as additional paid-in capital in fiscal 2005 to reflect the tax benefit associated with previously recorded stock based compensation. We will continue to monitor all available evidence related to our ability to utilize our remaining net deferred tax assets and continue to maintain a valuation allowance of $1.4 billion against remaining net deferred tax assets at fiscal year end 2005. Beginning in fiscal 2006, we expect to record income tax expense on forecast earnings at an effective rate of 41% to 44%. However, as of February 26, 2005, we had approximately $2.3 billion of net operating loss

carryforwards available to offset future taxable income. Accordingly, we expect to pay minimal taxes for the forseeable future. Should these operating loss carryforwards be utilized, we may be required to reverse all or a portion of the remaining valuation allowance.

The Company underwent an ownership change for statutory tax purposes during fiscal 2002, which resulted in a limitation on the future use of net operating loss carryforwards. This limitation was considered when determining the required level for the valuation allowance.

Liquidity and Capital Resources

General

We have five primary sources of liquidity: (i) cash equivalent investments; (ii) cash provided by operating activities; (iii) the sale of accounts receivable under our receivable securitization agreements, (iv) the revolving credit facility under our senior secured credit facility; and (v) sale-leasebacks of owned property. Our principal uses of cash are to provide working capital for operations, to service our obligations to pay interest and principal on debt, to provide funds for capital expenditures and to provide funds for payment and repurchase of our debt.

2005 Transactions

New Credit Facility

On September 22, 2004, we replaced our senior secured credit facility with a new senior secured credit facility. The new facility consists of a $450.0 million term loan and a $950.0 million revolving credit facility, and will mature in September, 2009. The proceeds of the loans made on the closing date of the new credit facility along with available cash and proceeds from the receivables securitization agreements were used to repay outstanding amounts under the old credit facility. Borrowings under the new facility currently bear interest at LIBOR plus 1.75%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 0.75%. We are required to pay fees of 0.375% per annum on the daily unused amount of the revolving credit facility. Amortization payments of $1.1 million related to the new term loan began on November 30, 2004 and will continue on a quarterly basis until May 31, 2009, with a final payment of $428.6 million due August 31, 2009.

Substantially all of our wholly owned subsidiaries guarantee the obligations under the new senior secured credit facility. The subsidiary guarantees are secured by a first priority lien on, among other things, the inventory and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from our subsidiaries to service payment under the new senior secured credit facility. Rite Aid Corporation's direct obligations under the new senior secured credit facility are unsecured.

The new senior secured credit facility allows for the issuance of up to $700.0 million in additional term loans or additional revolver availability. We may request the additional loans at any time prior to the maturity of the senior secured credit facility, provided we are not in default of any terms of the facility, nor are we in violation of any of our financial covenants. The new senior secured credit facility allows us to have outstanding, at any time, up to $1.8 billion in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2009, as described below). We also have the ability to incur an unlimited amount of unsecured debt, if the debt does not mature or require scheduled payments of principal prior to December 31, 2009. We have the ability to incur additional unsecured debt of up to $200.0 million with a scheduled maturity of prior to December 31, 2009. The maximum amount of additional secured subordinated debt and unsecured debt with a maturity prior to December 31, 2009 that can be incurred is $1.8 billion. At February 26, 2005, remaining additional permitted secured subordinated debt under the new senior secured credit facility is $798.0 million in addition to what is available under the revolver; however, other debentures do not permit additional secured subordinated debt if the revolver is fully drawn. The new senior secured credit facility also allows for the repurchase of any debt with a maturity on or before September 22, 2009, and for the repurchase of debt with a maturity after September 22, 2009, if we maintain availability on the revolving credit facility of at least $300.0 million.

The new senior secured credit facility contains customary covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payments of dividends, mergers and acquisitions and the granting of liens. The new senior secured credit facility also requires us to meet certain financial covenant ratios, but only if availability on the revolving credit facility is less than $300.0 million. If availability on the revolving credit facility is less than $300.0 million, the covenants would have required us to maintain a maximum leverage ratio of 6.05:1 for the twelve months ended February 26, 2005. Subsequent to February 26, 2005, the ratio gradually decreases to 3.20:1 for the twelve months ending August 29, 2009. In addition, if the availability on the revolving credit facility is less than $300.0 million, we would have been required to maintain a minimum fixed charge ratio of 1.05:1 for the twelve months ended February 26, 2005. Subsequent to February 26, 2005, the ratio gradually increases to 1.25:1 for the twelve months ending August 29, 2009.

The new senior secured credit facility provides for customary events of default, including nonpayments, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having a principal amount in excess of $25.0 million or if any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity of such debt.

Our ability to borrow under the new senior secured credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At February 26, 2005, the term loan was fully drawn and we had no borrowings outstanding under the revolving credit facility. At February 26, 2005, we also had letters of credit outstanding against the revolving credit facility of $114.1 million, which gave us additional borrowing capacity of $835.9 at February 26, 2005.

As a result of the placement of the new senior secured credit facility and the receivable securitization agreements, we recorded a loss on debt modification of $20.0 million for the year ended February 26, 2005.

Off Balance Sheet Obligations

On September 22, 2004, we entered into receivables securitization agreements with several multi-seller asset-backed commercial paper vehicles. Under the terms of the securitization agreements, we sell substantially all of our eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retain servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of our affiliates. These agreements provide for us to sell, and for the SPE to purchase these receivables, and for the SPE to borrow the funds secured by these receivables of up to $400.0 million. The amount of receivables funded at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution. Adjustments to this amount can occur on a weekly basis. At February 26, 2005, we retained an interest in the third party pharmaceutical receivables in the form of overcollateralization of $426.4 million, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

Proceeds from the initial sale of the receivables were used to repay outstanding amounts under the exisiting senior secured credit facility. Any additional proceeds are used to fund operations. We paid one-time arrangement and marketing fees of $2.4 million at the closing date, which are recorded as a loss on debt modification. We must pay an ongoing program fee of approximately LIBOR plus 1.125% on the amount sold to the SPE under the securtization agreements and must pay a liquidity fee of 0.375% on the daily unused amount under the securitization agreements. The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Rite Aid Corporation guarantees certain perfomance obligations of its affiliates under the securitization agreements, but does not guarantee the collectibility of the receivables and obligor creditworthiness.

The vehicles that make loans to the SPE have a commitment to lend that ends September 2005 with the option to annually extend the commitment to purchase. Should any of the vehicles fail to renew their commitment, we have access to a backstop credit facility, which is backed by the entities that make loans to the SPE's. The backstop facility is committed through September 2007.

Sales Leaseback Transactions

During fiscal 2005, we sold the land and buildings on 36 owned stores to several outside entities. Proceeds from these sales totaled $94.2 million. We entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. The leases are being accounted for as operating leases. Gains on these transactions of $14.5 million have been deferred and are being recorded over the related minimum lease terms. Losses of $3.2 million, which related to certain stores in these transactions, were recorded as losses on the sale of assets and investments in the accompanying statement of operations for the year ended February 26, 2005.

Preferred Stock Transactions

In the thirteen week period ended February 26, 2005, we issued 2.5 million shares of Series E mandatory convertible preferred stock at an offering price of $49 per share. Dividends on the Series E preferred stock are $3.50 per share per year, and are due and payable on a quarterly basis beginning on May 2, 2005. The dividends are payable in either cash or common stock or a combination thereof at our election. The Series E preferred stock will automatically convert into common stock on February 1, 2008 at a rate that is dependent upon the adjusted applicable market value of our common stock (as defined in the Series E preferred stock agreement). If the adjusted applicable market value of our common stock is $5.36 a share or higher at the conversion date, then the Series E preferred stock is convertible at a rate of 9.3284 shares (or higher) of our common stock for every share of Series E preferred stock outstanding. If the adjusted applicable market value of our common stock is less than or equal to $3.57 per share at the conversion date, then the Series E preferred stock is convertible at a rate of 14.0056 shares of our common stock for every share of Series E preferred stock outstanding. If the adjusted applicable market value of our common stock is between $3.57 per share and $5.36 per share at the conversion date, then the Series E preferred stock is convertible into common stock at a rate that is between 14.0056 per share and 9.3284 per share of common stock.

Proceeds of $120.0 million, net of issuance costs of $2.5 million, from the offering of our Series E preferred stock were used to redeem 1.04 million shares of our Series D preferred stock. In accordance with the provisions of the Series D stock agreement, we paid a premium of 105% of the liquidation preference of $100 per share. The total premium was $5.7 million and was recorded as a reduction to accumulated deficit in the year ended February 26, 2005. Subsequent to the issuance of our Series E preferred stock, we exchanged the remaining 3.5 million shares of our Series D preferred stock for equal amounts of Series F, G and H preferred stock. The Series F, G and H preferred stock have substantially the same terms as our Series D preferred stock, except for differences in dividend rates and redemption features. The Series F preferred stock pays dividends at 8% of liquidation preference and can be redeemed at our election at any point after issuance. The Series G preferred stock pays dividends at 7% of liquidation preference and can be redeemed at our election after January 2009. The Series H preferred stock pays dividends of 6% of liquidation preference and can be redeemed at our election after January 2010. All dividends can be paid in either cash or in additional shares of preferred stock, at our election. Any redemptions are at 105% of the liquidation preference of $100 per share, plus accrued and unpaid dividends.

Other Transactions

In January 2005, we issued $200.0 million aggregate principal amount of our 7½% senior secured notes due 2015. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation, and rank equally in right of payment with all other unsecured, unsubordinated indebtedness. Our obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under our new senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with the holders of our 12.5% senior notes, our 9.5% senior secured notes and our 8.125% senior secured notes, granted by the subsidiary guarantors on all of their assets that secure the obligations under the new senior secured credit facility, subject to certain exceptions. The indenture governing our 7½% senior secured notes contains customary covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

During fiscal 2005, we purchased the following securities (in thousands):

Debt Redeemed	Principal Amount Repurchased	Amount Paid	Gain/ (loss)
7.625% notes due 2005	$27,500	$28,275	$ (795)
7.125% notes due 2007	26,000	26,548	(605)
6.875% fixed rate senior notes due 2028	12,000	9,660	2,191
Total	$65,500	$64,483	$ 791

The gain on the transactions listed above is recorded as part of the loss on debt modifications in the accompanying statement of operations for fiscal 2005.

2004 Transactions

On May 28, 2003, we replaced our senior secured credit facility with a new senior secured credit facility. The facility consisted of a $1.15 billion term loan and a $700.0 million revolving credit facility, which had a maturity date of April 30, 2008. The proceeds of the loans made on the closing of the credit facility were, among other things, used to repay the outstanding amounts under the old facility and to purchase the land and buildings at our Perryman, MD and Lancaster, CA distribution centers, which had previously been leased through a synthetic lease arrangement.

On October 1, 2003, we paid, at maturity, our remaining outstanding balance of $58.1 million on the 6.0% dealer remarketable securities.

In May 2003, we issued $150.0 million aggregate principal amount of 9.25% senior notes due 2013. These notes are unsecured and effectively subordinate to our secured debt. The indenture governing the 9.25% senior notes contains customary covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

In April 2003, we issued $360.0 million aggregate principal amount of 8.125% senior secured notes due 2010. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsecured, unsubordinated indebtedness. Our obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under our new senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with holders of our 12.5% senior notes our 7½% senior secured notes and our 9.5% senior secured notes, granted by subsidiary guarantors on all their assets that secure the obligations under the senior secured credit facility, subject to certain exceptions. The indenture governing the 8.125% senior secured notes contains customary covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell asset and enter into sale-leaseback transactions.

During fiscal 2004 we repurchased the following securities (in thousands):

Debt Repurchased	Principal Amount Repurchased	Amount Paid	Gain/ (loss)
6.0% fixed rate senior notes due 2005	$ 37,848	$ 36,853	$ 865
7.125% notes due 2007	124,926	120,216	4,314
6.875% senior debentures due 2013	15,227	13,144	1,981
7.7% notes due 2027	5,000	4,219	715
6.875% fixed rate senior notes due 2028	10,000	7,975	1,895
12.5% senior secured notes due 2006	10,000	11,275	(1,888)
Total	$203,001	$193,682	$ 7,882

The gain on the transactions listed above is recorded as part of the loss on debt modifications in the accompanying statement of operations for fiscal 2004.

2003 Transactions

In February 2003, we issued $300.0 million aggregate principal amount of 9.5% senior secured notes due 2011. The notes are unsecured, unsubordinated obligations to Rite Aid Corporation and rank equally in right of payment with all other unsecured, unsubordinated indebtedness. Our obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under our senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with holders of our 12.5% senior notes our 8.125% senior secured notes our 7½% senior secured notes, granted by subsidiary guarantors on all their assets that secure the obligations under the senior secured credit facility, subject to certain exceptions. The indenture governing the 9.5% senior secured notes contains customary covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

We retired $150.5 million of our 5.25% convertible subordinated notes due 2002 and $20.9 million of our 10.5% senior secured notes due in 2002 at maturity in fiscal 2003. In addition, we repurchased $25.4 million of our 6.0% dealer remarketable securities, $118.6 million of our 6.0% fixed rate senior notes due 2005 and $15.0 million of our 7.125% notes due 2007 in fiscal 2003. The fiscal 2003 transactions resulted in a gain of $13.6 million, which is recorded as part of the gain on debt modifications in the accompanying statement of operations for fiscal 2003.

Other

As of February 26, 2005, we had no material off balance sheet arrangements, other than the receivables securitization agreements described above.

The following table details the maturities of our indebtedness and lease financing obligations as of February 26, 2005, as well as other contractual cash obligations and commitments.

Contractual Obligations and Commitment

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
	(Dollars in thousands)				
Contractual Cash Obligations					
Long term debt (1)	$ 445,404	$ 978,514	$1,043,625	$2,377,280	$ 4,844,823
Capital lease obligations (2)	24,014	46,709	42,287	162,572	275,582
Operating leases (3)	551,800	1,017,160	885,903	3,258,714	5,713,577
Open purchase orders	281,100	—	—	—	281,100
Other, primarily self insurance and retirement plan obligations (4)	119,440	138,379	27,763	54,593	340,175
Total contractual cash obligations	$1,421,758	$2,180,762	$1,999,578	$5,853,159	$11,455,257
Commitments					
Lease guarantees	18,624	35,072	34,117	129,946	217,759
Outstanding letters of credit	114,115	—	—	—	114,115
Total commitments	$ 132,739	$ 35,072	$ 34,117	$ 129,946	$ 331,874

(1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of February 26, 2005. This does not include any obligation related to the receivables securitization agreements described above.

(2) Represents the minimum lease payments on non-cancelable leases, including interest, but net of sublease income.

(3) Represents the minimum lease payments on non-cancelable leases, net of sublease income.

(4) Includes the minimum 401(k) funding requirements, actuarially determined undiscounted payments for self-insured workers compensation, general liability, and medical coverages and actuarially determined obligations for defined benefit pension plans.

Net Cash Provided By (Used In) Operating, Investing and Financing Activities

Cash provided by operating activities was $518.4 million in fiscal 2005. Operating cash flow was positively impacted by improved operating results and net proceeds of $150.0 million from the sale of certain of our third party receivables, partially offset by an increase in inventory.

Cash provided by operating activities was $227.5 million in fiscal 2004. Cash was provided primarily through improved operating results, which more than offset increases in accounts receivable and inventory.

Cash provided by operating activities was $305.4 million in fiscal 2003. Cash was provided primarily through improved operating results, income tax refunds of $68.7 million and decreases in accounts receivable and inventory, which more than offset a decrease in accounts payable.

Cash used in investing activities was $119.0 million in fiscal 2005. Cash of $190.8 million was used for the purchase of property, plant and equipment and cash of $31.6 million was used for the purchase of prescription files. Cash of $94.2 million was provided by proceeds from our sale-leaseback transactions and cash of $9.3 million was provided by proceeds from other asset dispositions.

Cash used in investing activities was $242.2 million in fiscal 2004. Cash of $106.9 million was used to purchase land and buildings at our Perryman, MD and Lancaster, CA distribution centers, which had previously been held under a synthetic lease arrangement. Cash of $143.8 million was used for the purchase of other fixed assets and cash of $16.7 million was used for the purchase of prescription files. Cash of $25.2 million was provided by the disposition of fixed assets and other investments.

Cash used in investing activities was $72.2 million in fiscal 2003. Cash of $104.5 million was used for the purchase of fixed assets and cash of $11.6 million was used for the purchase of prescription files. Cash of $43.9 million was provided by the disposition of fixed assets and other investments.

Cash used in financing activities was $571.4 million in fiscal 2005, due to the restructuring of our credit facility and early redemption of several bonds.

Cash used in financing activities was $15.9 million in fiscal 2004. Cash usage related to the change in our credit facility, the early redemption of several bonds and payments on certain bonds at maturity was largely offset by proceeds from bond issuances.

Cash used in financing activities was $211.9 million in fiscal 2003. The cash used consisted of the repayments of long term debt and deferred financing fees, offset with proceeds from the issuance of bonds.

Capital Expenditures

We plan to make total capital expenditures of approximately $350 million to $400 million during fiscal 2006, consisting of approximately $265 to $295 million related to new store construction, store relocation, store remodel projects and capitalized store repairs, $50 to $65 million related to technology enhancements, improvements to distribution centers, and other corporate requirements, and $35 to $40 million related to the purchase of prescription files from independent pharmacies. Management expects that these capital expenditures will be financed primarily with cash flow from operations and borrowings under the revolving credit facility available under our senior secured credit facility.

We have resumed the activities of a new store and store relocation program. In fiscal 2006, our goal is to open or relocate 80 stores. Approximately 70% of the stores will be relocated stores and the remaining 30% will be new stores. The program is focused on our strongest existing markets. We also expect to remodel 200 stores in fiscal 2006. We believe that this program over the long term, along with the execution of the near term strategy of improving store productivity, will continue to increase our sales and operating profits.

Future Liquidity

We are highly leveraged. Our high level of indebtedness: (i) limits our ability to obtain additional financing; (ii) limits our flexibility in planning for, or reacting to, changes in our business and the

industry; (iii) places us at a competitive disadvantage relative to our competitors with less debt; (iv) renders us more vulnerable to general adverse economic and industry conditions; and (v) requires us to dedicate a substantial portion of our cash flow to service our debt. Based upon current levels of operations and planned improvements in our operating performance, management believes that cash flow from operations together with cash equivalent investments, available borrowings under the senior credit facility and other sources of liquidity will be adequate to meet our anticipated annual requirements for working capital, debt service and capital expenditures for the next twelve months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in light of our operating performance and other relevant circumstances. Should we determine, at any time, that it is necessary to obtain additional short-term liquidity, we will evaluate our alternatives and take appropriate steps to obtain sufficient additional funds. Obtaining any such supplemental liquidity through the increase of indebtedness or asset sales may require the consent of the lenders under one or more of our debt agreements. There can be no assurance that any such supplemental funding, if sought, could be obtained or that our lenders would provide the necessary consents, if required.

Recent Accounting Pronouncements

We have several stock option plans. Prior to fiscal 2004, we accounted for these plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Effective March 2, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation." Under the modified prospective method of adoption selected by us under the provision of SFAS No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure." compensation cost recognized in fiscal 2005 and 2004 is the same as that which would have been recognized had the recognition provisions of SFAS No. 123 been applied from its original effective date. Results for the prior periods have not been restated.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment." This Standard requires companies to account for share based payments to associates using the fair value method for expense recognition. This standard is required to be adopted as of the first fiscal year beginning after June 15, 2005. We have not yet adopted SFAS No. 123R. However, as we have adopted the fair value recognition provisions of SFAS No.123, we do not expect the adoption of SFAS No. 123R to have a material impact on our financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143". FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 states that a conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional upon a future event that may or may not be within control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. Early adoption of FIN 47 is encouraged. We have not quantified the impact of adopting FIN 47, but we do not expect the adoption to have a material impact on our financial position or results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to allowance for uncollectible receivables, inventory shrink, impairment, self insurance liabilities, pension benefits, lease exit liabilities, income taxes and litigation. We base our estimates on historical experience, current and

anticipated business conditions, the condition of the financial markets and various other assumptions that are believed to be reasonable under existing conditions. Actual results may differ from these estimates.

The following critical accounting policies require the use of significant judgments and estimates by management:

Allowance for uncollectible receivables: The majority of our prescription sales are made to customers that are covered by third party payors, such as insurance companies, government agencies and employers. We carry receivables that represent the amount owed to us for sales made to customers or employees of those payors that have not yet been paid. We maintain a reserve for the amount of these receivables deemed to be uncollectible. This reserve is calculated based upon historical collection activity adjusted for current conditions. If the financial condition of the payors were to deteriorate, resulting in an inability to make payments, then an additional reserve would be required.

Inventory: Included in our valuation of inventory are estimates of the losses related to shrink, which occurs during periods between physical inventory counts. When estimating these losses, we consider historical loss results at specific locations as well as overall loss trends. Should actual shrink losses differ from the estimates that our reserves are based on, our operating results will be impacted.

Impairment: We evaluate long-lived assets, including stores and excluding goodwill, for impairment annually, or whenever events or changes in circumstances indicate that the assets may not be recoverable. The impairment is measured by calculating the estimated future cash flows expected to be generated by the store, and comparing this amount to the carrying value of the store's assets. Cash flows are calculated utilizing individual store forecasts and total Company projections for the remaining estimated lease lives of the stores being analyzed. Should actual results differ from those forecasted and projected, we may incur future impairment charges related to these facilities.

Goodwill Impairment: As disclosed in the consolidated financial statements, we have unamortized goodwill in the amount of $684.5 million. In connection with the provisions of SFAS No. 142, we perform an annual impairment test of goodwill. Our test as of February 26, 2005 resulted in no impairment being identified. However, the process of evaluating goodwill for impairment involves the determination of the fair value of our company. Inherent in such fair value determinations are certain judgments and estimates, including the interpretation of economic indicators and market valuations and assumptions about our strategic plans. To the extent that our strategic plans change, or that economic and market conditions worsen, it is possible that our conclusion regarding goodwill impairment could change and result in a material effect on our financial position or results of operations.

Self-insurance liabilities: We record estimates for self-insured medical, dental, workers' compensation and general liability insurance coverage with assistance from actuaries. Should a greater amount of claims occur compared to what was estimated, or medical costs increase beyond what was anticipated, reserves recorded may not be sufficient, and additional expense may be recorded.

Benefit plan accrual: We have several defined benefit plans, under which participants earn a retirement benefit based upon a formula set forth in the plan. We record expense related to these plans using actuarially determined amounts that are calculated under the provisions of SFAS No. 87, "Employer's Accounting for Pensions". Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and rate of increase in future compensation levels. These rates are based on market interest rates, and therefore fluctuations in market interest rates could impact the amount of pension expense recorded for these plans.

The accumulated benefit obligation of the defined benefit plans is a discounted amount calculated using the discount rate from published high-quality long-term bond indices, the term of which approximates the term of the cash flows to pay the accumulated benefit obligations when due. An increase in the market interest rates, assuming no other changes in the estimates, reduces the amount of the accumulated benefit obligation and the related required expense.

Lease exit liabilities: We record reserves for closed stores based on future lease commitments, that are present valued at current risk free interest rates. anticipated ancillary occupancy costs, and

anticipated future subleases of properties. If interest rates or the real estate leasing markets change, reserves may be increased or decreased.

Income taxes: We currently have net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate a significant deferred tax asset. We regularly review the deferred tax assets for recoverability considering our historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. We will establish a valuation allowance against deferred tax assets when we determine that it is more likely than not that all or a portion of our deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. Significant judgment is required in making these assessments.

Litigation reserves: We are involved in litigation on an on-going basis. We accrue our best estimate of the probable loss related to legal claims. Such estimates are developed in consultation with in-house and outside counsel, and are based upon a combination of litigation and settlement strategies. To the extent additional information arises or our strategies change, it is possible that our best estimate of the probable liability may also change.

Factors Affecting our Future Prospects

Risks Related to Our Financial Condition

We are highly leveraged. Our substantial indebtedness could limit cash flow available for our operations and could adversely affect our ability to service debt or obtain additional financing if necessary.

We had, as of February 26, 2005, $3.3 billion of outstanding indebtedness (not including obligations under the receivables securitization agreements) and stockholders' equity of $322.9 million. We also had additional borrowing capacity under our revolving credit facility of $835.9 million at that time, net of outstanding letters of credit of $114.1 million. Our debt obligations adversely affect our operations in a number of ways and while we believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal year 2006, there can be no assurance that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds for that purpose, restructure or otherwise refinance our debt. Our ratio of earnings to fixed charges for fiscal 2005 was 1.15. Our earnings were insufficient to cover fixed charges for fiscal 2004 by $2.6 million and by considerably higher amounts prior to fiscal 2004.

Our high level of indebtedness will continue to restrict our operations. Among other things, our indebtedness will:

- limit our ability to obtain additional financing;
- limit our flexibility in planning for, or reacting to, changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors with less indebtedness;
- render us more vulnerable to general adverse economic and industry conditions; and
- require us to dedicate a substantial portion of our cash flow to service our debt.

Our ability to make payments on our debt depends upon our ability to substantially improve our operating performance, which is subject to general economic and competitive conditions and to financial, business and other factors, many of which we cannot control. If our cash flow from our operating activities is insufficient, we may take certain actions, including delaying or reducing capital or other expenditures, attempting to restructure or refinance our debt, selling assets or operations or seeking additional equity capital. We may be unable to take any of these actions on satisfactory terms or in a timely manner. Further, any of these actions may not be sufficient to allow us to service our

debt obligations or may have an adverse impact on our business. Our existing debt agreements limit our ability to take certain of these actions. Our failure to earn enough to pay our debts or to successfully undertake any of these actions could have a material adverse effect on us.

Borrowings under our senior credit facility and expenses related to the sale of our accounts receivable under our receivables securitization agreements are based upon variable rates of interest, which could result in higher expense in the event of increases in interest rates.

Approximately $448.9 million of our outstanding indebtedness as of February 26, 2005 bears an interest rate that varies depending upon LIBOR. If we borrow additional amounts under our senior credit facility, the interest rate on those borrowings will also vary depending upon LIBOR. Further, we pay ongoing program fees under our receivables securitization agreements that vary depending upon LIBOR. If LIBOR rises, the interest rates on outstanding debt and the program fees under our receivables securitization program will increase. Therefore an increase in LIBOR would increase our interest payment obligations under these outstanding loans, increase our receivables securitization program fee payments and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest.

The covenants in our outstanding indebtedness impose restrictions that may limit our operating and financial flexibility.

The covenants in the instruments that govern our outstanding indebtedness restrict our ability to:

- incur liens and debt;
- pay dividends;
- make redemptions and repurchases of capital stock;
- make loans and investments;
- prepay, redeem or repurchase debt;
- engage in mergers, consolidations, assets dispositions, sale-leaseback transactions and affiliate transactions;
- change our business;
- amend some of our debt and other material agreements;
- issue and sell capital stock of subsidiaries;
- restrict distributions from subsidiaries; and
- grant negative pledges to other creditors.

In addition, if we have less than $300.0 million available under our revolving credit facility, we will be subject to certain financial covenant ratios. If we are unable to meet the terms of the financial covenants or if we breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could result in the acceleration of our outstanding indebtedness and cause our debt to become immediately due and payable. If acceleration occurs, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance such debt. Even if new financing is made available to us, it may not be available on terms acceptable to us.

If we obtain modifications of our agreements, or are required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2005 and the previous four fiscal years, we modified certain covenants contained in our then existing senior credit facility and loan agreements. In connection with obtaining these modifications, we paid significant fees and transaction costs.

Risks Related to Our Operations

We need to continue to improve our operations in order to improve our financial condition, but our operations will not improve if we cannot continue to effectively implement our business strategy or if our strategy is negatively affected by general economic conditions.

We have not yet achieved the sales productivity level of our major competitors. We believe that improving the sales of existing stores is important to achieving profitability and continuing to improve operating cash flow. If we are not successful in implementing our strategy, or if our strategy is not effective, we may not be able to improve our operations. In addition, any adverse change in general economic conditions can adversely affect consumer buying practices and reduce our sales of front-end products, which are our higher margin products, and cause a proportionately greater decrease in our profitability. Failure to continue to improve operations or a decline in general economic conditions would adversely affect our results of operations, financial condition and cash flows and our ability to make principal or interest payments on our debt.

Our new store and store relocation development program requires entering construction and development commitments and occasionally purchasing land that will not be utilized for several years which may limit our financial flexibility.

We will enter into significant construction and development commitments as part of our new store and store relocation development program. Also, we will occasionally make capital expenditures to acquire land that may not be used for several years. Even if there are significant negative economic or competitive developments in our industry, financial condition or the regions where we have made these commitments, we are obligated to fulfill these commitments. Further, if we subsequently dispose of the property that we acquire, we may receive less than our purchase price or the net book value of such property, which may result in financial loss.

We are dependent on our management team, and the loss of their services could have a material adverse effect on our business and the results of our operations or financial condition.

The success of our business is materially dependent upon the continued services of our executive management team. The loss of key personnel could have a material adverse effect on the results of our operations, financial condition or cash flows. Additionally, we cannot assure you that we will be able to attract or retain other skilled personnel in the future.

There are currently pending both civil and criminal investigations by the United States Attorney. In addition to any fines or damages that we might have to pay, any criminal conviction against us may result in the loss of licenses and contracts that are material to the conduct of our business, which would have a negative effect on our results of operations, financial condition and cash flows.

There are currently pending both civil and criminal governmental investigations by the United States Attorney involving matters related to prior management's business practices. Settlement discussions have begun with the United States Attorney of the Middle District of Pennsylvania, who has proposed that the government would not institute any criminal proceeding against us if we enter into a consent judgment providing for a civil penalty payable over a period of years. The amount of the civil penalty has not been agreed to and there can be no assurance that a settlement will be reached or that the amount of such penalty will not have a material adverse effect on our financial condition and results of operations. We recorded an accrual of $20.0 million in fiscal 2003 in connection with the resolution of these matters; however, we may incur charges in excess of that amount and we are unable to estimate the possible range of loss. We will continue to evaluate our estimate and to the extent that additional information arises or our strategy changes, we will adjust our accrual accordingly.

If we were convicted of any crime, certain licenses and government contracts, such as Medicaid plan reimbursement agreements that are material to our operations, may be revoked, which would

have a material adverse effect on our results of operations and financial condition. In addition, substantial penalties, damages or other monetary remedies assessed against us could also have a material adverse effect on our results of operations, financial condition and cash flows.

Given the size and nature of our business, we are subject from time to time to various lawsuits which, depending on their outcome, may have a negative impact on our results of operations, financial condition and cash flows.

We are substantially dependent on a single supplier of pharmaceutical products to sell products to us on satisfactory terms. A disruption in this relationship may have a negative effect on our results of operations, financial condition and cash flow.

We obtain approximately 93% of the dollar value of our prescription drugs from a single supplier, McKesson, pursuant to a contract that runs through March 2009. Pharmacy sales represented approximately 63.6% of our total sales during fiscal 2005, and, therefore, our relationship with McKesson is important to us. Any significant disruptions in our relationship with McKesson would make it difficult for us to continue to operate our business until we executed a replacement strategy. There can be no assurance that we would be able to find a replacement supplier on a timely basis or that such supplier would be able to fulfill our demands on similar terms, which would have a material adverse effect on our results of operations, financial condition and cash flows.

Risks Related to Our Industry

The markets in which we operate are very competitive and further increases in competition could adversely affect us.

We face intense competition with local, regional and national companies, including other drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, dollar stores and mail order pharmacies. Our industry also faces growing competition from companies who import drugs directly from other countries, such as Canada. We may not be able to effectively compete against them because our existing or potential competitors may have financial and other resources that are superior to ours. In addition, we may be at a competitive disadvantage because we are more highly leveraged than our competitors. The ability of our stores to achieve profitability depends on their ability to achieve a critical mass of customers. We believe that the continued consolidation of the drugstore industry will further increase competitive pressures in the industry. As competition increases, a significant increase in general pricing pressures could occur, which would require us to increase our sales volume and to sell higher margin products and services in order to remain competitive. We cannot assure you that we will be able to continue effectively to compete in our markets or increase our sales volume in response to further increased competition.

Another adverse trend for drugstore retailing has been initiatives to contain rising healthcare costs leading to the rapid growth in mail-order prescription processors. These prescription distribution methods have grown in market share relative to drugstores as a result of the rapid rise in drug costs experienced in recent years and are predicted to continue to rise. Mail-order prescription distribution methods are perceived by employers and insurers as being less costly than traditional distribution methods and are being encouraged, and, in some cases, required, by third party pharmacy benefit managers, employers and unions that administer benefits. As a result, some labor unions and employers are requiring, and others may encourage or require, that their members or employees obtain medications from mail-order pharmacies which offer drug prescriptions at prices lower than we are able to offer. For example, when we announced our fourth-quarter earnings, we disclosed that our sales continued to be negatively impacted by mandatory mail prescription programs, including the United Auto Workers' program. Mail-order prescription distribution has negatively affected sales for traditional chain drug retailers, including us, in the last few years and we expect such negative effect to continue in the future. There can be no assurance that our efforts to offset the effects of mail order will be successful.

Changes in third-party reimbursement levels for prescription drugs could reduce our margins and have a material adverse effect on our business.

Sales of prescription drugs, as a percentage of sales, and the percentage of prescription sales reimbursed by third parties, have been increasing and we expect them to continue to increase. In fiscal 2005, sales of prescription drugs represented 63.6% of our sales and 93.5% of all of the prescription drugs that we sold were with third party payors. During fiscal 2005, the top five third-party payors accounted for approximately 31.6% of our total sales, the largest of which represented 10.4% of our total sales. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations. Also, these third-party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Furthermore, the passing in December 2003 of the Medicare Prescription Drug, Improvement and Modernization Act will grant a prescription drug benefit to participants. As a result of this benefit, we may be reimbursed for some prescription drugs at prices lower than our current reimbursement levels. In fiscal 2005, approximately 12.4% of our revenues were from state sponsored Medicaid agencies. There have been a number of recent proposals and enactments by various states to reduce Medicaid reimbursement levels in response to budget problems, some of which propose to reduce reimbursement levels in the applicable states significantly, and we expect other similar proposals in the future. If third-party payors reduce their reimbursement levels or if Medicare or state Medicaid programs cover prescription drugs at lower reimbursement levels, our margins on these sales would be reduced, and the profitability of our business and our results of operations, financial condition or cash flows could be adversely affected.

We are subject to governmental regulations, procedures and requirements; our noncompliance or a significant regulatory change could adversely affect our business, the results of our operations or our financial condition.

Our pharmacy business is subject to federal, state and local regulation. These include local registrations of pharmacies in the states where our pharmacies are located, applicable Medicare and Medicaid regulations and prohibitions against paid referrals of patients. Failure to properly adhere to these and other applicable regulations could result in the imposition of civil and criminal penalties including suspension of payments from government programs; loss of required government certifications; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; loss of licenses; significant fines or monetary penalties for anti-kickback law violations, submission of false claims or other failures to meet reimbursement program requirements and could adversely affect the continued operation of our business. Furthermore, our pharmacies could be affected by federal and state reform programs, such as healthcare reform initiatives which could, in turn, negatively affect our business. The passing of these initiatives or any new federal or state programs could adversely affect our results of operations, financial condition or cash flows.

Our pharmacy business is subject to the patient privacy and other obligations including corporate, pharmacy and associate responsibility, imposed by the Health Insurance Portability and Accountability Act. As a covered entity, we are required to implement privacy standards, train our associates on the permitted use and disclosures of protected health information, provide a notice of privacy practice to our pharmacy customers and permit pharmacy health customers to access and amend their records and receive an accounting of disclosures of protected health information. Failure to properly adhere to these requirements could result in the imposition of civil as well as criminal penalties.

Certain risks are inherent in providing pharmacy services; our insurance may not be adequate to cover any claims against us.

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions adequacy of warnings and unintentional distribution of counterfeit drugs. In addition, federal and state laws that require our pharmacists to offer counseling, without additional charge, to

their customers about medication, dosage, delivery systems, common side effects and other information the pharmacists deem significant can impact our business. Our pharmacists may also have a duty to warn customers regarding any potential negative effects of a prescription drug if the warning could reduce or negate these effects. Although we maintain professional liability and errors and omissions liability insurance, from time to time, claims result in the payment of significant amounts, some portions of which are not funded by insurance. We cannot assure you that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will be able to maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self-insure or we suffer reputational harm as a result of an error or omission.

We will not be able to compete effectively if we are unable to attract, hire and retain qualified pharmacists.

There is a nationwide shortage of qualified pharmacists. In response, we have implemented improved competitive benefits and training programs in order to attract, hire and retain qualified pharmacists. We have also expanded our pharmacist recruiting efforts through an increase in the number of recruiters, a successful pharmacist intern program and improved relations with pharmacy schools. However, we may not be able to attract, hire and retain enough qualified pharmacists. This could adversely affect our operations.

We may be subject to significant liability should the consumption of any of our products cause injury, illness or death.

Products that we sell could become subject to contamination, product tampering, mislabeling or other damage requiring us to recall our private label products. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability claims may be asserted against us with respect to any of the products or pharmaceuticals we sell and we may be obligated to recall our private brand products. A product liability judgment against us or a product recall could have a material, adverse effect on our business, financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. Our major market risk exposure is changing interest rates. Increases in interest rates would increase our interest expense. We enter into debt obligations to support capital expenditures, acquisitions, working capital needs and general corporate purposes. Our policy is to manage interest rates through the use of a combination of variable-rate credit facilities, fixed-rate long-term obligations and derivative transactions.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of February 26, 2005.

	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value at February 26, 2005
Long-term debt, Including current portion								
Fixed rate	$208,928	$571,442	$ 870	$300,091	$ 120	$1,612,725	$2,694,176	$2,665,951
Average Interest Rate	7.33%	7.49%	8.00%	8.69%	8.00%	8.12%	7.98%	
Variable Rate	5,625	4,500	4,500	4,500	429,750	—	448,875	448,875
Average Interest Rate	4.33%	4.33%	4.33%	4.33%	4.33%		4.33%	

Our ability to satisfy our interest payment obligations on our outstanding debt will depend largely on our future performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we do not have sufficient cash flow to service our interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations will be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed.

The interest rate on the variable-rate borrowings on this facility are LIBOR plus 1.75% for the term loan and the revolving credit facility. Changes in one month LIBOR affect our cost of borrowings because the interest rate on our variable-rate obligations is based on LIBOR. If the market rates of interest for one month LIBOR change by 10% (approximately 27 basis points) as compared to the LIBOR rate of 2.69% as of February 26, 2005 our annual interest expense would change by approximately $1.2 million based upon our variable-rate debt outstanding of approximately $448.9 million on February 26, 2005.

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

In addition to the financial instruments listed above, the program fees incurred on proceeds from the sale of receivables under our receivables securitization agreements are determined based on LIBOR.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto are included elsewhere in this Annual Report on Form 10-K and are incorporated by reference herein. See Item 15 of Part IV.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported accurately and on a timely basis and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Changes In Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the most recent fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that, as of February 26, 2005, we did not have any material weaknesses in our internal control over financial reporting and our internal control over financial reporting was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our management's assessment of our internal control over financial reporting. This audit report appears below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Rite Aid Corporation
Camp Hill, Pennsylvania

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Rite Aid Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of February 26, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation

of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of February 26, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 26, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended February 26, 2005, of the Company and our report dated April 28, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective March 2, 2003.

Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 28, 2005

Item 9B. Other Information

None

PART III

We intend to file with the Securities and Exchange Commission a definitive proxy statement for our 2005 Annual Meeting of Stockholders, to be held on June 23, 2005, pursuant to Regulation 14A not later than 120 days after February 26, 2005. The information called for by these Items 10, 11, 12, 13 and 14 are incorporated by reference to that proxy statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The consolidated financial statements of the Company and report of the independent registered public accounting firm identified in the following index are included in this report from the individual pages filed as a part of this report:

1. Financial Statements

The following financial statements, report of the independent registered public acounting firm and supplementary data are included herein:

Report of Independent Registered Public Accounting Firm 44
Consolidated Balance Sheets as of February 26, 2005 and February 28, 2004 45
Consolidated Statements of Operations for the fiscal years ended February 26, 2005, February 28, 2004 and March 1, 2003. 46
Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended February 26, 2005, February 28, 2004 and March 1, 2003. 47
Consolidated Statements of Cash Flows for the fiscal years ended February 26, 2005, February 28, 2004 and March 1, 2003. 49
Notes to Consolidated Financial Statements. 50

2. Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable, not required or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit Numbers	Description	Incorporation By Reference To
3.1	Restated Certificate of Incorporation dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation dated February 22, 1999	Exhibit 3(ii) to Form 8-K, filed on November 2, 1999
3.3	Certificate of Amendment to the Restated Certificate of Incorporation dated June 27, 2001	Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
3.4	7.0% Series E Mandatory Convertible Preferred Stock Certificate of Designation dated January 25, 2005	Exhibit 3.1 to Form 8-K, filed on February 1, 2005
3.5	8% Series F Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.1 to Form 8-K, filed on February 2, 2005
3.6	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.7	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.8	By-laws, as amended on November 8, 2000	Exhibit 3.1 to Form 8-K, filed on November 13, 2000
3.9	Amendment to By-laws, adopted January 30, 2002	Exhibit T3B.2 to Form T-3, filed on March 4, 2002
4.1	Indenture, dated August 1, 1993, by and between Rite Aid Corporation, as issuer, and Morgan Guaranty Trust Company of New York, as trustee, related to the Company's 6.70% Notes due 2001, 7.125% Notes due 2007, 7.70% Notes due 2027, 7.625% Notes due 2005 and 6.875% Notes due 2013	Exhibit 4A to Registration Statement on Form S-3, File No. 033-63794, filed on June 3, 1993
4.2	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation, as issuer, and U.S. Bank Trust National Association as successor to Morgan Guaranty Trust Company of New York, to the Indenture dated as of August 1, 1993, relating to the Company's 6.70% Notes due 2001, 7.125% Notes due 2007, 7.70% Notes due 2027, 7.625% Notes due 2005 and 6.875% Notes due 2013	Exhibit 4.1 to Form 8-K filed on February 7, 2000
4.3	Indenture, dated as of December 21, 1998, between Rite Aid Corporation, as issuer, and Harris Trust and Savings Bank, as trustee, related to the Company's 5.50% Notes due 2000, 6% Notes due 2005, 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.1 to Registration Statement on Form S-4, File No. 333-74751, filed on March 19, 1999

Exhibit Numbers	Description	Incorporation By Reference To
4.4	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank, related to the Company's 5.50% Notes due 2000, 6% Notes due 2005, 6.125% Notes due 2008 and 6.875% Notes due 2028	Exhibit 4.4 to Form 8-K, filed on February 7, 2000
4.5	Indenture, dated as of June 27, 2001, between Rite Aid Corporation, as issuer, and State Street Bank and Trust Company, as trustee, related to the Company's 12.50% Senior Secured Notes due 2006	Exhibit 4.7 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
4.6	Indenture, dated as of June 27, 2001 between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 11¼% Senior Notes due 2008	Exhibit 4.8 to Registration Statement on Form S-1, File No. 333-64950, filed on July 12, 2001
4.7	Indenture, dated as of November 19, 2001, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 4.75% Convertible Notes due December 1, 2006	Exhibit 4.3 to Form 10-Q, filed on January 15, 2002
4.8	Indenture, dated as of February 12, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 9½% Senior Secured Notes due 2011	Exhibit 4.1 to Form 8-K, filed on March 5, 2003
4.9	Indenture, dated as of April 22, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 8.125% Senior Secured Notes due 2010	Exhibit 4.11 to Form 10-K, filed on May 2, 2003
4.10	Indenture, dated as of May 20, 2003, between Rite Aid Corporation, as issuer, and BNY Midwest Trust Company, as trustee, related to the Company's 9.25% Senior Notes due 2013	Exhibit 4.12 to Form 10-Q, filed on July 3, 2003
4.11	Registration Rights Agreement, dated as of January 11, 2005, by and among the Company, certain subsidiaries of the Company, named therein, as guarantors, and Citigroup Global Markets Inc. and J.P. Morgan Securities, Inc., as initial purchasers, related to the Company's 7.5% Senior Secured Notes due January 15, 2015.	Exhibit 99.1 to Form 8-K, filed on January 13, 2005
4.12	Indenture, dated as of January 11, 2005, among the Company, the subsidiary guarantors described therein, and BNY Midwest Trust Company, as trustee, related to the Company's 7.5% Senior Secured Notes due January 15, 2005	Exhibit 99.2 to Form 8-K, filed on January 13, 2005
4.13	Amended and Restated Registration Rights Agreement, dated as of January 31, 2005, by and among the Company and Green Equity Investors, III, L.P.	Exhibit 1.1 to Form 8-K, filed on February 2, 2005
10.1	1999 Stock Option Plan*	Exhibit 10.1 to Form 10-K, filed on May 21, 2001
10.2	2000 Omnibus Equity Plan*	Included in Proxy Statement dated October 24, 2000

Exhibit Numbers	Description	Incorporation By Reference To
10.3	2001 Stock Option Plan*	Exhibit 10.3 to Form 10-K, filed on May 21, 2001
10.4	2004 Omnibus Equity Plan	Filed herewith
10.5	Employment Agreement by and between Rite Aid Corporation and Robert G. Miller dated as of December 5, 1999*	Exhibit 10.1 to Form 8-K, filed on January 18, 2000
10.6	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of May 7, 2001*	Exhibit 10.9 to Form 10-K, filed on May 21, 2001
10.7	Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of April 9, 2003*	Exhibit 10.7 to Form 10-K, filed on May 2, 2003
10.8	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of April 28, 2005	Filed herewith
10.9	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Robert G. Miller*	Exhibit 4.31 to Form 8-K, filed on January 18, 2000
10.10	Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of December 5, 1999*	Exhibit 10.2 to Form 8-K, filed on January 18, 2000
10.11	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of May 7, 2001*	Exhibit 10.12 to Form 10-K, filed on May 21, 2001
10.12	Amendment No. 2 to Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of September 30, 2003*	Exhibit 10.3 to Form 10-Q, Filed on October 7, 2003
10.13	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Mary F. Sammons*	Exhibit 4.32 to Form 8-K, filed on January 18, 2000
10.14	Employment Agreement by and between Rite Aid Corporation and John T. Standley, dated as of December 5, 1999*	Exhibit 10.4 to Form 8-K, filed on January 18, 2000
10.15	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and John T. Standley*	Exhibit 4.34 to Form 8-K, filed on January 18, 2000
10.16	Employment Agreement by and between Rite Aid Corporation and James Mastrian, dated as of September 27, 1999*	Exhibit 10.20 to Form 10-K, filed on May 21, 2001
10.17	Rite Aid Corporation Special Executive Retirement Plan*	Exhibit 10.15 to Form 10-K, filed on April 26, 2004
10.18	Employment Agreement by and between Rite Aid Corporation and Robert B. Sari, dated as of February 28, 2001*	Exhibit 10.49 to Form 10-K filed on May 21, 2001
10.19	Employment Agreement by and between Rite Aid Corporation and Kevin Twomey, dated as of September 30, 2003*	Exhibit 10.4 to Form 10-Q, Filed on October 7, 2003
11	Statement regarding computation of earnings per share (see note 4 to the consolidated financial statements)	Filed herewith

Exhibit Numbers	Description	Incorporation By Reference To
12	Statement regarding computation of ratio of earnings to fixed charges	Filed herewith
14	Code of Ethics for the Chief Executive Officer and Senior Financial Officers	Exhibit 14 to Form 10-K, filed on April 26, 2004
21	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of CEO pursuant to Rule 13a-14(a) 15d-14 (a) under the Securities Exchange Act of 1934	Filed herewith
31.2	Certification of CFO pursuant to Rule 13a-14 (a) 15d-14 (a) under Securities Exchange Act of 1934	Filed herewith
32	Certification of CEO and CFO pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

* Constitutes a compensatory plan or arrangement required to be filed with this Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rite Aid Corporation
Camp Hill, Pennsylvania

We have audited the accompanying consolidated balance sheets of Rite Aid Corporation and subsidiaries (the "Company") as of February 26, 2005 and February 28, 2004, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended February 26, 2005. Our audits also included the financial statement schedule listed in the Table of Contents at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rite Aid Corporation and subsidiaries as of February 26, 2005 and February 28, 2004, and the results of their operations and their cash flows for each of the three years in the period ended February 26, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," effective March 2, 2003.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of February 26, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 28, 2005

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	February 26, 2005	February 28, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 162,821	$ 334,755
Accounts receivable, net	483,455	670,004
Inventories, net	2,310,153	2,223,171
Prepaid expenses and other current assets	50,325	150,067
Total current assets	3,006,754	3,377,997
Property, plant and equipment, net	1,733,694	1,882,763
Goodwill	684,535	684,535
Other intangibles, net	179,480	176,672
Other assets	328,120	123,667
Total assets	$ 5,932,583	$ 6,245,634
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Short-term debt and current maturities of convertible notes, long-term debt and lease financing obligations	$ 223,815	$ 23,976
Accounts payable	757,571	758,290
Accrued salaries, wages and other current liabilities	690,351	701,484
Total current liabilities	1,671,737	1,483,750
Convertible notes	247,500	246,000
Long-term debt, less current maturities	2,680,998	3,451,352
Lease financing obligations, less current maturities	159,023	170,338
Other noncurrent liabilities	850,391	902,471
Total liabilities	5,609,649	6,253,911
Commitments and contingencies	—	—
Stockholders' equity (deficit):		
Preferred stock – series D, par value $1 per share; liquidation value $100 per share; 20,000 shares authorized; shares issued — 0 and 4,178	—	417,803
Preferred stock – series E, par value $1 per share; liquidation value $50 per share; 2,500 shares authorized; shares issued 2,500	120,000	—
Preferred stock – series F, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,131	113,081	—
Preferred stock – series G, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,131	113,081	—
Preferred stock – series H, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,131	113,081	—
Common stock, par value $1 per share; 1,000,000 shares authorized; shares issued and outstanding 520,438 and 516,496	520,438	516,496
Additional paid-in capital	3,121,404	3,133,277
Accumulated deficit	(3,756,146)	(4,052,974)
Accumulated other comprehensive loss	(22,005)	(22,879)
Total stockholders' equity (deficit)	322,934	(8,277)
Total liabilities and stockholders' equity (deficit)	$ 5,932,583	$ 6,245,634

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Revenues	$16,816,439	$16,600,449	$15,791,278
Costs and expenses:			
Cost of goods sold, including occupancy costs	12,608,988	12,568,729	12,036,003
Selling, general and administrative expenses	3,721,442	3,624,226	3,476,379
Store closing and impairment charges	35,655	22,074	135,328
Interest expense	294,871	313,498	330,020
Interest rate swap contracts	—	—	278
Loss (gain) on debt modifications and retirements, net	19,229	35,315	(13,628)
Loss (gain) on sale of assets and investments, net	2,247	2,023	(18,620)
	16,682,432	16,565,865	15,945,760
Income (loss) before income taxes	134,007	34,584	(154,482)
Income tax benefit	(168,471)	(48,795)	(41,940)
Net income (loss)	$ 302,478	$ 83,379	$ (112,542)
Computation of income (loss) applicable to common stockholders:			
Income (loss)	$ 302,478	$ 83,379	$ (112,542)
Accretion of redeemable preferred stock	(102)	(102)	(102)
Preferred stock beneficial conversion	—	(625)	—
Cumulative preferred stock dividends	(35,226)	(24,098)	(32,201)
Premium to repurchase preferred stock	(5,650)	—	—
Income (loss) applicable to common stockholders	$ 261,500	$ 58,554	$ (144,845)
Basic and diluted income (loss) per share:			
Basic income (loss) per share	$ 0.50	$ 0.11	$ (0.28)
Diluted income (loss) per share	$ 0.47	$ 0.11	$ (0.28)

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended February 26, 2005, February 28, 2004 and March 1, 2003
(In thousands)

	Preferred Stock Series D		Preferred Stock Series E		Preferred Stock-Series F		Preferred Stock-Series G		Preferred Stock-Series H		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stock Based and Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
BALANCE MARCH 2, 2002	3,615	$361,504									515,136	$515,136	$3,151,811	$(4,023,186)	$ 463	$(13,255)	$ (7,527)
Net loss														(112,542)			(112,542)
Other comprehensive loss:																	
Minimum pension liability adjustment																(14,763)	(14,763)
Comprehensive loss																	(127,305)
Stock forfeitures											(122)	(122)	(169)		16		(275)
Deferred compensation plans															4,890		4,890
Stock options exercised											101	101	178				279
Dividends on preferred stock	322	32,201											(32,201)				—
BALANCE MARCH 1, 2003	3,937	$393,705									515,115	$515,115	$3,119,619	$(4,135,728)	$ 5,369	$(28,018)	$(129,938)
Net income														83,379			83,379
Other comprehensive income:																	
Minimum pension liability adjustment																5,139	5,139
Comprehensive income																	88,518
Stock Forfeitures											(68)	(68)	(151)				(219)
Issuance of restricted stock											185	185	(185)				—
Amortization of restricted stock balance													693				693
Adoption of SFAS No. 123													5,369		(5,369)		—
SFAS No. 123 option expense													29,128				29,128
Accretion of convertible preferred stock		625												(625)			—
Preferred stock beneficial conversion		(625)											625				—
Stock options exercised											1,264	1,264	2,277				3,541
Dividends on preferred stock	241	24,098											(24,098)				—
BALANCE FEBRUARY 28, 2004	4,178	$417,803									516,496	$516,496	$3,133,277	$(4,052,974)	$ —	$(22,879)	$ (8,277)
Net income														302,478			302,478
Other comprehensive income:																	
Minimum pension liability adjustment																874	874
Comprehensive income																	303,352
Exchange of restricted shares for taxes											(17)	(17)	(43)				(60)
Issuance of restricted stock											3,037	3,037	(3,037)				—
Cancellation of restriced stock											(183)	(183)	183				—
Amortization of restricted stock balance													2,311				2,311
SFAS No. 123 option expense													16,709				16,709
Stock options exercised											1,105	1,105	1,937				3,042

	Preferred Stock Series D		Preferred Stock Series E		Preferred Stock-Series F		Preferred Stock-Series G		Preferred Stock-Series H		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stock Based and Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**					
Tax benefit from exercise of stock options													5,293				5,293
Dividends on preferred stock	345	34,441											(34,441)				—
Issuance of Series E preferred stock			2,500	120,000													120,000
Redemption of Series D stock	(1,040)	(104,001)												(5,200)			(109,201)
Exchange Series D for Series F, net of redemption	(1,161)	(116,081)			1,131	113,081								(150)			(3,150)
Exchange Series D for Series G, net of redemption	(1,161)	(116,081)					1,131	113,081						(150)			(3,150)
Exchange Series D for Series H, net of redemption	(1,161)	(116,081)							1,131	113,081				(150)			(3,150)
Cash dividends paid on preferred shares													(785)				(785)
BALANCE FEBRUARY 26, 2005	—	$ —	2,500	$120,000	1,131	$113,081	1,131	$113,081	1,131	$113,081	520,438	$520,438	$3,121,404	$(3,756,146)	$—	($22,005)	$ 322,934

The accompanying notes are an integral part of these consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
OPERATING ACTIVITIES:			
Net income (loss)	$ 302,478	$ 83,379	$(112,542)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	246,742	264,584	285,605
Store closings and impairment charges	35,655	22,074	135,328
Interest rate swap contracts	—	—	278
Loss (gain) on sale of assets and investments, net	2,247	2,023	(18,620)
Stock-based compensation expense	19,020	29,821	4,806
Loss (gain) on debt modifications and retirements, net	19,229	35,315	(13,628)
Tax benefit from reduction of valuation allowance	(179,538)	—	—
Tax benefit from the exercise of stock options	5,293	—	—
Changes in operating assets and liabilities:			
Net proceeds from accounts receivable securitization	150,000	—	—
Accounts receivable	36,549	(94,486)	14,803
Inventories	(68,063)	(48,014)	40,555
Income taxes receivable/payable	30,832	(61,209)	24,018
Accounts payable	(26,511)	(17,162)	(62,314)
Other assets and liabilities, net	(55,487)	11,190	7,094
Net cash provided by operating activities	518,446	227,515	305,383
INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(190,792)	(250,668)	(104,507)
Intangible assets acquired	(31,625)	(16,705)	(11,647)
Proceeds from sale-leaseback transactions	94,151	—	—
Proceeds from dispositions of assets and investments	9,281	25,223	43,940
Net cash used in investing activities	(118,985)	(242,150)	(72,214)
FINANCING ACTIVITIES:			
Proceeds from issuance of new bank credit facilities	438,015	1,150,000	—
Principal payments on bank credit facilities	(1,151,125)	(1,372,500)	(5,962)
Proceeds from the issuance of bonds	200,000	502,950	300,000
Principal payments on long-term debt	(82,116)	(264,324)	(477,466)
Change in zero balance cash accounts	25,792	(4,613)	(12,936)
Net proceeds from the issuance of common stock	3,042	3,541	279
Net proceeds from the issuance of preferred stock	120,975	—	—
Payments for the redemption of preferred stock	(118,651)	—	—
Payments for preferred stock dividends	(785)	—	—
Deferred financing costs paid	(6,542)	(30,985)	(15,818)
Net cash used in financing activities	(571,395)	(15,931)	(211,903)
(Decrease) increase in cash and cash equivalents	(171,934)	(30,566)	21,266
Cash and cash equivalents, beginning of year	334,755	365,321	344,055
Cash and cash equivalents, end of year	$ 162,821	$ 334,755	$ 365,321

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

Description of Business

The Company is a Delaware corporation and through its wholly-owned subsidiaries, operates retail drugstores in the United States of America. It is one of the largest retail drugstore chains in the United States, with 3,356 stores in operation as of February 26, 2005. The Company's drugstores' primary business is pharmacy services. It also sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private brand product line.

The Company's operations consist solely of the retail drug segment. Revenues are as follows:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Pharmacy sales	$10,654,496	$10,517,703	$ 9,936,647
Front-end sales	6,087,999	6,018,942	5,794,705
Other revenue	73,944	63,804	59,926
	$16,816,439	$16,600,449	$15,791,278

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal years ended February 26, 2005, February 28, 2004 and March 1, 2003 included 52 weeks.

Reclassifications

The statement of operations has been reclassified to include stock-based compensation as a component of selling, general and administrative expenses for all years presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments, which are readily convertible to known amounts of cash and which have original maturities of three months or less when purchased.

Allowance for Uncollectible Receivables

The majority of prescription sales are made to customers that are covered by third-party payors, such as insurance companies, government agencies and employers. The Company carries receivables that represent the amount owed to the Company for sales made to customers or employees of those payors that have not yet been paid. The Company maintains a reserve for the amount of these receivables deemed to be uncollectible. This reserve is calculated based upon historical collection activity adjusted for current conditions.

Inventories

Inventories are stated at the lower of cost or market. Inventory balances include the capitalization of certain costs related to purchasing, freight and handling costs associated with placing inventory in

its location and condition for sale. The Company uses the last-in, first-out ("LIFO") method of accounting for substantially all of its inventories. At February 26, 2005 and February 28, 2004, inventories were $471,417 and $490,336, respectively, lower than the amounts that would have been reported using the first-in, first-out ("FIFO") method. The Company calculates its FIFO inventory valuation using the retail method for store inventories and the cost method for distribution facility inventories. The LIFO (credit) charge was $(18,919), $19,872 and $19,738 for fiscal years 2005, 2004 and 2003, respectively.

Impairment of Long-Lived Assets

Asset impairments are recorded when the carrying value of assets are not recoverable. For purposes of recognizing and measuring impairment of long-lived assets, the Company categorizes assets of operating stores as "Assets to Be Held and Used" and assets of stores that have been closed as "Assets to Be Disposed of". The Company evaluates assets at the store level because this is the lowest level of identifiable cash flows ascertainable to evaluate impairment. Assets being tested for recoverability at the store level include tangible long-lived assets and identifiable, finite-lived intangibles that arose in purchase business combinations. Corporate assets to be held and used are evaluated for impairment based on excess cash flows from the stores that support those assets. Goodwill is evaluated based on a comparison of the fair value of a reporting unit with its carrying amount, including goodwill.

The Company reviews long-lived assets to be held and used for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. The Company provides for depreciation using the straight-line method over the following useful lives: buildings — 30 to 45 years; equipment — 3 to 15 years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. When determining the amortization period of a leasehold improvement, the Company considers whether discretionary exercise of a lease renewal option is reasonably assured. If it is determined that the exercise of such option is reasonably assured, the Company will amortize the leasehold improvement asset over the minimum lease term, plus the option period. This determination depends on the remaining life of the minimum lease term and any economic penalties that would be incurred if the lease option is exercised.

Capitalized lease assets are recorded at the lesser of the present value of minimum lease payments or fair market value and amortized over the estimated useful life of the related property or term of the lease.

The Company capitalizes direct internal and external development costs and direct external application development costs associated with internal-use software. Neither preliminary evaluation costs nor costs associated with the software after implementation are capitalized. For fiscal years 2005, 2004 and 2003, the Company capitalized costs of approximately $2,830, $3,117 and $2,649, respectively.

Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired entities. In accordance with the provisions of SFAS No. 142, "Goodwill and Intangible Assets", the

Company does not amortize goodwill. The Company also has certain finite-lived intangible assets that are amortized over their useful lives. The value of favorable and unfavorable leases on stores acquired in business combinations are amortized over the terms of the leases on a straight-line basis. Prescription files purchased and those acquired in business combinations are amortized over their estimated useful lives of five to twenty years.

Investments in Fifty Percent or Less Owned Subsidiaries

Investments in affiliated entities for which the Company has the ability to exercise significant influence, but not control over the investee, and in which the Company holds an ownership interest of the common stock of between 20% and 50%, are accounted for under the equity method of accounting and are included in other assets. Under the equity method of accounting, the Company's share of the investee's earnings or loss is included in the consolidated statements of operations. As of February 26, 2005 and February 28, 2004, the Company did not have any equity method investments.

The ability to exercise significant influence is reviewed on a periodic basis. In instances where the Company loses its ability to exercise significant influence due to decreases in its ownership percentage or board participation, the Company will cease the use of the equity method of accounting, and in turn use the cost method of accounting. Under the cost method of accounting, the Company records its investment in the affiliated entity at cost, as a component of other assets. Income is recognized to the extent that the affiliate pays dividends to the Company. As of February 26, 2005 and February 28, 2004, the Company did not have any cost method investments.

Revenue Recognition

For all sales other than third party pharmacy sales, the Company recognizes revenue from the sale of merchandise at the time the merchandise is sold. For third party pharmacy sales, revenue is recognized at the time the prescription is filled, which is or approximates when the customer picks up the prescription. The Company records revenue net of an allowance for estimated future returns. Return activity is immaterial to revenues and results of operations in all periods presented.

Cost of Goods Sold

Cost of goods sold includes the following: the cost of inventory sold during the period, including related vendor rebates and allowances, costs incurred to return merchandise to vendors, inventory shrink costs, inbound freight charges, and occupancy costs, including rent costs, facility and leasehold improvement depreciation and utility costs.

Vendor Rebates and Allowances

Rebates and allowances received from vendors relate to either buying and merchandising or promoting the product. Buying and merchandising related rebates and allowances are recorded as a reduction of cost of goods sold as product is sold. Buying and merchandising rebates and allowances include all types of vendor programs such as purchase discounts, volume purchase allowances, price reduction allowances and slotting allowances. Product promotion related rebates and allowances, primarily related to advertising, are recorded as a reduction in selling, general and administrative expenses when the advertising commitment has been satisfied.

Rent

The Company records rent expense on operating leases on a straight-line basis over the minimum lease term. The Company begins to record rent expense at the time that the Company has the right to

use the property, which is typically when the Company begins construction on the property. From time to time, the Company receives incentive payments from landlords that subsidize lease improvement construction. These leasehold incentives are deferred and recognized on a straight-line basis over the minimum lease term.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all payroll and benefit costs, advertising, repair and maintenance, insurance, equipment depreciation, outbound freight, warehousing costs and professional fees.

Repairs and Maintenance

Routine repairs and maintenance are charged to operations as incurred. Improvements and major repairs, which extend the useful life of an asset, are capitalized and depreciated.

Advertising

Advertising costs, net of specific vendor advertising allowances, are expensed in the period the advertisement first takes place. Advertising expenses, net of vendor advertising allowances, for fiscal 2005, 2004 and 2003 were $278,949, $255,658 and $242,035, respectively.

Insurance

The Company is self-insured for certain general liability and workers' compensation claims. For claims that are self-insured, stop-loss insurance coverage is maintained for workers' compensation occurrences exceeding $500 and general liability occurrences exceeding $2,000. The Company utilizes actuarial studies as the basis for developing reported claims and estimating claims incurred but not reported relating to the Company's self-insurance. Workers' compensation claims are discounted to present value using a risk-free interest rate.

A majority of the Company-sponsored associate medical plans are self-insured. The remaining Company-sponsored associate medical plans are covered through guaranteed cost contracts.

Benefit Plan Accruals

The Company has several defined benefit plans, under which participants earn a retirement benefit based upon a formula set forth in the plan. The Company records expense related to these plans using actuarially determined amounts that are calculated under the provisions of SFAS No. 87, "Employer's Accounting for Pensions". Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and rate of increase in future compensation levels.

Stock-Based Compensation

The Company has several stock option plans, which are described in detail in Note 14. Prior to fiscal 2004, the Company accounted for these plans under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Effective March 2, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock- Based Compensation". Under the modified prospective method of adoption selected by the Company under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure", compensation expense recognized in fiscal 2005 and 2004 is the same as that which would have been recognized had the recognition provisions of SFAS No. 123 been applied from its original effective date. Results for prior years have not been restated.

The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 in all years presented.

		Year Ended	
	February 26, 2005	**February 28, 2004**	**March 1, 2003**
Net income (loss) as reported	$302,478	$ 83,379	$(112,542)
Add: Stock- based compensation expense included in reported income (loss)	19,020	29,821	4,806
Deduct: Total stock-based compensation determined under the fair value method for all awards	(19,020)	(29,821)	(39,500)
Pro forma net income (loss)	$302,478	$ 83,379	$(147,236)
Income (loss) per share:			
Basic – as reported	$ 0.50	$ 0.11	$ (0.28)
Diluted – as reported	$ 0.47	$ 0.11	$ (0.28)
Basic – pro forma	$ 0.50	$ 0.11	$ (0.35)
Diluted – pro forma	$ 0.47	$ 0.11	$ (0.35)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	**2004**	**2003**
Expected stock price volatility	61.5%	85.5%	69.4%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	3.80%	3.00%	2.63%
Expected life of options	4.0 years	5.0 years	5.0 years

The weighted-average fair value of each option granted during fiscal 2005, 2004 and 2003 was $2.92, $3.20 and $1.37, respectively.

Store Preopening Expenses

Costs incurred prior to the opening of a new store, associated with a remodeled store or related to the opening of a distribution facility are charged against earnings as administrative and general expenses when incurred.

Litigation Reserves

The Company is involved in litigation on an ongoing basis. The Company accrues its best estimate of the probable loss related to legal claims. Such estimates are developed in consultation with in-house and outside counsel, and are based upon a combination of litigation and settlement strategies.

Store Closing Costs and Lease Exit Charges

When a store is closed, the Company records an expense for unrecoverable costs and accrues a liability equal to the present value at current risk-free interest rates of the remaining lease obligations

and anticipated ancillary occupancy costs, net of estimated sublease income. Other store closing and liquidation costs are expensed when incurred and included in cost of goods sold.

Income Taxes

Deferred income taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities. Deferred income tax expense (benefit) represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change.

The Company has net operating loss (“NOL”) carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate a significant deferred tax asset. The Company regularly reviews the deferred tax assets for recoverability considering historical profitability, projected taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Significant judgment is required in making these assessments.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Concentrations

The Company’s pharmacy sales were primarily to customers covered by health plan contracts, which typically contract with a third-party payor that agrees to pay for all or a portion of a customer’s eligible prescription purchases. During fiscal 2005, the top five third-party payors accounted for approximately 31.6% of the Company’s total sales, the largest of which represented 10.4% of total sales. Third-party payors are entities such as an insurance company, governmental agency, health maintenance organization or other managed care provider, and typically represent several health care contracts and customers. During fiscal 2005, state sponsored Medicaid agencies accounted for approximately 12.4% of our total sales, the largest of which was less than 3% of the Company’s total sales. Any significant loss of third-party payor business could have a material adverse effect on the Company’s business and results of operations.

During fiscal 2005, the Company purchased approximately 93% of the dollar volume of its prescription drugs from a single supplier, McKesson Corp. (“McKesson”), under a contract expiring March 2009. With limited exceptions, the Company is required to purchase all of its branded pharmaceutical products from McKesson. If the Company’s relationship with McKesson was disrupted, the Company could have difficulty filling prescriptions, which would negatively impact the business.

Derivatives

The Company may enter into interest rate swap agreements to hedge the exposure to increasing rates with respect to its variable rate debt, when the Company deems it prudent to do so. Upon inception of interest rate swap agreements, or modifications thereto, the Company performs a comprehensive review of the interest rate swap agreements based on the criteria as provided by SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended by SFAS No.

138. The Company will use hedge accounting treatment on derivative instruments to the extent that the respective instrument qualifies for such treatment under SFAS No. 133. As of February 26, 2005, the Company has no interest rate swap arrangements or other derivatives.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R. "Share-Based Payment". This Standard requires companies to account for share-based payments to associates using the fair value method for expense recognition. This standard is required to be adopted as of the first fiscal year beginning after June 15, 2005. The Company has not yet adopted SFAS No. 123R. However, as the Company has adopted the fair value recognition provisions of SFAS No. 123, the Company does not expect the adoption of SFAS No. 123R to have a material impact on its financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143". FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 states that a conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional upon a future event that may or may not be within control of the entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. Early adoption of FIN 47 is encouraged. The Company has not quantified the impact of adopting FIN 47, but does not expect the adoption to have a material impact on its financial position or results of operations.

2. Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company subject to anti-dilution limitations.

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Numerator for income (loss) per share:			
Net income (loss)	$302,478	$ 83,379	$(112,542)
Accretion of redeemable preferred stock	(102)	(102)	(102)
Preferred stock beneficial conversion	—	(625)	—
Cumulative preferred stock dividends	(35,226)	(24,098)	(32,201)
Premium to repurchase preferred stock	(5,650)	—	—
Income (loss) attributable to common stockholders	$261,500	$ 58,554	$(144,845)
Plus: Interest on convertible debt	11,872	—	—
Plus: Cumulative preferred stock dividends	26,420	—	—
Income (loss) attributable to common stockholders – diluted	$299,792	$ 58,554	$(144,845)
Denominator:			
Basic weighted average shares	518,716	515,822	515,129
Outstanding options	12,293	10,009	—
Convertible preferred stock – Series D, F, G and H	61,681	—	—
Convertible preferred stock – Series E	2,910	—	—
Convertible debt	38,462	—	—
Diluted weighted average shares	634,062	525,831	515,129
Basic and diluted income (loss) per share:			
Basic income (loss) per share	$ 0.50	$ 0.11	$ (0.28)
Diluted income (loss) per share	0.47	$ 0.11	$ (0.28)

Due to their antidilutive effect, the following potential common shares have been excluded from the computation of diluted earnings per share:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Stock options	18,461	14,525	64,676
Convertible preferred stock	18,883	75,964	71,583
Convertible notes	—	38,462	38,462
	37,344	128,951	174,721

3. Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Impairment charges	$30,014	$24,914	$ 69,508
Store and equipment lease exit charges (credits)	5,641	(2,840)	65,820
	$35,655	$22,074	$135,328

Impairment Charges

In fiscal 2005, 2004, and 2003, store closing and impairment charges include non-cash charges of $30,014, $24,914 and $69,508, respectively, for the impairment of long-lived assets at 291, 208 and 262 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable.

Store and Equipment Lease Exit (Credits) Charges

During fiscal 2005, 2004 and 2003, the Company recorded charges for 13, 5, and 40 stores, respectively, to be closed or relocated under long term leases. Effective January 1, 2003, charges to close a store, which principally consist of lease termination costs, are recorded at the time the store is closed and all inventory is liquidated, pursuant to the guidance set forth in SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Prior to January 1, 2003, charges incurred to close a store were recorded at the time management committed to closing the store. The Company calculates its liability for closed stores on a store-by-store basis. The calculation includes future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. This liability is discounted using a risk-free rate of interest. The Company evaluates these assumptions each quarter and adjusts the liability accordingly. The discount rates used to determine the liability were 3.90%, 2.96% and 2.66% at February 26, 2005, February 28, 2004 and March 1, 2003, respectively.

The reserve for store lease exit costs includes the following activity:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Balance—beginning of year	$254,361	$306,485	$287,464
Provision for present value of noncancellable lease payments of stores designated to be closed	14,515	1,949	40,927
Changes in assumptions about future sublease income, terminations and change of interest rate	(14,291)	(5,928)	24,764
Reversals of reserves for stores that management has determined will remain open	(2,137)	(6,458)	(1,435)
Interest accretion	8,188	7,987	9,512
Cash payments, net of sublease income	(39,733)	(49,674)	(54,747)
Balance—end of year	$220,903	$254,361	$306,485

The Company's revenues and income (loss) before income taxes for fiscal 2005, 2004 and 2003 include results from stores that have been closed as of February 26, 2005. The revenue and operating losses of these stores for the periods are presented as follows:

	Year Ended		
	February 26, 2005	**February 28, 2004**	**March 1, 2003**
Revenues	$ 84,660	$161,651	$196,190
Loss from operations	(10,497)	(7,643)	(34,247)

Included in loss from operations for fiscal 2005, 2004, and 2003 are depreciation and amortization charges of $892, $1,791 and $2,466, respectively, and closed store inventory liquidation charges of $8,446, $5,629 and $17,964, respectively. Loss from operations does not include any allocation of corporate level overhead costs. The above results are not necessarily indicative of the impact that these closures will have on revenues and operating results of the Company in the future, as the Company often transfers the business of a closed store to another Company store, thereby retaining a portion of these revenues.

4. Accounts Receivable

The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. The allowance for uncollectible accounts at February 26, 2005 and February 28, 2004 was $50,812 and $35,054, respectively. The Company's accounts receivable are due primarily from third-party payors (e.g., pharmacy benefit management companies, insurance companies or governmental agencies) and are recorded net of any allowances provided for under the respective plans. Since payments due from third-party payors are sensitive to payment criteria changes and legislative actions, the allowance is reviewed continually and adjusted for accounts deemed uncollectible by management.

On September 22, 2004, the Company entered into receivables securitization agreements with several multi-seller asset-backed commercial paper vehicles. Under the terms of the securitization agreements, the Company sells substantially all of its eligible third party pharmaceutical receivables to a bankruptcy remote Special Purpose Entity (SPE) and retains servicing responsibility. The assets of the SPE are not available to satisfy the creditors of any other person, including any of the Company's affiliates. These agreements provide for the Company to sell, and for the SPE to purchase these receivables, and for the SPE to borrow funds secured by these receivables of up to $400,000. The amount of receivables funded at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution. Adjustments to this amount can occur on a weekly basis. At February 26, 2005, proceeds from the sale of receivables to the SPE totaled $150,000. The average proceeds from the sale of receivables during fiscal 2005 was $263,312. Receivables sold to the SPE for the year ended February 26, 2005 totaled $4,024,668. Collections reinvested in securitizations amounted to $3,448,235 for the year ended February 26, 2005. At February 26, 2005, the Company retained an interest in the third party pharmaceutical receivables in the form of overcollateralization of $426,433, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

Proceeds from the initial sale of the receivables were used to repay outstanding amounts under the existing senior secured credit facility. Additional proceeds are used to fund operations. The Company paid one-time arrangement and marketing fees of $2,400 at the closing date, which are recorded as a loss on debt modification. The Company must pay an ongoing program fee of approximately LIBOR plus 1.125% on the amount sold to the SPE under the securitization

agreements and must pay a liquidity fee of 0.375% on the daily unused amount under the securitization agreements. The program and the liquidity fees are recorded as a component of selling, general and administrative expenses. Program and liquidity fees for fiscal 2005 were $3,962. Rite Aid Corporation guarantees certain perfomance obligations of its affiliates under the securitization agreements, but does not guarantee the collectibility of the receivables and obligor creditworthiness.

The vehicles that make loans to the SPE have a commitment to lend that ends September 2005 with the option to annually extend the commitment to purchase. Should any of the vehicles fail to renew their commitment, the Company has access to a backstop credit facility, which is backed by the entities that make loans to the SPE's. The backstop facility is committed through September 2007.

Proceeds from the collections under the receivables securitization agreements are submitted to an independent trustee on a daily basis. The trustee withholds any cash necessary to fund overdraws on the facility and to pay trustee fees. The remaining collections are swept to the Company's corporate concentration account. At February 26, 2005, the Company has $760 of cash that is restricted for the payment of trustee fees.

The Company believes that the transactions meet the criteria for sales treatment in accordance with SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Additionally, the Company believes that consolidation is not appropriate in accordance with FIN 46R, "Consolidation of Variable Interest Entities."

5. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at February 26, 2005 and February 28, 2004:

	2005	2004
Land	$ 201,413	$ 254,642
Buildings	628,335	658,659
Leasehold improvements	1,127,497	1,107,494
Equipment	1,440,927	1,405,079
Construction in progress	34,927	41,753
	3,433,099	3,467,627
Accumulated depreciation	(1,699,405)	(1,584,864)
Property, plant and equipment, net	$ 1,733,694	$ 1,882,763

Depreciation expense, which includes the depreciation of assets recorded under capital leases, was $219,641 in fiscal 2005, $231,548 in fiscal 2004 and $243,566 in fiscal 2003.

Included in property, plant and equipment is the carrying amount of assets to be disposed of totaling $17,000 and $25,911 at February 26, 2005 and February 28, 2004, respectively.

6. Investments in Fifty Percent or Less Owned Subsidiaries

In July 1999, the Company purchased 9,335 of Series E Convertible Preferred Shares in drugstore.com, an on-line pharmacy, for cash of $8,125, including legal costs, and the Company's agreement to provide access to the Company's networks of pharmacies and third-party providers, advertising commitments and exclusivity agreements. Each of the Series E Convertible Preferred Shares were converted to one share of common stock at the time of drugstore.com's initial public offering late in July 1999 and represented 21.6% of the voting stock immediately after the initial

public offering. The investment was initially valued at $168,025, equal to the initial public offering price of $18 per share multiplied by the number of shares the Company owned. The Company initially accounted for the investment on the equity method because the Company had significant influence over drugstore.com, resulting from its share of the voting stock, its right to appoint one board member and a number of significant operating agreements. Prior to fiscal 2002, the Company recorded an impairment of its investment in drugstore.com based on a decline in the market value of drugstore.com's stock that the Company believed to be other than temporary and as a result had no remaining recorded value for its investment in drugstore.com's common stock. During fiscal 2003, the Company sold its remaining shares of drugstore.com and recognized a gain of $15,777, which is included in gain on sale on assets and investments, net, for the year ended March 1, 2003. The sale did not impact the business arrangement described above. Included in other noncurrent liabilities as of February 26, 2005, is the unamortized portion of the fair value of the operating agreements of $69,966 that was created in connection with the valuation of the investment at the time of the initial public offerings and is being amortized over 10 years, the life of the arrangements described above.

7. Goodwill and Other Intangibles

The Company accounts for goodwill under the guidance set forth in SFAS No. 142, which specifies that all goodwill and indefinite life intangibles shall not be amortized. Goodwill must be allocated to reporting units and evaluated for impairment on an annual basis. The Company has completed its annual impairment evaluation for the year ended February 26, 2005, and concluded that there is no goodwill impairment loss to be recognized. As of February 26, 2005 and February 28, 2004 the Company had goodwill of $684,535 and no indefinite life intangibles.

The Company's intangible assets other than goodwill are finite-lived and amortized over their useful lives. Following is a summary of the Company's intangible assets as of February 26, 2005 and February 28, 2004.

	2005			2004		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period
Favorable leases and other	$311,635	$(191,482)	20 years	$298,475	$(173,774)	18 years
Prescription files	369,425	(310,098)	13 years	350,501	(298,530)	13 years
Total	$681,060	$(501,580)		$648,976	$(472,304)	

Amortization expense for these intangible assets was $27,101, $33,036 and $42,039 for fiscal 2005, 2004 and 2003, respectively. The anticipated annual amortization expense for these intangible assets is 2006 – $27,461, 2007 – $24,706, 2008 – $22,082, 2009 – $18,286 and 2010 – $13,024.

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended February 26, 2005, February 28, 2004 and March 1, 2003
(In thousands, except per share amounts)

8. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consist of the following at February 26, 2005 and February 28, 2004:

	2005	2004
Accrued wages, benefits and other personnel costs	$274,844	$289,111
Accrued self insurance liability, current portion	69,957	60,472
Accrued sales and other taxes payable	48,726	52,511
Accrued legal and other professional fees	32,548	40,658
Accrued interest	43,047	43,884
Deferred vendor income, current portion	33,662	36,465
Accrued lease exit costs, current portion	30,243	31,689
Accrued store expense	25,632	28,535
Accrued real estate and personal property taxes	24,175	25,164
Accrued rent and other occupancy costs	28,867	22,988
Other	78,650	70,007
	$690,351	$701,484

9. Income Taxes

The provision for income taxes was as follows:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Current tax expense (benefit)			
Federal	$ 1,405	$(41,140)	$(44,011)
State	14,092	5,766	2,071
	15,497	(35,374)	(41,940)
Deferred tax (benefit):			
Federal	$(176,031)	$(13,421)	—
State	(7,937)	—	—
	(183,968)	(13,421)	—
Total income tax (benefit)	(168,471)	(48,795)	$(41,940)

A reconciliation of the expected statutory federal tax and the total income tax benefit is as follows:

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Expected federal statutory expense (benefit) at 35%	$ 46,903	$ 12,083	$(58,660)
Nondeductible compensation	99	2,375	940
Other nondeductible expenses	2,974	981	1,693
State income taxes, net	4,001	1,962	(10,726)
Recoverable federal tax and reduction of previously recorded liabilities	—	(56,663)	—
Other	—	—	679
Valuation allowance	(222,448)	(9,533)	24,134
Total income tax benefit	(168,471)	$(48,795)	(41,940)

The income tax benefit for fiscal 2005 includes $179,538 related to the reduction of the valuation allowance on federal and state net deferred tax assets that have an expected future utilization and were fully reserved prior to fiscal 2005.

The income tax benefit for fiscal 2004 includes $54,561 primarily representing recoverable federal and state income taxes and interest as well as a reduction of previously recorded liabilities related to the conclusions of the Internal Revenue Service examination of fiscal years 1996 through 2000.

The income tax benefit for fiscal 2003 includes $44,011 arising from enacted federal law extending the net operating loss carryback period from two to five years.

The tax effect of temporary differences that give rise to significant components of deferred tax assets and liabilities consist of the following at February 26, 2005 and February 28, 2004:

	2005	2004
Deferred tax assets:		
Accounts receivable	$ 68,572	$ 18,511
Accrued expenses	69,061	91,838
Liability for lease exit costs	91,037	101,492
Pension, retirement and other benefits	185,660	150,647
Investment impairment	28,782	34,296
Long-lived assets	139,514	121,919
Credits	81,922	75,332
Net operating losses	1,079,521	1,142,937
Total gross deferred tax assets	1,744,069	1,736,972
Valuation allowance	(1,436,570)	(1,650,967)
Net deferred tax assets	307,499	86,005
Deferred tax liabilities		
Inventory	115,176	83,384
Other	3,052	2,621
Total gross deferred tax liabilities	118,228	86,005
Net deferred tax assets	$ 189,271	$ —

As a result of the conclusions of the Internal Revenue Service examination cycle for fiscal years 1996 through 2000, components of the net deferred tax assets were adjusted and reclassified in fiscal years 2005 and 2004. The Company continues to be examined by state taxing authorities for the above tax years and management believes there are adequate reserves for remaining federal and state income taxes.

Net Operating Losses, Capital Losses and Tax Credits

At February 26, 2005, the Company had federal net operating loss (NOL) carryforwards of approximately $2,330,000, the majority of which expire between fiscal 2019 and 2022. The Company underwent an ownership change for statutory tax purposes during fiscal 2002, which resulted in a limitation on the future use of net operating loss carryforwards. This limitation was considered when the valuation allowance was established.

At February 26, 2005 the Company had state NOL carryforwards of approximately $3,488,000, the majority of which will expire between fiscal 2015 and 2022.

At February 26, 2005, the Company had a capital loss carryforward of $680,144 which will expire, if not offset by future capital gains, between fiscal 2006 and 2008.

At February 26, 2005, the Company had federal business tax credit carryforwards of $52,229, the majority of which expire between fiscal 2013 and 2025. In addition to these credits, the Company has alternative minimum tax credit carryforwards of $7,964.

Valuation Allowances

The valuation allowances as of February 26, 2005 and February 28, 2004 apply to the net deferred tax assets of the Company. Until the fourth quarter of fiscal 2005, the Company provided a full valuation allowance against its net deferred tax assets. Based upon a review of a number of factors, including the Company's historical operating performance and its expectation that it can generate sustainable consolidated taxable income for the foreseeable future, the Company now believes it is

more likely than not that a portion of these deferred tax assets will be utilized. Based upon the Company's expected future utilization, a portion of the valuation allowance at year end was reduced resulting in a non-cash tax benefit of $179,538 during fiscal 2005. An additional reduction in the valuation allowance of $5,293 was recorded as additional paid-in capital in fiscal 2005 to reflect the tax benefit associated with previously recorded stock based compensation. The Company continues to maintain a valuation allowance of $1,436,570 against remaining net deferred tax assets at fiscal year end 2005.

10. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at February 26, 2005 and February 28, 2004:

	February 26, 2005	February 28, 2004
Secured Debt:		
Senior secured credit facility ("SCF") due September 2009	448,875	—
SCF due April 2008	—	1,150,000
12.5% senior secured notes due September 2006 ($142,025 face value less unamortized discount of $2,599 and 4,158)	139,426	137,867
8.125% senior secured notes due May 2010 ($360,000 face value less unamortized discount of $3,501 and $4,168)	356,499	355,832
9.5% senior secured notes due February 2011	300,000	300,000
7½% senior secured notes due January 2015	200,000	—
Other	2,338	5,125
	1,447,138	1,948,824
Lease Financing Obligations	168,285	183,169
Unsecured Debt:		
7.625% senior notes due April 2005	170,500	198,000
6.0% fixed-rate senior notes due December 2005	38,047	38,047
4.75% convertible notes due December 2006 ($250,000 face value less unamortized discount of $2,500 and $4,000)	247,500	246,000
7.125% notes due January 2007	184,074	210,074
11.25% senior notes due July 2008	150,000	150,000
6.125% fixed-rate senior notes due December 2008	150,000	150,000
9.25% senior notes due June 2013 ($150,000 face value less unamortized discount of $1,981 and $2,221)	148,019	147,779
6.875% senior debentures due August 2013	184,773	184,773
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	140,000
	1,695,913	1,759,673
Total debt	3,311,336	3,891,666
Short-term debt and current maturities of convertible notes, long-term debt and lease financing obligations	(223,815)	(23,976)
Long-term debt and lease financing obligations, less current maturities	$3,087,521	$3,867,690

2005 Transactions:

New Credit Facility

On September 22, 2004, the Company replaced its senior secured credit facility with a new senior secured credit facility. The new facility consists of a $450,000 term loan and a $950,000 revolving credit facility, which will mature in September 2009. The proceeds of the loans made on the closing date of the new credit facility along with available cash and proceeds from the receivables securitization agreements were used to repay outstanding amounts under the old credit facility. Borrowings under the new facility currently bear interest at LIBOR plus 1.75%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 0.75%. The Company is required to pay fees of 0.375% per annum on the daily unused amount of the revolving credit facility. Amortization payments of $1,125 related to the new term loan began on November 30, 2004 and will continue on a quarterly basis until May 31, 2009, with a final payment of $428,625 due August 31, 2009.

The new senior secured credit facility allows for the issuance of up to $700,000 in additional term loans or additional revolver availability. The Company may request the additional loans at any time prior to the maturity of the senior secured credit facility, provided it is not in default of any terms of the facility, nor is it in violation of any of its financial covenants. The new senior secured credit facility allows the Company to have outstanding, at any time, up to $1,800,000 in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2009, as described below). The Company also has the ability to incur an unlimited amount of unsecured debt, if the debt does not mature or require scheduled payments of principal prior to December 31, 2009. The Company has the ability to incur additional unsecured debt of up to $200,000 with a scheduled maturity prior to December 31, 2009. The maximum amount of additional secured subordinated debt and unsecured debt with a maturity prior to December 31, 2009 that can be incurred is $1,800,000. At February 26, 2005, remaining additional permitted secured subordinated debt under the new senior secured credit facility is $798,000 in addition to what is available under the revolver; however, other debentures do not permit additional secured subordinated debt if the revolver is fully drawn. The new senior secured credit facility also allows for the repurchase of any debt with a maturity on or before September 22, 2009, and for the repurchase of debt with a maturity after September 22, 2009, if the Company maintains availability on the revolving credit facility of at least $300,000.

The new senior secured credit facility contains customary covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payments of dividends, mergers and acquisitions and the granting of liens. The new senior secured credit facility also requires the Company to meet certain financial covenant ratios, but only if availability on the revolving credit facility is less than $300,000. If availability on the revolving credit facility had been less than $300,000, the covenants would have required the Company to maintain a maximum leverage ratio of 6.05:1 for the twelve months ended February 26, 2005. Subsequent to February 26, 2005, the ratio gradually decreases to 3.20:1 for the twelve months ending August 29, 2009. In addition, if the availability on the revolving credit facility had been less than $300,000, the Company would have been required to maintain a minimum fixed charge ratio of 1.05:1 for the twelve months ended February 26, 2005. Subsequent to February 26, 2005, the ratio gradually increases to 1.25:1 for the twelve months ending August 29, 2009.

The new senior secured credit facility provides for customary events of default, including nonpayments, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if the Company fails to make any required payment on debt having a principal amount in excess of $25,000 or any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of such debt to accelerate the maturity of such debt.

The Company's ability to borrow under the new senior secured credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At February 26, 2005, the term loan was fully drawn and the Company had no borrowings outstanding under the revolving credit facility. At February 26, 2005, the Company also had letters of credit outstanding against the revolving credit facility of $114,115, which gave the Company additional borrowing capacity of $835,885 at February 26, 2005.

As a result of the placement of the new senior secured credit facility and the receivable securitization agreements, the Company recorded a loss on debt modification of $20,020 for the year ended February 26, 2005.

Other Transactions

In January 2005, the Company issued $200,000 aggregate principal amount of 7½% senior secured notes due 2015. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation, and rank equally in right of payment with all other unsecured, unsubordinated indebtedness. The Company's obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under our new senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with the holders of the Company's 12.5% senior notes, the 9.5% senior secured notes and the 8.125% senior secured notes, granted by the subsidiary guarantors on all of their assets that secure the obligations under the new senior secured credit facility, subject to certain exceptions. The indenture governing the Company's 7½% senior secured notes contains customary covenant provisions that, among other things, include limitations on our ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

During the year ended February 26, 2005, the Company made open market purchases of the following securities (in thousands):

Debt Repurchased	Principal Amount Repurchased	Amount Paid	Gain / (loss)
7.625% notes due 2005	$27,500	$28,275	$ (795)
7.125% notes due 2007	26,000	26,548	(605)
6.875% fixed rate senior notes due 2028	12,000	9,660	2,191
Total	$65,500	$64,483	$ 791

The gain on the transactions listed above is recorded as part of the Company's loss on debt modifications for the year ended February 26, 2005.

2004 Transactions:

Credit Facility: On May 28, 2003, the Company replaced its senior secured credit facility with a new senior secured credit facility. The new facility consisted of a $1,150,000 term loan and a $700,000 revolving credit facility. The proceeds of the loans made on the closing of the new credit facility were, among other things, used to repay the outstanding amounts under the old facility and to purchase the land and buildings at the Company's Perryman, MD and Lancaster, CA distribution centers, which had previously been leased through a synthetic lease arrangement.

As a result of the placement of the senior secured credit facility, the Company recorded a loss on debt modification in fiscal 2004 of $43,197 (which included the write-off of previously deferred debt issue costs of $35,120).

On October 1, 2003, the Company paid, at maturity, its remaining outstanding balance on the 6.0% dealer remarketable securities.

In May 2003, the Company issued $150,000 aggregate principal amount of 9.25% senior notes due 2013. These notes are unsecured and effectively subordinate to the Company's secured debt. The indenture governing the 9.25% senior notes contains customary covenant provisions that, among other things, include limitations on the Company's ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

In April 2003, the Company issued $360,000 aggregate principal amount of 8.125% senior secured notes due 2010. The notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsecured, unsubordinated indebtedness. The Company's obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under the Company's new senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with the holders of the Company's 12.5% senior notes, the Company's 7½% senior secured notes and the Company's 9.5% senior secured notes, granted by subsidiary guarantors on all of their assets that secure the obligations under the new senior secured credit facility, subject to certain exceptions. The indenture governing the Company's 8.125% senior secured notes contains customary covenant provisions that, among other things, include limitations on the Company's ability to pay dividends, make investments or other restricted payments, incur debt, grant liens, sell assets and enter into sale-leaseback transactions.

During fiscal 2004 the Company repurchased the following securities:

Debt Repurchased	Principal Amount Repurchased	Amount Paid	Gain/ (loss)
6.0% fixed rate senior notes due 2005	$ 37,848	$ 36,853	$ 865
7.125% notes due 2007	124,926	120,216	4,314
6.875% senior debentures due 2013	15,227	13,144	1,981
7.7% notes due 2027	5,000	4,219	715
6.875% fixed rate senior notes due 2028	10,000	7,975	1,895
12.5% senior secured notes due 2006	10,000	11,275	(1,888)
Total	$203,001	$193,682	$ 7,882

The gain on the transactions listed above is recorded as part of the loss on debt modifications in the accompanying statement of operations for fiscal 2004.

2003 Transactions:

Senior Secured Notes: The Company issued $300,000 of 9.5% senior secured notes due 2011 in February 2003. The notes were unsecured, unsubordinated obligations of the Company and rank equally in right of payment with all of the Company's other unsecured, unsubordinated, indebtedness. The Company's obligations under the notes are guaranteed, subject to certain limitation, by subsidiaries that guarantee the obligations under the senior secured credit facility. The guarantees of the notes are secured, subject to permitted liens, by shared second priority liens ranked by subsidiary guarantors on all assets that secure the Company's obligations under the senior secured credit facility. Proceeds from these notes were used to redeem all the $149,500 of the Company's senior secured (shareholders) notes due 2006 as well as to fund other debt repurchases and general corporate purposes.

Repurchase of Debt: The Company repurchased $25,425 of its 6.0% dealer remarketable securities due 2003, $118,605 of its 6.0% notes due 2005, and $15,000 of its 7.125% notes due 2007 during fiscal

2003. In addition to the debt repurchases noted above, the Company retired $150,500 of its 5.25% convertible subordinated notes at maturity in September 2002, and made quarterly mandatory repayments on the senior secured credit facility term loan totaling $27,500 during fiscal 2003. These fiscal 2003 transactions resulted in a gain of $13,628 on debt retirements and modifications.

Other:

The Company had outstanding letters of credit of $114,115 at February 26, 2005 and $115,196 at February 28, 2004.

The annual weighted average interest rate on the Company's indebtedness was 7.0%, 6.8% and 7.3% for fiscal 2005, 2004 and 2003, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2006 – $214,554; 2007 – $575,942; 2008 – $5,370; 2009 – $304,591; 2010 – $429,870 and $1,612,726 in 2011 and thereafter. The Company is in compliance with restrictions and limitations included in the provisions of various loan and credit agreements.

Substantially all of Rite Aid Corporation's wholly-owned subsidiaries guarantee the obligations under the new senior secured credit facility. The subsidiary guarantees are secured by a first priority lien on, among other things the inventory, accounts receivable and prescription files of the subsidiary guarantors. Rite Aid Corporation is a holding company with no direct operations and is dependent upon dividends, distributions and other payments from its subsidiaries to service payments due under the new senior credit facility. Rite Aid Corporation's direct obligations under the new senior credit facility are unsecured. The 12.5% senior secured notes due 2006, the 9.5% senior secured notes due 2011 the 8.125% senior secured notes due 2010 and the 7½% senior secured notes due 2015 are guaranteed by substantially all of the Company's wholly-owned subsidiaries and are secured on a second priority basis by the same collateral as the new senior secured credit facility.

The subsidiary guarantees related to the Company's credit facilities are full and unconditional and joint and several and there are no restrictions on the ability of the parent to obtain funds from its subsidiaries. Also, the parent company's assets and operations are not material and subsidiaries not guaranteeing the credit facilities are minor. Accordingly, condensed consolidating financial information for the parent and subsidiaries is not presented.

11. Leases

The Company leases most of its retail stores and certain distribution facilities under noncancellable operating and capital leases, most of which have initial lease terms ranging from five to 22 years. The Company also leases certain of its equipment and other assets under noncancellable operating leases with initial terms ranging from 3 to 10 years. In addition to minimum rental payments, certain store leases require additional payments based on sales volume, as well as reimbursements for taxes, maintenance and insurance. Most leases contain renewal options, certain of which involve rent increases. Total rental expense, net of sublease income of $7,499, $8,892 and $9,470, was $555,940, $553,956 and $566,409 in fiscal 2005, 2004 and 2003, respectively. These amounts include contingent rentals of $33,051, $32,143, and $29,679 in fiscal 2005, 2004 and 2003, respectively.

During fiscal 2005, the Company sold the land and buildings on 36 owned stores to several outside entities. Proceeds from these sales totaled $94,151. The Company entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. The leases are being accounted for as operating leases. Gains on these transactions of $14,500 have been deferred and are being recorded over the related minimum lease terms. Losses of $3,151, which relate to certain stores in these transactions, were recorded as losses on the sale of assets and investments for the year ended February 26, 2005.

The Company also leases certain facilities through sale-leaseback arrangements accounted for using the financing method. The net book values of assets under capital leases and sale-leasebacks accounted for under the financing method at February 26, 2005 and February 28, 2004 are summarized as follows:

	2005	2004
Land	$ 5,108	$ 11,209
Buildings	166,057	170,154
Equipment	11,353	12,187
Accumulated depreciation	(60,322)	(52,765)
	$122,196	$140,785

Following is a summary of lease finance obligations at February 26, 2005 and February 28, 2004:

	2005	2004
Obligations under capital leases	$168,285	$183,169
Less current obligation	(9,262)	(12,831)
Long-term lease finance obligations	$159,023	$170,338

Following are the minimum lease payments net of sublease income that will have to be made in each of the years indicated based on non-cancelable leases in effect as of February 26, 2005:

Fiscal year	Lease Financing Obligations	Operating Leases
2006	$ 24,014	$ 551,800
2007	23,505	525,984
2008	23,204	491,176
2009	21,739	456,381
2010	20,548	429,522
Later years	162,572	3,258,714
Total minimum lease payments	$ 275,582	$5,713,577
Amount representing interest	(107,297)	
Present value of minimum lease payments	$ 168,285	

12. Redeemable Preferred Stock

In March 1999 and February 1999, Rite Aid Lease Management Company, a wholly owned subsidiary of the Company, issued 63,000 and 150,000 shares of Cumulative Preferred Stock, Class A, par value $100 per share, respectively. The Class A Cumulative Preferred Stock is mandatorily redeemable on April 1, 2019 at a redemption price of $100 per share plus accumulated and unpaid dividends. The Class A Cumulative Preferred Stock pays dividends quarterly at a rate of 7.0% per annum of the par value of $100 per share when, as and if declared by the Board of Directors of Rite Aid Lease Management Company in its sole discretion. The amount of dividends payable in respect of the Class A Cumulative Preferred Stock may be adjusted under certain events. The outstanding shares of the Class A Preferred Stock were recorded at their estimated fair value of $19,253 for the fiscal 2000 issuances, which equaled the sale price on the date of issuance. Because the fair value of the Class A Preferred Stock was less than the mandatory redemption amount at issuance, periodic accretions to stockholders' equity using the interest method are made so that the carrying amount

equals the redemption amount on the mandatory redemption date. Accretion was $102 in fiscal 2005, 2004 and 2003. Pursuant to the adoption of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liability and Equity", this instrument is recorded in Other Non-Current Liabilities as of February 26, 2005 and February 28, 2004.

13. Capital Stock

During the fourth quarter of fiscal 2005, the Company issued 2,500 shares of Series E Mandatory Convertible preferred stock ("Series E preferred stock") at an offering price of $49 per share. Dividends on the Series E preferred stock are $3.50 per share per year, and are due and payable on a quarterly basis beginning on May 2, 2005. The dividends are payable in either cash or common stock or a combination thereof at our election. The Series E preferred stock will automatically convert into common stock on February 1, 2008 at a rate that is dependent upon the adjusted applicable market value of the Company's common stock (as defined in the Series E preferred stock agreement). If the adjusted applicable market value of the Company's common stock is $5.36 a share or higher at the conversion date, then the Series E preferred stock is convertible at a rate of 9.3284 shares (or higher) of the Company's common stock for every share of Series E preferred stock outstanding. If the adjusted applicable market value of the Company's common stock is less than or equal to $3.57 per share at the conversion date, then the Series E preferred stock is convertible at a rate of 14.0056 shares of the Company's common stock for every share of Series E preferred stock outstanding. If the adjusted applicable market value of the Company's common stock is between $3.57 per share and $5.36 per share at the conversion date, then the Series E preferred stock is convertible into common stock at a rate that is between 14.0056 and 9.3284 shares. The Series E preferred stock is also convertible at the Company's option, but only if the adjusted applicable market value of the Company's common stock exceeds $8.04.

Proceeds of $120,000, net of estimated issuance cost of $2,500, from the offering of the Company's Series E preferred stock were used to redeem 1,040 shares of the Company's Series D preferred stock. In accordance with the provisions of the Series D stock agreement, the Company paid a premium of 105% of the liquidation preference of $100 per share. The total premium was $5,650 million and was recorded as a reduction to accumulated deficit in the year ended February 26, 2005. Subsequent to the issuance of the Series E preferred stock, the Company exchanged the remaining 3,483 shares of Series D preferred stock for equal amounts of Series F, G and H preferred stock. The Series F, G and H preferred stock have substantially the same terms as the Series D preferred stock, except for differences in dividend rates and redemption features. The Series F preferred stock pays dividends at 8% of liquidation preference and can be redeemed at the Company's election at any point after issuance. The Series G preferred stock pays dividends at 7% of liquidation preference and can be redeemed at the Company's election after January 2009. The Series H preferred stock pays dividends of 6% of liquidation preference and can be redeemed at the Company's election after January 2010. All dividends can be paid in either cash or in additional shares of preferred stock, at the election of the Company. Any redemptions are at 105% of the liquidations preference of $100 per share, plus accrued and unpaid dividends. The Series F, G, and H shares are all convertible into common stock of the Company, at the holder's option, at a conversion rate of $5.50 per share.

As of February 26, 2005, the authorized capital stock of the Company consists of 1,000,000 shares of common stock and 20,000 shares of preferred stock, each having a par value of $1.00 per share. Preferred stock is issued in series, subject to terms established by the Board of Directors.

14. Stock Option and Stock Award Plans

The Company reserved 22,000 shares of its common stock for the granting of stock options and other incentive awards to officers and key associates under the 1990 Omnibus Stock Incentive Plan

(the 1990 Plan), which was approved by the shareholders. Options may be granted, with or without stock appreciation rights ("SAR"), at prices that are not less than the fair market value of a share of common stock on the date of grant. The exercise of either a SAR or option automatically will cancel any related option or SAR. Under the 1990 Plan, the payment for SARs will be made in shares, cash or a combination of cash and shares at the discretion of the Compensation Committee.

In November 1999, the Company adopted the 1999 Stock Option Plan (the 1999 Plan), under which 10,000 shares of common stock are authorized for the granting of stock options at the discretion of the Board of Directors.

In December 2000, the Company adopted the 2000 Omnibus Equity Plan (the 2000 Plan) under which 22,000 shares of common stock are reserved for granting of restricted stock, stock options, phantom stock, stock bonus awards and other stock awards at the discretion of the Board of Directors.

In February 2001, the Company adopted the 2001 Stock Option Plan (the 2001 Plan) which was approved by the shareholders under which 20,000 shares of common stock are authorized for granting of stock options at the discretion of the Board of Directors.

In April 2004, the Board of Directors adopted the 2004 Omnibus Equity Plan, which was approved by the shareholders. Under the plan, 20,000 shares of common stock are authorized for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the direction of the Board of Directors.

All of the plans provide for the Board of Directors (or at its election, the Compensation Committee) to determine both when and in what manner options may be exercised; however, it may not be more than 10 years from the date of grant. All of the plans provide that stock options may be granted at prices that are not less than the fair market value of a share of common stock on the date of grant. The aggregate number of shares authorized for issuance for all plans is 71,017 as of February 26, 2005.

The Company has issued 9,122 options to certain senior executives pursuant to their individual employment contracts. These options were not issued out of the plans listed above, but are included in the option tables herein.

Stock Options

Following is a summary of stock option transactions for the fiscal years ended February 26, 2005, February 28, 2004 and March 1, 2003:

	Shares	Weighted Average Price Per Share
Balance, March 2, 2002	60,759	$ 6.18
Granted	10,033	2.36
Exercised	(101)	2.75
Cancelled	(6,015)	12.41
Balance, March 1, 2003	64,676	5.01
Granted	4,687	4.65
Exercised	(1,291)	2.82
Cancelled	(6,077)	8.54
Balance, February 28, 2004	61,995	4.72
Granted	6,220	5.22
Exercised	(1,105)	2.78
Cancelled	(2,179)	5.50
Balance, February 26, 2005	64,931	$ 4.78

For various price ranges, weighted average characteristics of outstanding stock options at February 26, 2005 were as follows:

	Outstanding Options			Exercisable Options	
Range of exercise prices	Number Outstanding as of February 26, 2005	Remaining life (years)	Weighted Average Price	Shares	Weighted Average Price
$1.98 to $2.26	8,223	7.37	$ 2.17	5,289	$ 2.19
$2.30 to $2.70	3,289	7.60	$ 2.55	1,570	$ 2.55
$2.71 to $2.75	14,186	4.98	$ 2.75	14,174	$ 2.75
$3.00 to $3.69	1,562	7.31	$ 3.41	878	$ 3.32
$3.73 to $4.05	18,763	5.96	$ 4.05	18,575	$ 4.05
$4.06 to $5.38	7,977	7.36	$ 5.12	3,545	$ 5.20
$5.40 to $8.56	8,058	7.43	$ 6.93	3,819	$ 7.79
$9.25 to $45.56	2,859	2.66	$23.21	2,859	$23.21
$48.56 to $48.56	11	3.86	$48.56	11	$48.56
$48.81 to $48.81	3	3.86	$48.81	3	$48.81
$1.98 to $48.81	64,931	6.25	$ 4.78	50,723	$ 4.89

At February 28, 2004 and March 1, 2003, the amount of exercisable options and corresponding weighted average price per share was 46,928 and $4.98 and 38,725 and $5.70, respectively.

In November 2000, the Company reduced the exercise price of 16,684 options and issued after December 4, 1999 to $2.75 a share, which represents the fair market value of a share of common stock on the date of the repricing. In connection with the repricing, the Company recognized compensation expense for these options using variable plan accounting in fiscal 2003. Under variable plan accounting, the Company recognized compensation expense over the option vesting period. In addition, subsequent changes in the market value of the Company's common stock during the option period, or until exercised, generated changes in the compensation expense recognized on the repriced options. The Company recognized a reduction of expense of approximately $2,497 during fiscal 2003, related to the repriced options. As described in Note 1, the Company adopted SFAS No. 123

"Accounting for Stock – Based Compensation" effective March 2, 2003, and therefore recorded compensation expense in fiscal 2005 and 2004 for all options using the fair value method under the modified prospective approach.

Restricted Stock

The Company provides restricted stock grants to associates under plans approved by the stockholders. Shares awarded under the plans vest in installments up to three years and unvested shares are forfeited upon termination of employment. Additionally, vesting of certain of the shares awarded is conditional upon the Company meeting specified performance targets. The Company made the following grants during fiscal 2005, 2004 and 2003:

Following is a summary of restricted stock transactions for the fiscal years ended February 26, 2005, February 28, 2004, and March 1, 2003.

	Shares	Weighted Average Price Per Share
Balance, March 2, 2002	65	8.56
Granted	—	—
Vested	(22)	8.56
Cancelled	—	—
Balance, March 1, 2003	43	8.56
Granted	185	5.44
Vested	(22)	8.56
Cancelled	—	—
Balance, February 28, 2004	206	5.77
Granted	6,232	4.65
Vested	(83)	6.25
Cancelled	(1,884)	5.37
Balance, February 26, 2005	4,471	4.37

Compensation expense related to all restricted stock grants is being recorded over a one to three year vesting period of these grants. For the years ended February 26, 2005, February 28, 2004 and March 1, 2003, the Company recognized expense of $2,311, $693 and $7,333, respectively, related to restricted share awards.

Stock Appreciation Units

The Company has issued stock appreciation units to various members of field management. The grant price for each unit is the closing price of the Company's common stock on the date of grant. The units vest four years from the date of grant. For each outstanding unit, the Company was obligated to pay out the difference between the grant price and the average market price of one share of the Company's common stock for the last twenty trading days before the vesting date. The payment could have been in cash or shares, at the discretion of the Company; however, the Company historically made cash payments. The Company's obligations under the stock appreciation units were remeasured at each balance sheet date and amortized to compensation expense over the vesting period.

At March 1, 2003, there were approximately 2,990 stock appreciation rights units outstanding, which were paid during fiscal 2004. As of February 26, 2005, the Company had no stock appreciation units left outstanding. Amounts expensed relating to the stock appreciation rights units for fiscal 2005, 2004 and 2003 were $0, $1,062 and $0, respectively.

15. Retirement Plans

Defined Contribution Plans

The Company and its subsidiaries sponsor several retirement plans that are primarily 401(k) defined contribution plans covering salaried associates and certain hourly associates. The Company does not contribute to all of the plans. Effective January 1, 2002, the Company significantly improved the Company's match for its principal 401(k) plan. During fiscal 2003, the Company committed to maintaining the current level of benefits in its principal 401(k) plan through December 31, 2006. Total expenses recognized for the above plans was $30,358 in 2005, $29,855 in 2004 and $29,878 in 2003.

Senior executive officers are entitled to supplemental retirement arrangements in accordance with their employment agreements, which vest monthly. The Company makes monthly investments to fund obligations. Other officers, who are not participating in the defined benefit nonqualified executive retirement plan, are included in a supplemental retirement plan, which is a defined contribution plan that is subject to a five year graduated vesting schedule. The Company makes annual investments to fund the obligations. The expenses recognized for these plans was $5,170 in 2005, $5,084 in 2004 and $2,064 in 2003.

Defined Benefit Plans

The Company and its subsidiaries also sponsor a qualified defined benefit pension plan that requires benefits to be paid to eligible associates based upon years of service and, in some cases, eligible compensation. Prior to February 28, 2002, the Company and its subsidiaries sponsored four separate qualified defined benefit pension plans. However, effective February 28, 2002, the Company merged these four plans into a single plan, the Rite Aid Pension Plan (the "Defined Benefit Pension Plan"). The Company merged these plans to take advantage of financial and administrative economies of scale; the merger had no effect on the benefits provided to eligible employees. The Company's funding policy for the Defined Benefit Pension Plan is to contribute the minimum amount required by the Employee Retirement Income Security Act of 1974. The Company made no discretionary contributions in fiscal 2005. In fiscal 2004, the Company made a discretionary contribution of $5,000.

The Company has established the nonqualified executive retirement plan for certain officers who, pursuant to their employment agreements, are not participating in the defined contribution suplemental retirement plan. Generally, eligible participants receive an annual benefit, payable monthly over fifteen years, equal to a percentage of the highest base salary and highest bonus paid or accrued for each participant within the ten fiscal years prior to the date of the event giving rise to payment of the benefit. This defined benefit plan is unfunded. In fiscal 2004 and 2003, the Company determined that the obligation for certain former executives that had either been indicted by the U.S. Attorney's office, or had pleaded guilty to certain criminal charges, were no longer binding. Therefore, the Company recorded a settlement benefit, due to the elimination of these obligations.

The Company uses a February 28 measurement date for the majority of its plans.

Net periodic pension expense for the defined benefit plans included the following components:

	Defined Benefit Pension Plans			Nonqualified Executive Retirement Plan		
	2005	2004	2003	2005	2004	2003
Service cost	$ 2,843	$ 2,614	$ 2,486	$ 71	$ 85	$ 158
Interest cost	4,844	4,615	4,492	1,241	1,450	2,641
Expected return on plan assets	(2,687)	(1,481)	(3,492)	—	—	—
Amortization of unrecognized net transition (asset)/obligation	—	—	(19)	87	87	87
Amortization of unrecognized prior service cost	669	452	458	—	—	—
Amortization of unrecognized net loss	1,862	3,287	1,047	387	335	394
Curtailment and settlement	—	—	—	—	(5,222)	(10,376)
Change due to plan amendment	—	—	—	—		156
Net pension expense (credit)	$ 7,531	$ 9,487	$ 4,972	$1,786	$(3,265)	$ (6,940)

The table below sets forth a reconciliation from the beginning of the year for both the benefit obligation and plan assets of the Company's defined benefits plans, as well as the funded status and amounts recognized in the Company's balance sheet as of February 26, 2005 and February 28, 2004:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plan	
	2005	2004	2005	2004
Change in benefit obligations:				
Benefit obligation at end of prior year	$ 81,907	$ 71,905	$ 21,724	$ 27,046
Service cost	2,843	2,614	71	85
Interest cost	4,844	4,615	1,241	1,450
Distributions	(6,382)	(5,088)	(2,074)	(2,110)
Settlements	—	—	—	(5,222)
Change due to change in assumptions	2,909	5,049	227	503
Change due to plan amendment	2,088	1,706	—	—
Actuarial (gain) or loss	964	1,106	267	(28)
Benefit obligation at end of year	$ 89,173	$ 81,907	$ 21,456	$ 21,724
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 59,985	$ 50,566	$ —	$ —
Employer contributions	4,438	5,000	2,074	2,110
Actual return on plan assets	7,201	11,315	—	—
Distributions (including expenses paid by the plan)	(7,974)	(6,896)	(2,074)	(2,110)
Fair value of plan assets at end of year	$ 63,650	$ 59,985	$ —	$ —
Funded status	$(25,523)	$(21,922)	$(21,456)	$(21,724)
Unrecognized net loss	20,975	21,887	260	1,705
Unrecognized prior service cost	4,272	2,852	—	—
Unrecognized net transition loss obligation	—	—	1,813	347
Prepaid or (accrued) pension cost recognized	$ (276)	$ 2,817	$(19,383)	$(19,672)
Amounts recognized in consolidated balance sheets consisted of:				
Prepaid pension cost	$ —	$ 2,817	$ —	$ —
Accrued pension liability	(25,001)	(24,288)	(21,195)	(21,462)
Pension intangible asset	4,272	2,852	260	347
Accumulated other comprehensive income	20,453	21,436	1,552	1,443
Net amount recognized	$ (276)	$ 2,817	$(19,383)	$(19,672)

The increase in minimum liability included in other comprehensive income was as follows:

	Defined Benefit Pension Plans		Nonqualified Executive Retirement Plan	
	2005	2004	2005	2004
Increase (decrease) in minimum liability included in other comprehensive income	$(983)	$(5,163)	$109	$24

The accumulated benefit obligation for all defined benefit pension plans was $109,847 and $102,918 as of February 26, 2005 and February 28, 2004, respectively.

The significant actuarial assumptions used for all defined benefit pension plans to determine the benefit obligation as of February 26, 2005, February 28, 2004, and March 1, 2003 were as follows:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2005	2004	2003	2005	2004	2003
Discount rate	5.75%	6.00%	6.50%	5.75%	6.00%	6.50%
Rate of increase in future compensation levels	4.50	4.50	4.50	3.00	3.00	3.00

Weighted average assumptions used to determine net cost for years ended February 26, 2005, February 28, 2004 and March 1, 2003 were:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2005	2004	2003	2005	2004	2003
Discount rate	6.00%	6.50%	7.00%	6.00%	6.32%	7.18%
Rate of increase in future compensation levels	4.50	4.50	4.50	3.00	3.00	3.00
Expected long-term rate of return on plan assets	8.00	8.00	8.00	N/A	N/A	N/A

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.00% long-term rate of return on assets assumption for fiscal 2005, 2004 and 2003.

The Company's pension plan asset allocations at February 26, 2005 and February 28, 2004 by asset category were as follows:

	February 26, 2005	February 28, 2004
Equity securities	67%	68%
Debt securities	33%	32%
Total	100%	100%

The investment objectives of the Defined Benefit Pension Plan, the only defined benefit plan with assets, are to:

- Achieve a rate of return on investments that exceeds inflation by at least 4% over a full market cycle, consistent with actuarial assumptions;
- Diversify the portfolio among various asset classes with the goal of reducing volatility of return (risk), and among various issuers of securities to reduce principal risk;

- Maintain liquidity in the portfolio sufficient to meet plan obligations as they come due; and
- Control administrative and management costs.

The asset allocation established for the pension investment program reflects the risk tolerance of the Company, as determined by:

- The current and anticipated financial strength of the Company;
- the funded status of the plan; and
- plan liabilities.

Exposure to both the equity and fixed income markets will be maintained, recognizing that historical results indicate that equities (primarily common stocks) have higher expected returns than fixed income investments. It is also recognized that the expected higher equity returns may be accompanied by higher volatility of equity asset values. The proportion of total assets allocated to equity investments will be a major determinant of the risk level of the investment program.

The following targets are to be applied to the allocation of plan assets.

Category	Target Allocation
U.S. equities	50%
International equities	15%
U.S. fixed income	25%
High yield fixed income	10%
Total	100%

The Company expects to contribute $4,670 to the Defined Benefit Pension Plan and $2,240 to the Nonqualified Executive Retirement Plan during fiscal 2006.

Following are the future benefit payments expected to be paid for the Defined Benefit Pension Plan and the Nonqualified Executive Retirement Plans during the years indicated:

Fiscal Year	Defined Benefit Pension Plan	Nonqualified Executive Retirement Plans
2006	$ 4,670	$ 2,240
2007	4,812	2,227
2008	4,972	2,220
2009	5,140	2,214
2010	5,376	1,985
2011 – 2015	29,976	8,875
Total	$54,946	$19,761

Other Plans

The Company participates in various multi-employer union pension plans that are not sponsored by the Company. Total expenses recognized for the multi-employer plans were $11,750 in 2005, $9,682 in 2004 and $5,781 in 2003.

16. Commitments, Contingencies and Guarantees

Legal Proceedings

Federal investigations

There are currently pending federal governmental investigations, both civil and criminal, by the United States Attorney, involving various matters related to prior management's business practices. The Company is cooperating fully with the United States Attorney. The Company has begun settlement discussions with the United States Attorney for the Middle District of Pennsylvania. The United States Attorney has proposed that the government would not institute any criminal proceeding against the Company if it enters into a consent judgement providing for a civil penalty payable over a period of years. The amount of the civil penalty has not been agreed to and there can be no assurance that a settlement will be reached or that the amount of such penalty will not have a material adverse effect on the Company's financial condition and results of operations. The Company has recorded an accrual of $20,000 in fiscal 2003 in connection with the resolution for these matters; however, the Company may incur charges in excess of that amount and is unable to estimate the possible range of loss. The Company will continue to evaluate its estimate and to the extent that additional information arises or its strategy changes, the Company will adjust the accrual accordingly.

These investigations and settlement discussions are ongoing and the Company cannot predict their outcomes. If the Company was convicted of any crime, certain licenses and government contracts such as Medicaid plan reimbursement agreements that are material to the Company's operations may be revoked, which would have a material adverse effect on the Company's results of operations, financial condition or cash flows. In addition, substantial penalties, damages or other monetary remedies assessed against the Company, including a settlement, could also have a material adverse effect on the Company's results of operations, financial condition or cash flows.

Other

In June 2000, the Company was sued by the Lemelson Foundation in a complaint which alleges that portions of the technology included in the Company's point-of-sale system infringe upon a patent held by the plaintiffs. The Lemelson Foundation has brought a similar suit against a significant number of major U.S. retailers. The amount of damages sought is unspecified and may be material. Management cannot predict the outcome of this litigation or whether it could result in a material adverse effect on the Company's results of operations, financial conditions or cash flows.

The Company is subject from time to time to lawsuits arising in the ordinary course of business. In the opinion of the Company's management, these matters are adequately covered by insurance or, if not so covered, are without merit or are of such nature or involve amounts that would not have a material adverse effect on its financial conditions, results of operations or cash flows if decided adversely.

Guaranteed Lease Obligations

In connection with certain business dispositions, the Company continues to guarantee lease obligations for 109 former stores. The respective purchasers assume the Company's obligations and are, therefore, primarily liable for these obligations. Assuming that each respective purchaser became insolvent, an event which the Company believes to be highly unlikely, management estimates that it could settle these obligations for amounts substantially less than the aggregate obligation of $217,759 as of February 26, 2005. The obligations are for varying terms dependent upon the respective lease, the longest of which lasts through January 1, 2021.

In the opinion of management, the ultimate disposition of these guarantees will not have a material effect on the Company's results of operations, financial position or cash flows.

17. Supplementary Cash Flow Data

	Year Ended		
	February 26, 2005	February 28, 2004	March 1, 2003
Cash paid for interest (net of capitalized amounts of $250, $133 and $301)	$274,964	$295,235	$287,707
Cash (refunds from) paid for income taxes	$(24,557)	$ 7,539	$(68,668)
Equipment financed under capital leases	$ 12,349	$ 17,828	$ 544
Equipment received for noncash consideration	$ 1,439	$ 24,781	$ —
Preferred stock dividends paid in additional shares	$ 34,441	$ 24,098	$ 32,201
Exchange of preferred shares	$348,243	$ —	$ —

18. Related Party Transactions

Included in other assets at February 26, 2005 and February 28, 2004 were receivables from related parties of $1,025, and $589.

On May 27, 2001, the Company amended the employment agreements of Robert Miller, currently Chairman of the Board, and Mary Sammons, currently President and Chief Executive Officer, to provide for the payment, subject to certain conditions, of bonuses representing the difference between the amounts called for under their severance agreements from a former employer and the amounts they actually receive. In January 2002, the Company made payments of $5,971 to Mr. Miller and $1,931 to Ms. Sammons for these bonuses. The bonuses were repayable to the extent of each executive's recovery of severance due from the former employer. The Company recorded the payment to Mr. Miller as recoverable, as a summary judgment had been filed by the courts in his favor. In December 2003, the case was resolved in Mr. Miller's favor, and the Company received a full reimbursement of the advanced funds from Mr. Miller. The Company expensed the payment to Ms. Sammons over the term of her employment contract. In February 2004, an arbitrator awarded Ms. Sammons $997. The Company received reimbursement of $696 from Ms. Sammons in March 2004, and received the remaining $301 by the end of fiscal 2005.

During fiscal 2005, the Company redeemed 1,040 shares of the Company's Series D preferred stock, which is held by Green Equity Investors, III, L.P. The remaining 3,483 shares of Series D preferred stock were exchanged for Series F, G, and H preferred stock, which are also held by Green Equity Investors, III, L.P. The Series F, G, and H preferred stock have substantially the same terms as the Series D preferred stock, except for differences in dividend rates and redemption features, as discussed further in Note 13.

During fiscal 2005, 2004 and 2003, the Company paid Leonard Green & Partners, L.P., fees of $875, $990 and $1,167 for financial advisory services, respectively. Jonathan D. Sokoloff and John G. Danhakl, two directors, are equity owners of Leonard Green & Partners, L.P. The Company has entered into a one year agreement with Leonard Green & Partners, L.P., effective January 1, 2005, as amended whereby the Company has agreed to pay Leonard Green & Partners, L.P., an annual fee of $300 for its consulting services. The consulting agreement also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green & Partners, L.P. This agreement is an extension of the Company's existing consulting agreement with Leonard Green & Partners, L.P.

During fiscal 2004 and 2003, the Company incurred $64 and $47, respectively, in legal fees payable to Janice Jackson, the sister of Mary F. Sammons, for representation of Ms. Sammons in a dispute concerning her employment agreement with a former employer.

19. Interim Financial Results (Unaudited)

	Fiscal Year 2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$4,244,357	$4,123,906	$4,107,336	$4,340,840	$16,816,439
Cost of goods sold, including occupancy costs	3,191,456	3,098,211	3,098,555	3,220,766	12,608,988
Selling, general and administrative expenses	912,845	926,153	909,016	973,428	3,721,442
Store closing and impairment (credits) charges	(4,595)	13,461	2,397	24,392	35,655
Interest expense	77,801	76,519	70,653	69,898	294,871
(Gain) loss on debt modifications and retirements, net	—	(791)	20,216	(196)	19,229
(Gain) loss on sale of assets and investments, net	(1,918)	(254)	849	3,570	2,247
	4,175,589	4,113,299	4,101,686	4,291,858	16,682,432
Income before income taxes	68,768	10,607	5,650	48,982	134,007
Income tax expense (benefit)	5,049	728	5,362	(179,610)	(168,471)
Net income	$ 63,719	$ 9,879	$ 288	$ 228,592	$ 302,478
Basic income (loss) per share[(1)]	$ 0.11	$ 0.00	$ (0.02)	$ 0.41	$ 0.50
Diluted income (loss) per share[(1)]	$ 0.10	$ 0.00	$ (0.02)	$ 0.35	$ 0.47

	Fiscal Year 2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$4,046,168	$4,052,091	$4,105,844	$4,396,346	$16,600,449
Cost of goods sold, including occupancy costs	3,068,214	3,087,771	3,105,333	3,307,411	12,568,729
Selling, general and administrative expenses	899,568	902,199	893,117	929,342	3,624,226
Store closing and impairment charges (credits)	6,246	(9,002)	3,055	21,775	22,074
Interest expense	78,958	79,409	77,718	77,413	313,498
Loss on debt modifications and retirements, net	33,427	1,888	—	—	35,315
Loss (gain) on sale of assets and investments, net	(1,504)	342	879	2,306	2,023
	4,084,909	4,062,607	4,080,102	4,338,247	16,565,865
Income (loss) before income taxes	(38,741)	(10,516)	25,742	58,099	34,584
Income tax benefit	—	—	(47,518)	(1,277)	(48,795)
Net income (loss)	$ (38,741)	$ (10,516)	$ 73,260	$ 59,376	$ 83,379
Basic income (loss) per share[(1)]	$ (0.08)	$ (0.04)	$ 0.13	$ 0.10	$ 0.11
Diluted income (loss) per share[(1)]	$ (0.08)	$ (0.04)	$ 0.12	$ 0.09	$ 0.11

(1) Income (loss) per share amounts for each quarter may not necessarily total to the yearly income (loss) per share due to the weighting of shares outstanding on a quarterly and year-to-date basis.

Certain reclassifications have been made to prior period amounts to conform to current period classifications.

During the fourth quarter of fiscal 2005, the Company recorded an income tax benefit of $179,500 from the reduction of a valuation allowance for deferred tax assets. The Company recorded a credit of $36,195 in costs of goods sold for an adjustment in LIFO pricing that was triggered by a decrease in pricing indices caused by generic drug deflation. The Company recorded $24,392 in store closing and impairment charges.

During the third quarter of fiscal 2005, the Company recorded a loss on debt modification of $20,216 related to the placement of its new senior secured credit facility and accounts receivable securitization agreement. The Company recorded $13,083 of non-recurring gains in selling, general and administrative expenses related to favorable litigation payments.

During the fourth quarter of fiscal 2004, the Company incurred $21,775 in store closing and impairment charges. The Company recorded $12,550 of non-recurring gains in selling, general and administrative expenses related to favorable litigation payments.

During the third quarter of fiscal 2004, the Company recorded a non-recurring income tax benefit, driven by the approval by the Congressional Joint Committee on Taxation on the conclusions of the Internal Revenue Service examination of the Company's federal tax returns for the fiscal years 1996 through 2000.

During the first quarter of fiscal 2004, the Company recorded a loss on debt modification of $43,197 related to the placement of its new senior secured credit facility.

20. Financial Instruments

The carrying amounts and fair values of financial instruments at February 26, 2005 and February 28, 2004 are listed as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	$ 448,875	$ 448,875	$1,150,000	$1,150,000
Fixed rate indebtedness	$2,694,176	$2,665,951	$2,558,497	$2,640,995

Cash, trade receivables and trade payables are carried at market value, which approximates their fair values due to the short-term maturity of these instruments.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

LIBOR-based borrowings under credit facilities:

The carrying amounts for LIBOR-based borrowings under the credit facilities, term loans and term notes approximate their fair values due to the short-term nature of the obligations and the variable interest rates.

Long-term indebtedness:

The fair values of long-term indebtedness is estimated based on the quoted market prices of the financial instruments. If quoted market prices were not available, the Company estimated the fair value based on the quoted market price of a financial instrument with similar characteristics.

RITE AID CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended February 26, 2005, February 28, 2004 and March 1, 2003
(dollars in thousands)

Allowances deducted from accounts receivable for estimated uncollectible amounts:	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended February 26, 2005	$35,054	$48,368	$32,610	$50,812
Year ended February 28, 2004	35,711	29,437	30,094	35,054
Year ended March 1, 2003	31,039	36,904	32,232	35,711

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RITE AID CORPORATION
By: /s/ MARY F. SAMMONS
Mary F. Sammons
President and Chief Executive Officer

Dated: April 29, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their respective capacities on April 29, 2005.

Signature	Title
/s/ ROBERT G. MILLER Robert G. Miller	Chairman of the Board of Directors
/s/ MARY F. SAMMONS Mary F. Sammons	Chief Executive Officer, President, and Director
/s/ JOHN T. STANDLEY John T. Standley	Chief Financial Officer, Chief Administrative Officer, and Senior Executive Vice President
/s/ KEVIN TWOMEY Kevin Twomey	Chief Accounting Officer and Senior Vice President
/s/ JOHN G. DANHAKL John G. Danhakl	Director
/s/ MICHAEL A. FRIEDMAN, MD Michael A. Friedman, MD	Director
/s/ ALFRED M. GLEASON Alfred M. Gleason	Director
/s/ GEORGE G. GOLLEHER George G. Golleher	Director
/s/ COLIN V. REED Colleen V. Reed	Director
/s/ PHILIP G. SATRE Philip G. Satre	Director
/s/ STUART M. SLOAN Stuart M. Sloan	Director
/s/ JONATHAN D. SOKOLOFF Jonathan D. Sokoloff	Director

Certification of the CEO Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934

I, Mary F. Sammons, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles:

   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date : April 28, 2005

By: /s/ MARY F. SAMMONS
Mary F. Sammons
President and Chief Executive Officer

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Certification of the CFO Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934

I, John T. Standley, Senior Executive Vice President, Chief Administrative Officer and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Rite Aid Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 28, 2005

By: /s/ JOHN T. STANDLEY
John T. Standley
Senior Executive Vice President,
Chief Administrative Officer and
Chief Financial Officer

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Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Rite Aid Corporation (the "Company") for the annual period ended February 26, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Mary F. Sammons, as Chief Executive Officer of the Company, and John T. Standley, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of her/his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary F. Sammons

Name: Mary F. Sammons
Title: Chief Executive Officer
Date: April 28, 2005

/s/ John T. Standley

Name: John T. Standley
Title: Chief Financial Officer
Date: April 28, 2005