- **Letter to Stockholders**
- **Notice of 2006 Annual Meeting of Stockholders**
- **Proxy Statement**
- **2006 Annual Report on Form 10-K**

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our 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 efforts of private and public third-party payors to reduce prescription drug reimbursement and encourage mail order;
- competitive pricing pressures and continued consolidation of the drugstore industry;
- changes in state or federal legislation or regulations;
- the outcome of lawsuits and governmental investigations;
- general economic conditions and inflation, interest rate movements and access to capital; and
- other risks and uncertainties described elsewhere in this filing and from time to time in our other filings with the Securities and Exchange Commission ("the SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview and Factors Affecting Our Future Prospects" included in the Company's Annual Report on Form 10K for the fiscal year ended March 4, 2006.

To Our Fellow Stockholders, Customers and Associates,

Rite Aid completed fiscal 2006 with significant positive momentum as our pharmacy business turned around the second half of the year, and we posted solid non-pharmacy same store sales gains in all four quarters. These positive trends show that the strategic initiatives designed to grow our business and improve our long-term financial performance are working.

Our new health and wellness offerings, our focus on attracting more seniors with our "Living More" loyalty program and the successful launch by our pharmacists of the new Medicare prescription drug plan contributed to these improvements in sales. So did our effective promotional and seasonal programs, successful new product launches in beauty and our popular exclusive and private brands. From the latest health remedies to a large variety of non-pharmacy products, we're giving customers the support and merchandise they need to make every day a little easier. We're also giving them the tools they need to better manage their health.

Thanks to the efforts of our Rite Aid associates, we received higher marks for customer satisfaction this past year, which also contributed to our sales growth. Using an interactive telephone survey, we ask customers daily to rate their shopping experience at our stores. Overall satisfaction, especially the timeliness of filling prescriptions, improved significantly, and we're committed to continuing to improve the shopping experience. We appreciate that thousands of our customers took the time during National Pharmacist Month last October to write and tell us about the great service they get from their Rite Aid pharmacist.

But innovative products and satisfying customers are only part of the equation. Execution at the store level is another, which is why in fiscal 2006 we created a more cohesive and effective operations organization by putting all functions that impact the stores under Jim Mastrian, our new Chief Operating Officer. Jim's already having a positive impact and has added a Regional Vice President of Pharmacy to each of our 16 operating regions to intensify our focus on that side of our business. Increasing our geographic operating divisions from three to four also provides more management support for achieving operational excellence in the more than 3,300 Rite Aid stores.

Critical to our long-term strategy is our new store development program, which continued to ramp up in fiscal 2006 as we added 76 new and relocated stores and built the pipeline for approximately 125 more in fiscal 2007. Our goal is to open an increasing number of new stores each year so that we add 800 to 1,000 new and relocated stores by the end of fiscal 2010. Just as we're creating a new kind of drugstore with our health and wellness offerings, we're creating a new kind of drugstore with our new "Customer World" store design. With its wide aisles, clearly marked departments, creative displays and pharmacy as the star, it's not surprising that we're getting rave reviews. We're also happy to report that relocating an older Rite Aid store to a new "Customer World" has resulted in double-digit sales increases.

We are well positioned to execute this new store development as well as our other growth plans. With the amendment of our senior credit facility last year, we finished fiscal 2006 with lower interest expense, increased liquidity and more capital available to invest in our business.

It's important to mention one other significant event, which occurred at the end of last year. The U.S. Attorney's Office notified us that it ended its investigation into Rite Aid related to the business practices of previous management under former CEO Martin Grass with no fine to the company. We're pleased to note that one of the reasons cited for this decision was the "exemplary cooperation of the company during the investigation" which "did everything we asked of them, and then some."

That's a brief look at where we've been. We know investors also want to know where we're going. So we've answered the questions they ask us most often.

How does Rite Aid plan to compete with other drugstore chains that are building and acquiring stores more aggressively?

Our new store growth will be focused in Rite Aid's most strategic markets—markets like Baltimore, Philadelphia, Pittsburgh, New York and Los Angeles—to protect and grow our already strong market share. Building in existing markets gives us a faster return on investment than entering new ones by leveraging already existing expenses like field management, distribution and advertising. About 50 percent of our planned openings will be relocations of existing stores, which turn profitable more quickly than brand-new builds. But building our own stores is not the only way we are using our capital to grow. We also have an aggressive program to buy prescription files from pharmacies that want to close and move those prescriptions—and often the pharmacy staff—to a nearby Rite Aid. And we'll continue to evaluate acquisition opportunities as they become available. We also plan to continue our successful operational and marketing programs to combat competitive openings and support priority markets.

You talk a lot about health and wellness. What does that mean and why are these offerings so important to Rite Aid?

They are important to Rite Aid because they are important to our customers. People today more than ever want to stay fit and improve or maintain their quality of life. Focusing on health and wellness sets us apart from other drugstores.

At a Rite Aid store you can get advice on how to manage your diabetes, soothe your allergies, improve your nutrition and help prevent heart disease. This year you'll also be able to learn how to protect yourself from skin cancer and better manage your weight. Programs focused on specific health conditions like these reinforce the expertise of our pharmacists as health care providers and provide an opportunity for us to market related products.

If you're enrolled in our "Living More" senior loyalty program, for example, our pharmacists will send you a quarterly newsletter with advice and offers related to your particular health care needs. "Living More," with nearly 2 million seniors now enrolled, gives us a competitive advantage in attracting new senior customers, especially with the launch of the new Medicare prescription drug benefit. As does our expanded home health care category, which now offers products like wheelchairs, canes and bath grab bars to cater to the mobility and safety concerns of this fast growing market.

And to help our customers stay fit, there are now GNC Living Well stores in one-third of our stores. Besides offering a wide variety of nutritional and wellness products, they help differentiate us from our competitors. We'll continue to add them to more of our stores.

Convenience is a big factor when customers are looking to improve their health. That's why the in-store health clinics that opened in some of our stores in the Portland, Oregon market last year are so popular. This low-cost care for common family illnesses provided by certified nurse practitioners has attracted thousands of patients, and we're looking at adding services like this to more of our stores. We're also expanding our adult immunization program so that next month, customers can get basic shots directly from their neighborhood pharmacist at 600 Rite Aid stores.

Also growing is Rite Care, our medication therapy management (MTM) program where our pharmacists partner with physicians and the University of Pittsburgh to treat patients with chronic illness. While the demand for such highly personalized fee- for- service programs is just beginning, we are one of the few pharmacies in the nation with a scalable, replicable model. We'll be ready to expand as more private and government payors realize that MTM programs can reduce long-term health care costs, and they gain in popularity.

What are the main opportunities and threats you see impacting your business this year?

First, U.S. prescription sales will continue to grow in the mid-to-high single digits annually over the next five years, according to the research firm IMS Health. The U.S. population is aging, and older patients take more prescriptions. Doctors continue to emphasize drug therapy to prevent serious illness, and pharmaceutical manufacturers continue to spend billions of dollars to develop new drugs targeted at diseases like Alzheimer's, cancer and diabetes. The growth we've started to see in the use of specialty drugs is expected to be only the tip of the iceberg.

Besides this real growth, there are three unique industry events that will impact sales, but more importantly, impact margins in fiscal 2007. They are 1) the dramatic increase in new generic drugs coming to market the second half of 2006; 2) the new Medicare prescription drug benefit; and 3) potential dramatic cuts to retail pharmacy's reimbursement to fill Medicaid prescriptions.

On the positive side is the increase in new generic drugs expected this year as several blockbuster brand drugs with billions of dollars in annual sales are set to lose patent protection. This new generic competition means patients will be able to pay less for the same medication as the brand counterpart, and health plans will be able to pay less to cover the drug. This results in lower total sales for retail pharmacy, but more importantly, it drives higher margins. With our already industry-leading generic dispense rate, we are poised to take full advantage of this opportunity.

While the Medicare prescription drug benefit (known as Medicare Part D) means lower margins for retail pharmacy, we expect it will continue to drive additional senior prescriptions to Rite Aid as it has since the January launch. Seniors come to Rite Aid because of our knowledgeable pharmacists, our marketing programs with leading Part D plan providers Aetna, Humana, Coventry and United Healthcare, our "Living More" senior loyalty program and the convenience of going to their neighborhood drug store now that the price of the prescription is the same at any pharmacy in the same Part D plan. We expect that, long term, increased volume from Medicare Part D will make up for the lower reimbursement we receive for filling these prescriptions.

On the negative side is the dramatically reduced reimbursement retail pharmacy will receive for filling Medicaid prescriptions if the Deficit Reduction Bill passed by Congress goes into effect with the way the new reimbursement formula is currently defined. These cuts are set to start in January 2007. We're working with the rest of our industry to convince legislators at both the Federal and state levels that retail pharmacy needs to be fairly reimbursed for the Medicaid prescriptions it dispenses and the Medicaid patients it serves to make sure all of our patients continue to have full access to their neighborhood pharmacy.

What are you doing in fiscal 2007 to improve your performance?

Along with our new store development program, we're focused on improving the productivity of our existing stores. We know there is room to grow, with initiatives to increase sales and improve the Rite Aid shopping experience, while at the same time, better manage our expenses.

That's why we've set six critical priorities for fiscal 2007: growing pharmacy sales and prescription count, increasing non-pharmacy sales, improving customer *and* associate satisfaction because satisfied associates provide better service, improving operational execution, recruiting and retaining pharmacy talent and controlling costs.

Each priority is backed by a cross-functional team led by a member of senior management and charged with enhancing and developing initiatives to improve our business and deliver value to our stockholders. Here are a few examples:

- We'll continue our commitment to creating a new kind of drugstore, focused on health and wellness programs and services to attract both pharmacy and non-pharmacy customers. That includes new and better benefits in our "Living More" senior loyalty program, since "Living More"

members spend more at Rite Aid than other seniors, and the program positions us well to attract the millions of seniors who have not yet signed up for Medicare Part D.

- We'll build upon last year's success in improving the customer experience. We've set our goals higher this year, and we'll re-examine our hiring, training, workflow and complaint resolution procedures to make sure there's nothing standing in our way.
- To take maximum advantage of the higher margins of the new generic drugs coming to market, we'll market these new cost-saving drugs to patients, physicians and managed care payors and have additional plans in place to increase our already industry-leading generic dispense rate.
- We'll add 275 new items to our private and exclusive brands under the Rite Aid, Pure Spring, Big Fizz, SalonPlus and PharmAssure labels, which provide better value for our customers than the national brands and higher margins for us; and
- We'll focus on reducing costs with initiatives to improve inventory turns, strengthen safety programs, reduce inventory returns and lower utility costs.

What effect does your current debt level have on achieving your growth strategies?

In the last five years we've reduced our debt dramatically, from $6.6 billion at the end of 2000 to $3.1 billion today. This is an acceptable level for us, given the more immediate need to grow our store base, which we believe will bring a better return for our stockholders. Last year we amended our senior credit facility and put in place a $1.75 billion revolving credit facility. With ample liquidity, strong cash flow, a successful sale leaseback program and access to capital markets we expect to be able to fund all of our growth plans and cover our debt maturing later this year.

What keeps you up at night?

If we had to pick what worries us the most, it would be recruiting the best talent when there's so much competition for good people out there. This is especially true for pharmacy. Our worry may be overblown since our state-of-the-art pharmacy technology, the chance to improve patient care through innovative health and wellness programs and our new operations structure with more opportunity to move into management are all attractive to pharmacists. We also have excellent relationships with pharmacy schools as evidenced by our recent Education Connection Conference, which many of the deans of the top pharmacy schools attended. Nevertheless, to make sure we are recruiting and retaining the best talent, we've made it one of our critical priorities.

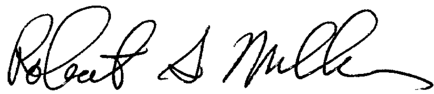
Speaking of talent, we thank the more than 70,000 Rite Aid associates for their hard work this past year. We are proud of their commitment to caring for our customers every day, and especially after Hurricane Katrina struck the Gulf Coast last year. Many quickly flew to the region, and Rite Aid associates across the country helped raise more than $1 million for the victims. Those living in Mississippi, Alabama and Louisiana deserve special recognition for working tirelessly to open mobile pharmacies and reopen stores to serve their neighbors, even when many had lost so much themselves. While Katrina had no material financial impact on Rite Aid, the impact of our associates' swift and caring response will be remembered in those communities for a long time to come.

Their response to this disaster is only one example of our associates' belief in our core value to "give back to the community in meaningful ways." Another is the nearly $4 million they raised for children's hospitals in the Children's Miracle Network. Many of them are also involved in the local charitable programs focusing on women, families and health that the Rite Aid Foundation supported with more than $1.1 million last year.

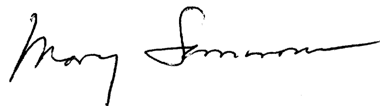
We thank our suppliers, who are terrific partners, and we appreciate their valuable input into improving our business, especially those who serve on our supplier advisory boards. We thank our customers for their loyalty and promise to keep focused on satisfying them more every day.

We thank our Board of Directors for their wise counsel and are pleased to have increased the diversity of our Board last year. We welcome the expertise of Marcy Syms, Joseph B. Anderson and Robert Mariano who joined last September and appreciate their desire to help guide our company forward. As part of our continuing commitment to effective corporate governance, our Board recently voted unanimously to give our stockholders a greater voice in choosing directors by adopting a policy on majority voting.

And we thank our stockholders for their continued support. While our full year fiscal 2006 results were not as strong as we had hoped, we made substantial progress on our growth initiatives as evidenced by positive pharmacy same store sales increases in the second half of the year and prescription count growth in the fourth quarter. We remain optimistic about the business of retail pharmacy, our store growth program and the other initiatives we have underway to deliver future value.



Robert G. Miller
Chairman



Mary Sammons
President, CEO and Director

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

Notice of Annual Meeting of Stockholders
To Be Held on June 21, 2006

To Our Stockholders:

What: Our 2006 Annual Meeting of Stockholders

When: June 21, 2006 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 three directors to hold office until the 2009 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; and
3. Transact such other business as may properly come before the Annual Meeting of Stockholders or any adjournments or postponements thereof.

In addition, the holders of the 7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock and 6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock, voting together as a single class, separately from the holders of Common Stock, will vote to elect one director to hold office until the 2009 Annual Meeting of Stockholders and until a successor is duly elected and qualified.

Only Stockholders of record at the close of business on May 2, 2006 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 1-800-PROXIES (1-800-776-9437)) or via the Internet at *www.voteproxy.com*. 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 19, 2006

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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 21, 2006

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 2006 Annual Meeting of Stockholders to be held at the Hilton Harrisburg, One North Second Street, Harrisburg, Pennsylvania 17101, on June 21, 2006 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 19, 2006 to all holders of our common stock, par value $1.00 per share ("Common Stock") and 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 three directors to hold office until the 2009 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; and

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.

In addition, the holders of the LGP Preferred Stock, voting separately as a class, will vote to elect one director (the "LGP Preferred Director") to hold office until the 2009 Annual Meeting of Stockholders and until his successor is duly elected and qualified.

Record Date

Only Stockholders of record at the close of business on May 2, 2006 (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 528,868,819 shares of Common Stock and 2,451,488.4480 shares of LGP Preferred Stock (which, on an as-if-converted basis, is entitled to an aggregate of 44,572,517 votes).

Quorum and Voting

The presence at the Annual Meeting, in person or by proxy, of the holders of 286,720,669 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 44,572,517 shares of Common Stock. The holders of the Common Stock and LGP Preferred Stock vote together as a single class, except for those matters on which the holders of LGP Preferred Stock are entitled to vote as a separate 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 No. 2. In determining whether Proposal No. 2 has 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 No. 2.

The Company’s transfer agent, American Stock Transfer & Trust Company, will serve as proxy tabulator and count the votes. The results will be certified by the inspectors of election.

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 1-800-PROXIES (1-800-776-9437)) and follow the instructions.
3. Via the Internet: Access *www.voteproxy.com* 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; and

Proposal No. 2: 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 2007 and four directors whose terms expire in 2008. 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 2009 and one such director is nominated to be elected to hold office until 2007. The nominees for directors (other than the LGP Preferred Director) were nominated by the entire Board and the nominee for the LGP Preferred Director was nominated by the holder of the LGP Preferred Stock.

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 12.

Director Nominees

The Board of Directors has nominated Joseph B. Anderson, Jr., Robert A. Mariano, Stuart M. Sloan and Marcy Syms to be elected directors at the Annual Meeting. The holder of the LGP Preferred Stock has informed the Company that it will elect Jonathan D. Sokoloff as the LGP Preferred Director. Each of the nominees for director to be elected at the Annual Meeting currently serves as a director of the Company. Ms. Syms and Messrs. Anderson and Mariano were first appointed to the Board in September 2005 on the recommendation of the Nominating and Governance Committee. Each of Ms. Syms and Messrs. Anderson and Mariano was recommended for consideration by the Nominating and Governance Committee by Robert G. Miller, Chairman of the Board. Each director elected at the Annual Meeting will hold office until 2009, with the exception of Stuart M. Sloan, 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	62	Chairman	1999	2008
Mary F. Sammons	59	Director, President and Chief Executive Officer	1999	2007
Joseph B. Anderson, Jr.	63	Director	2005	2006
John G. Danhakl	50	Director	2003	2008
Michael A. Friedman, MD	62	Director	2004	2008
Alfred M. Gleason	76	Director	2000	2008
George G. Golleher	58	Director	2002	2007
Robert A. Mariano	56	Director	2005	2006
Philip G. Satre	57	Director	2005	2007
Stuart M. Sloan	62	Director	2000	2006
Jonathan D. Sokoloff	48	Director	1999	2006
Marcy Syms	55	Director	2005	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. Upon the closing of the sale of Albertson's, Inc. to a consortium of investors, which is anticipated in June 2006, Mr. Miller will become the Chief Executive Officer of the grocery operations acquired by the investment group led by Cerberus Capital Management L.P. and will continue to hold the Chairman position at Rite Aid. 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 Nordstrom, 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.

Joseph B. Anderson, Jr. Mr. Anderson has been the Chairman of the Board and Chief Executive Officer of TAG Holdings, LLC, a manufacturing, service and technology business since January 2002. Mr. Anderson was Chairman of the Board and Chief Executive Officer of Chivas Industries, LLC from

1994 to 2002. Mr. Anderson also serves as a director of Quaker Chemical Corporation, ArvinMeritor, Inc. and Sierra Pacific Resources.

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 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 self-employed business consultant and a private equity investor following his retirement after 28 years of experience in the Southern California food industry. Mr. Golleher was the Chief Executive Officer of Simon Worldwide Inc., a promotional marketing firm, from May 2003 to April 2006, and served as a director of Simon Worldwide from November 1999 to April 2006. 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 serves as a director of General Nutrition Centers, Inc. and Linens 'N Things, Inc.

Robert A. Mariano. Mr. Mariano has been the Chairman of the Board and Chief Executive Officer of Roundy's Supermarkets, Inc. since June 2002. Prior to joining Roundy's, Mr. Mariano served for 25 years with Dominick's Supermarkets in metropolitan Chicago and was President and Chief Executive Officer when Dominick's was acquired by Safeway in 1998. Mr. Mariano also serves as a director of the Roundy's Foundation.

Philip G. Satre. Mr. Satre is currently a self-employed 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, Sierra Pacific Resources and Nordstrom, Inc. and is a trustee of Stanford University.

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 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.

Marcy Syms. Ms. Syms has been Chief Executive Officer and a Director of Syms Corp., a chain of retail clothing stores, since 1983. She currently serves on the board of directors of American Materials Corporation, Manhattan Theatre Club, New York Chapter of the American Heart Association and the Women's Economic Roundtable. She is also chair of the Advisory Board for the Federal Reserve Bank of New York.

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, the rules of the Securities and Exchange Commission ("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 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 subsection of the investor information 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: Secretary. 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 subsection of the investor information 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. The independent directors have no relationships with Rite Aid other than being a director, except that George G. Golleher also serves on the Board of Directors of General Nutrition Centers, which does business with the Company. As Mr. Golleher serves only as an outside director of, and is not an officer of or otherwise employed by, General Nutrition Centers, the Board determined that the relationship between the Company and General Nutrition Centers does not constitute a material relationship between Mr. Golleher and the Company.

Majority Voting Policy. On April 5, 2006, the Board adopted a majority voting policy. Under the policy, in non-contested elections, if a director nominee receives a greater number of votes "withheld" from his or her election than votes "for" such election, the director must promptly tender his or her resignation for consideration by the Nominating and Governance Committee. The Nominating and Governance Committee must promptly consider such tendered resignation and recommend to the Board whether to accept or reject it. The Board's explanation of its decision would then be promptly disclosed in an SEC filing. A copy of the policy is attached as Appendix A.

Committees of the Board of Directors

Audit Committee. The Audit Committee, which held ten meetings during fiscal year 2006, currently consists of Alfred M. Gleason (Chairman), George G. Golleher, Robert A. Mariano, Philip G. Satre and Marcy Syms each of whom, the Board has determined, 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 George G. Golleher 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."

Compensation Committee. The Compensation Committee, which met four times and acted on three occasions by unanimous written consent during fiscal year 2006, currently consists of Philip G. Satre (Chairman), Michael A. Friedman, MD and Stuart M. Sloan, each of whom, the Board has determined, 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 one meeting during fiscal year 2006, currently consists of Stuart M. Sloan (Chairman), Michael A. Friedman, MD and George G. Golleher, each of whom, the Board has determined, 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.

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 2006. However, on one occasion in fiscal year 2006, 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.

Nomination of Directors

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: 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 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 candidate 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 candidates 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.

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 in executive session five times during fiscal year 2006.

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 Secretary, P.O. Box 3165, Harrisburg, Pennsylvania 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 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 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 one special meeting during fiscal year 2006. 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. All of our directors were in attendance at the 2005 Annual Meeting of Stockholders.

Directors' Compensation

Except for Robert G. Miller, whose compensation arrangements are discussed 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.

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. In addition, 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. 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 options to purchase shares of Common Stock were issued under the Company's 2001 Stock Option Plan to the following directors: on June 23, 2005, Messrs. Friedman, Gleason, Golleher, Miller, Satre and Sloan each received options to purchase 50,000 shares, with an exercise price of $4.11 per share; and on September 21, 2005, the date that Ms. Syms and Messrs. Anderson and Mariano were appointed to the Board of Directors, each of them received non-qualified stock options to purchase 100,000 shares with an exercise price of $3.65 per share .

In fiscal year 2006, 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 John G. Danhakl and Jonathan D. Sokoloff received no such compensation.

The following table provides a summary of the cash component of director compensation, comprising the annual retainer and meeting fees, paid during fiscal year 2006 to non-employee directors, other than Messrs. Danhakl, Sokoloff and Miller:

Name	Annual Retainer Fee ($)	Meeting Fee ($)
Joseph B. Anderson, Jr.	13,889	2,000
Michael A. Friedman, MD	50,000	8,000
Alfred M. Gleason	75,000	18,000
George G. Golleher	60,000	22,500
Robert A. Mariano	13,889	2,000
Philip G. Satre	36,250	11,000
Stuart M. Sloan	57,500	13,000
Marcy Syms	13,889	3,000

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 approximately 2,600 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: Presently, a committee of our Company's Board of Directors selects nominees to stand for election to the Board, a task for which it is well suited. And like most companies, our Company uses a plurality vote standard for director elections. But because nominees almost always run unopposed and under a plurality vote standard can be elected with as little as a single affirmative vote, board nomination is tantamount to board election.

In order to provide shareholders a meaningful role in director elections, we believe that the director election vote standard should be changed to a majority vote standard as permitted by Delaware corporate law. The proposed standard would require that a nominee receive a majority of the votes cast in order to be elected, or in the case of an incumbent director nominee re-elected. The standard is particularly well suited for the vast majority of director elections in which only board nominated candidates are on the ballot. In contested elections, in which shareholders have a choice among competing candidates, the current plurality vote system is an effective vote standard. Establishing a majority vote standard in board elections would mean that shareholder votes, not a board's nomination, would determine whether a nominee is elected or rejected.

It is important to note that under Delaware law if a majority vote standard were in place, an incumbent director that fails to receive a majority vote would not be reelected, but would continue to hold office "until such director's successor is elected and qualified or until such director's earlier resignation or removal." In other words, an incumbent director that fails to be re-elected continues to hold office as a "holdover director", while a non-incumbent director nominee's failure to secure a majority vote could create a board vacancy.

These potential election outcomes highlight the need for boards to develop post-election policies and practices. We believe that boards of directors, in the exercise of their fiduciary responsibilities to the corporation and shareholders, would be compelled to establish post-election "holdover director" and board vacancy policies and practices designed to give effect to the shareholder vote in a manner that serves the best interests of the shareholders and the corporation. We note that in response to strong shareholder support for a majority vote standard, a number of companies, while maintaining the plurality standard, have adopted director resignation policies to address the status of elected board nominees that receive a majority of "withhold" votes. We believe that these director resignation policies, since they are still coupled with a plurality vote standard, are wholly inadequate responses to the call for the adoption of a majority vote standard.

THE BOARD OF DIRECTORS' STATEMENT IN OPPOSITION

The Board of Directors recommends a vote "against" Proposal No. 2 because the Board has already implemented a majority voting policy that it believes represents a best practice approach and provides an effective process to achieve the proposal's objective.

On April 5, 2006, the Board adopted a majority voting policy (see the policy attached as Appendix A). Under the policy, in non-contested elections, if a director nominee receives a greater number of votes "withheld" from his or her election than votes "for" such election, the director must promptly tender his or her resignation for consideration by the Nominating and Governance Committee. The Nominating and Governance Committee must promptly consider such tendered resignation and recommend to the Board whether to accept or reject it. The Board's explanation of its decision would then be promptly disclosed in an SEC filing.

While the Board shares the proponent's goals of fair elections and strong corporate governance, the Board believes that the recently adopted majority voting policy is a better approach to achieving the proposal's objectives at this time. The Board believes that a change in the voting standard by which directors are elected, at this time, would not serve the best 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. The plurality vote standard remains the accepted standard for the election of directors of U.S. public companies.

The Board believes that the implementation of a majority vote standard as proposed would result in ambiguity and uncertainty in the conduct of Board elections. The majority vote standard presents complex legal and practical issues that the proposal does not resolve. For example, the proposal does not address what would occur if no candidate receives the requisite majority vote. 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. The proposal also does not address how or when the Company would fill any vacancy resulting from a nominee not receiving the requisite majority vote. 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 relating to the independence and financial literacy of directors.

Moreover, the Board believes the proposal is premature. Majority voting for the election of directors has become a popular issue in the last year or two and has been receiving increasing press coverage and scholarly debate. Neither the American Bar Association Section of Business Law Committee on Corporate Laws, which is chaired by E. Norman Veasey, a former chief justice of the Delaware Supreme Court, nor the Working Group, made up of a number of large companies and institutional investors, has issued final reports or recommendations.

Because law and practice in this area are evolving, the Board believes it would be premature to introduce an alternative voting system beyond the policy on director elections recently adopted by the Board until the issues associated with the application of a majority vote standard have been further clarified. The Board intends to monitor and evaluate the progress and recommendations of these and other studies and to continue to consider carefully whether changes to the current system are appropriate and in the best interests of Rite Aid and its stockholders.

We urge you to vote against Proposal No. 2.

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*	59	Director, President and Chief Executive Officer
James P. Mastrian	63	Chief Operating Officer
Mark C. Panzer	49	Senior Executive Vice President, Chief Marketing Officer
Jerry Mark deBruin	47	Executive Vice President, Pharmacy
Robert B. Sari	50	Executive Vice President, General Counsel and Secretary
Kevin Twomey	55	Executive Vice President, Chief Financial Officer
Douglas E. Donley	43	Senior Vice President, Chief Accounting Officer

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

James P. Mastrian. Mr. Mastrian was appointed Chief Operating Officer in October 2005. He has been Senior Executive Vice President, Marketing, Logistics and Pharmacy Services from November 2002 to October 2005, and was Senior Executive Vice President, Marketing and Logistics of Rite Aid from October 2000 until November 2002. Prior to that he 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 was appointed Senior Executive Vice President, Chief Marketing Officer in October 2005. He had been Senior Executive Vice President, Store Operations from June 2002 to October 2005, and was 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.

Jerry Mark deBruin. Mr. deBruin was appointed Executive Vice President, Pharmacy in October 2005. He had been Senior Vice President, Pharmacy Services from February 2003 to October 2005. Prior to that, he served as Vice President, Managed Health Care and Pharmacy at Albertson's from December 1999 to January 2003, when Albertson's, Inc. merged American Stores Company. From 1994 to 1999, Mr. de Bruin held several senior positions at American Stores Company including General Manager and Vice President of RxAmerica, a pharmacy benefits management company owned by American Stores Company and Long's Drug Stores Corporation.

Robert B. Sari. Mr. Sari was appointed Executive Vice President, General Counsel in October 2005. He had been Senior Vice President, General Counsel and Secretary from June 2002 to October 2005. 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 was appointed Executive Vice President, Chief Financial Officer in October 2005. He had been Senior Vice President and Chief Accounting Officer from December 2000 to October 2005. 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.

Douglas E. Donley. Mr. Donley was appointed Senior Vice President, Chief Accounting Officer in October 2005. He had been Group Vice President, Corporate Controller from 1999 to October 2005. Mr. Donley served as a financial analyst for Rite Aid from 1996 to 1999. He was an internal auditor for Harsco Corporation from 1994 to 1996. Prior to joining Harsco, he was an auditor for KPMG Peat Marwick. In March 2006, Mr. Donley was charged with offenses related to driving under the influence. A preliminary hearing has been scheduled for June 2006 for the purpose of determining if there is enough evidence to forward these charges to the County Court. The Company believes that these matters do not adversely affect his fitness to serve as an officer.

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 2006 and one additional highly compensated officer, John T. Standley, who served as an executive officer until August 2005. As used herein, the term "Named Executive Officers" means all persons identified in the Summary Compensation Table.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation: Salary(1)	Bonus(2)	Other Annual Compensation	Long-Term Compensation: Restricted Stock Awards(3)	Securities Underlying Option Grants/ SARs	All Other Compensation
Mary F. Sammons	2006	1,240,000	165,000	108,454(4)	107,998(7)	267,001	5,406(10)
Director, President &	2005	1,240,000	—	72,468(5)	599,999(8)	292,208	4,902
Chief Executive Officer	2004	1,240,000	1,498,161	123,776(6)	—	—	4,902
James P. Mastrian	2006	710,385	85,250	98,341(4)	1,170,239(7)	119,261	172,386(11)
Chief Operating Officer	2005	650,000	—	61,341(5)	259,999(8)	126,623	148,737
	2004	610,096	702,263	—	680,000(9)	—	88,402
Mark C. Panzer	2006	600,000	66,000	—	43,200(7)	106,800	145,088(12)
Senior Executive Vice	2005	575,000	—	71,432(5)	230,000(8)	112,013	129,938
President, Chief Marketing Officer	2004	509,134	589,901	—	326,400(9)	—	84,752
John T. Standley	2006	464,115	—	—	48,239(7)	119,261	41,920(13)
Former Senior Executive	2005	830,000	—	72,408(5)	259,999(8)	126,623	718
Vice President, Chief Administrative Officer & Chief Financial Officer	2004	805,000	702,263	—	—	—	690
Robert B. Sari	2006	350,096	22,000	—	14,533(7)	35,931	83,935(14)
Executive Vice President,	2005	325,000	—	—	77,997(8)	37,380	78,493
General Counsel	2004	312,000	186,970	—	—	—	75,317
Kevin Twomey	2006	366,442	24,933	—	14,533(7)	35,931	87,943(15)
Executive Vice President,	2005	328,000	—	175,246(5)	78,716(8)	37,725	79,613
Chief Financial Officer	2004	316,808	189,967	—	—	—	76,812

(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. For fiscal year 2006, amounts reflect a bonus for improvements to customer service.

(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 8 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 2006: For Ms. Sammons: $87,654 for personal use of the Company aircraft, a $12,000 car allowance, and $8,800 for financial planning services. For Mr. Mastrian: $59,304 for personal use of the Company aircraft, $7,037 for personal use of company car, a $12,000 car allowance and $20,000 in financial planning services.

(5) "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.

(6) "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.

(7) During fiscal year 2006, the named executive officers received restricted stock awards that vest with the passage of time. On June 23, 2005, the following executives were awarded the following number of shares of restricted common stock: Ms. Sammons was awarded 26,277 shares, Mr. Mastrian was awarded 11,737 shares, Mr. Panzer was awarded 10,511 shares, Mr. Standley was awarded 11,737 shares, Mr. Twomey was awarded 3,536 shares, and Mr. Sari was awarded 3,536 shares; restrictions on one-third of such respective shares lapsed or will lapse on each of June 23, 2006, June 23, 2007, and June 23, 2008. On October 10, 2005, in connection with Mr. Mastrian's promotion to Chief Operating Officer, he was awarded 300,000 shares, restrictions on which will lapse on October 10, 2007. The value of the unvested shares of restricted stock as of March 4, 2006 was as follows: $107,473

for Ms. Sammons', $1,275,004 for Mr. Mastrian's, $42,990 for Mr. Panzer's, $14,462 for Mr. Twomey's and $14,462 for Mr. Sari's. Mr. Standley forfeited all unvested shares when he resigned from the Company in August 2005.

(8) 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 and Mr. Sari was awarded 3,611 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 as of February 26, 2005 for Mr. Twomey's restricted stock was $12,535 and for Mr. Sari's restricted stock was $12,422. Mr. Standley forfeited 8,054 unvested shares when he resigned from the Company in August 2005.

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 and Mr. Sari was awarded 10,833 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, $37,610 for Mr. Twomey's, and $37,266 for Mr. Sari's. Mr. Standley forfeited all 36,245 unvested units when he resigned from the Company in August 2005.

(9) 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.

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

(11) Represents $5,186 in supplemental life insurance premiums paid by the Company and a defined supplemental retirement plan contribution of $167,200 by Mr. Mastrian.

(12) Represents $1,088 in supplemental life insurance premiums paid by the Company and a defined supplemental retirement plan contribution of $144,000 by Mr. Panzer.

(13) Represents $370 in supplemental life insurance premiums paid by the Company and $41,550 in relation to deferred compensation paid to Mr. Standley. Mr. Standley's deferred compensation balance at the time of his resignation was $993,877, which will be paid in five equal installments. One payment of $184,458 was made during fiscal year 2006, of which $41,550 represented earnings on the contributions made.

(14) Represents $595 in supplemental life insurance premiums paid by the Company and a defined supplemental retirement plan contribution of $83,340 by Mr. Sari.

(15) Represents $1,603 in supplemental life insurance premiums paid by the Company and a defined supplemental retirement plan contribution of $86,340 by Mr. Twomey.

Option Grants in the Fiscal Year

The following table sets forth certain information regarding options granted in fiscal year 2006 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 . . .	267,001	3.48%	$4.11	6/23/15	$539,342
James P. Mastrian . . .	119,261	1.55%	4.11	6/23/15	240,907
Mark C. Panzer	106,800	1.39%	4.11	6/23/15	215,736
John T. Standley	119,261	1.55%	4.11	6/23/15	240,907
Robert B. Sari	35,931	0.47%	4.11	6/23/15	72,581
Kevin Twomey	35,931	0.47%	4.11	6/23/15	72,581

(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 include the stock's expected volatility rate of 59%, projected dividend yield of 0%, a risk-free rate of return of 4.0%, and an estimated life of the option of 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 March 4, 2006 by the Named Executive Officers and option exercises during fiscal year 2006. No Named Executive Officer holds any stock appreciation rights.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options At Fiscal Year-End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mary F. Sammons	—	$ —	7,495,268	611,157	$5,743,155	$248,750
James P. Mastrian	—	—	2,325,406	289,228	1,243,514	149,250
Mark C. Panzer	—	—	1,153,004	265,809	1,092,750	149,250
John T. Standley	940,796	947,825	1,000,000	—	1,340,000	—-
Robert B. Sari	75,000	151,500	378,720	82,716	327,386	37,313
Kevin Twomey	—	—	535,682	82,974	378,538	37,313

(1) "In-the-Money" options are options with an exercise price less than the market price of the Common Stock on March 4, 2006. The value of such options is calculated using a stock price of $4.09, which was the closing price of the Common Stock on the NYSE on March 3, 2006.

Long-Term Incentive Plan Awards

The following table presents the grants of performance-based stock units during fiscal 2006 to the Named Executive Officers.

NAME	Number of units	Performance Period until Payout	Estimated Future Payouts Under Non-Stock Price Based Plans Minimum threshold (# shares)	Target (# shares)	Maximum (# shares)
Mary F. Sammons	78,832	3/1/2008	39,416	78,832	157,664
James P. Mastrian	35,212	3/1/2008	17,606	35,212	70,424
Mark C. Panzer	31,533	3/1/2008	15,767	31,533	63,066
John T. Standley(1)	35,212	3/1/2008	17,606	35,212	70,424
Robert B. Sari	10,609	3/1/2008	5,305	10,609	21,218
Kevin Twomey	10,609	3/1/2008	5,305	10,609	21,218

(1) Mr. Standley's units were forfeited when he resigned from the Company in August 2005.

On June 23, 2005, the named executive officers received grants of performance-based stock units that will be earned based upon the achievement of a percentage of a three-year cumulative EBITDA goal. Vesting for all the performance units will occur, provided performance targets are met, on March 1, 2008 (the end of the Company's fiscal year 2008) or such later date as the EBITDA performance for fiscal years 2006-2008 is determined. The award payout will be the equivalent to the cash value of one share of stock for each unit earned.

EMPLOYMENT AND EMPLOYMENT-RELATED AGREEMENTS AND TERMINATION OF EMPLOYMENT

Executive Employment Agreements

On December 5, 1999, Rite Aid entered into an employment agreement with Mary F. Sammons. 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; on February 28, 2001 Rite Aid entered into an employment agreement with Robert Sari 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 Chief Operating Officer;
- Mr. Panzer was appointed Executive Vice President of Store Operations and is now Senior Executive Vice President, Chief Marketing Officer;
- Mr. Sari was appointed Senior Vice President, Deputy General Counsel and is now Executive Vice President, General Counsel; and
- Mr. Twomey was appointed Senior Vice President, Chief Accounting Officer and is now Executive Vice President, Chief Financial Officer.

Term. The term of Ms. Sammons' and Messrs. Mastrian's, Panzer's, Sari'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 Messrs. Twomey's and Sari's employment agreements, the agreements 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 2006:

- 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 2006). If Rite Aid's performance meets certain targets in the future, Ms. Sammons may 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 $710,385 in fiscal year 2006, taking into account an annual salary increase to $775,000 in connection with his promotion, which became effective in October 2005). If Rite Aid's performance meets certain targets in the future Mr. Mastrian may receive an annual bonus that, if awarded, will equal or exceed 110% 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 $600,000 in connection with his promotion, in fiscal year 2006). If Rite Aid's performance meets certain targets in the future, Mr. Panzer may receive an annual bonus that, if awarded, will equal or exceed 100% of his annual base salary then in effect.

- Mr. Sari is entitled to receive an annual base salary of not less than $225,000 (and received an annualized base salary of $350,096 in fiscal year 2006, taking into account an annual salary increase to $375,000 in connection with his promotion, which became effective in October 2005). If Rite Aid's performance meets certain targets in the future, Mr. Sari may receive an annual bonus that, if awarded, will equal or exceed 60% 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 $366,442 in fiscal year 2006, taking into account an annual salary increase to $425,000 in connection with his promotion, which became effective in October 2005). If Rite Aid's performance meets certain targets in the future, Mr. Twomey may receive an annual bonus that, if awarded, will equal or exceed 60% 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, 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. Twomey was granted an option to purchase 200,000 shares of Common Stock and was awarded 25,000 shares of restricted Common Stock.

Messrs. Mastrian and Sari did not receive any grants of options to purchase shares of Common Stock under their respective employment agreements.

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 is terminated by Rite Aid "without cause" or if she terminates her employment for "good reason" (as such terms are defined in Ms. Sammons' employment agreement), then:

- Ms. Sammons will be paid an amount equal to three times the sum of the annual base salary and target bonus plus any accrued but unpaid salary and bonus, with the maximum bonus that she is eligible to earn being pro-rated through the date of termination; and
- Ms. Sammons will be paid the deferred compensation amounts that would otherwise have been credited to her pursuant to the Deferred Compensation Plan (as discussed below) had she continued employment with Rite Aid through the end of the then-remaining Employment Period and she will continue to receive certain medical benefits for the remainder of such Employment Period.

With respect to Ms. Sammons' stock options, if Ms. Sammons:

- is terminated for "good reason," all of the stock options awarded pursuant to her 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; or
- terminates her employment other than for "good reason," all of the stock options awarded pursuant to her employment agreement will remain vested and exercisable throughout the remainder of their stated terms and any other outstanding stock option that has vested and become exercisable prior to the date of termination shall remain vested and exercisable for a period of ninety (90) days following the date of termination, at the end of which period such option shall terminate. However, if the date of termination occurs after Ms. Sammons turns age 60, all vested stock options will remain exercisable for the remainder of their stated term.

Upon termination of employment for any reason other than "cause" (as defined in her employment agreement), Ms. Sammons is entitled to receive an annual payment following termination and continuing for life (and the life of her spouse) equal to the cost of purchasing medical coverage comparable to the coverage provided to the Company's senior executives immediately prior to such termination, excepting payments for periods that the Company provides such coverage described above.

If Messrs. Mastrian, Panzer, Sari 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," or any of the Executives terminates his or her employment without "good reason" (with the exception of Ms. Sammons, whose termination provision is described above):

- 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, Sari and Twomey, two years, thereafter.

Change-in-Control Arrangements. Under Ms. Sammons's December 5, 1999 employment agreement, 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, Sari 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 continued 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 meeting of stockholders, 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 of the April 9, 2003

employment agreement are substantially similar to those in the December 5, 1999 employment agreement. Pursuant to the April 28, 2005 amendment to the April 9, 2003 agreement, 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. 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 and Ms. Sammons. Under the defined contribution supplemental executive retirement plan, Rite Aid makes monthly investments that are specific to Mr. Miller and Ms. Sammons. The investments are made each month during the term of the participants' service with Rite Aid. Each of Mr. Miller and Ms. Sammons 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 and $20,000 is invested for Ms. Sammons. 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, Sari 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, Sari 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 four times during fiscal year 2006.

The Compensation Committee has access to independent compensation data and from time to time engages outside compensation consultants. In fiscal year 2006, the Compensation Committee considered the report of outside compensation consultants with respect to executive compensation, director compensation and equity strategy.

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 minimal adjustments to reflect performance. For fiscal year 2006, the Compensation Committee reviewed and set Ms. Sammons' base salary at $1,000,000, the same level that it was for fiscal years 2004 and 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 the performance goals and a targeted incentive as a percentage of salary. For fiscal year 2006, the Compensation Committee approved a payout matrix for bonuses based on the Company's attainment of adjusted EBITDA and customer satisfaction targets. Under the bonus plan, a separate bonus is payable for achievement of the customer satisfaction targets as well as the adjusted EBITDA targets, with 80% of the target bonus payable upon satisfaction of the adjusted EBITDA targets and 20% of the target bonus payable on satisfaction of the customer satisfaction targets. Depending upon the adjusted EBITDA and customer satisfaction targets 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. Although no earnings bonus was paid in fiscal year 2006, a bonus (calculated based upon achievement of 88.8% of the customer satisfaction target, which equates to a bonus percent of 11%) for improvement in customer satisfaction was paid to field management and corporate personnel, including the Named Executive Officers.

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 and restricted stock 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 2006, the Compensation Committee made awards of stock options, which vest over a four year period, restricted stock, which typically 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 2006, 2007 and 2008. 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.

Philip G. Satre, Chairman
Michael A. Friedman, MD
Stuart M. Sloan

AUDIT COMMITTEE REPORT

The Board of Directors maintains an Audit Committee comprised of five 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 George G. Golleher 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. 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 ten times during fiscal year 2006.

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 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.
- Discussed with our independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committee, as amended.
- Preapproved audit, other audit-related and tax services performed by our independent auditors.
- 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 March 4, 2006 and February 26, 2005 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 March 4, 2006	Year Ended February 26, 2005
	(Amounts in millions)	
Audit Fees, including audit of annual financial statements and reviews of interim financial statements, registration statement filings and comfort letters related to various refinancing activities, and response letter to SEC comment letter	$3.0	$4.2
Audit-Related Fees:		
Audits of employee benefit plans' financial statements	0.2	0.2
Tax Fees, including net operating loss ownership study, software and licensing, and employee benefit plan Form 5500's and other miscellaneous	0.2	0.5
All Other Fees	—	—
Total	$3.4	$4.9

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 March 4, 2006 for filing with the SEC.

Alfred M. Gleason, Chairman
George G. Golleher
Robert A. Mariano
Philip G. Satre
Marcy Syms

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of March 4, 2006 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 (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Further Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders	30,681,226	$5.36	8,653,273
Equity compensation plans not approved by stockholders*	32,037,000	$4.11	2,090,648
Total	62,718,226		10,743,921

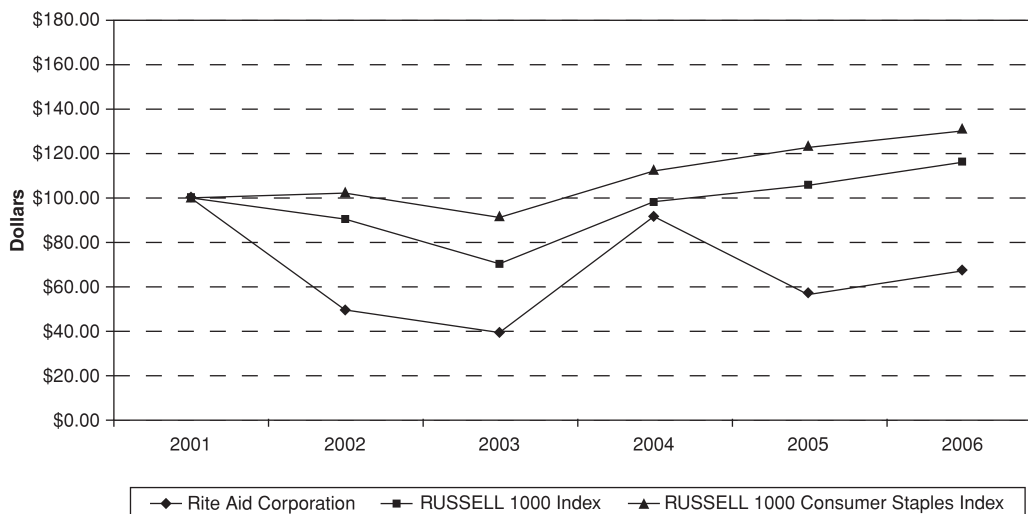
* These plans include the Company's 1999 Stock Option Plan, under which 10,000,000 shares of Common Stock are authorized for the granting of stock options at the discretion of the Compensation Committee, and the 2001 Stock Option Plan, under which 20,000,000 shares of Common Stock are authorized for the 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 7,450,000 options are outstanding pursuant to option grants made in accordance with the provisions of individual agreements with certain of the Company's executives. These options are included in the number of securities to be issued upon exercise of outstanding options, warrants and rights in column (a) above.

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 March 4, 2001 and reinvestment of dividends).

For comparison of cumulative total return, the Company has elected to use the Russell 1000 Consumer Staples Index, consisting of 44 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.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
February 2006



	2001	2002	2003	2004	2005	2006
Rite Aid Corporation	$100.00	$ 49.59	$39.41	$ 91.63	$ 56.49	$ 67.16
Russell 1000 Index	$100.00	$ 90.45	$70.35	$ 98.28	$105.62	$116.03
Russell Consumer Staples Index	$100.00	$102.15	$91.19	$112.10	$122.69	$130.12

* The Company's fiscal year ends on the Saturday closest to February 29 or March 1. Fiscal year 2006 included 53 weeks and ended on March 4, 2006.

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 2006 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 528,868,819 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:		
Joseph B. Anderson, Jr.	0	*
John G. Danhakl	45,363,814(2)	7.90%
Michael A. Friedman, MD	50,001(3)	*
Alfred M. Gleason	428,301(4)	*
George G. Golleher	250,001(5)	*
Robert A. Mariano	0	*
James P. Mastrian	2,894,906(6)	*
Robert G. Miller	9,869,542(7)	1.83%
Mark C. Panzer	1,409,628(8)	*
Mary F. Sammons	8,614,241(9)	1.61%
Robert B. Sari	448,244(10)	*
Philip G. Satre	62,501(11)	*
Stuart M. Sloan	266,645(12)	*
Jonathan D. Sokoloff	46,002,599(13)	8.01%
John T. Standley	1,206,642(14)	*
Marcy Syms	0	*
Kevin Twomey	630,572(15)	*
All Executive Officers and Directors (18 persons)	71,487,965	12.45%
5% Stockholders:		
Green Equity Investors III, L.P 11111 Santa Monica Blvd. Suite 2000 Los Angeles, CA 90025	45,297,163(16)	7.89%(17)
Glenview Capital Management LLC 399 Park Avenue Floor 39 New York, NY 10022	28,710,996(18)	5.43%

* 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, 2006.

(2) This amount includes 45,297,163 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 50,001 shares which may be acquired within 60 days by exercising stock options.

(4) This amount includes 71,500 shares owned by Mr. Gleason's spouse and 250,001 shares which may be acquired within 60 days by exercising stock options.

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

(6) This amount includes 2,386,878 shares which may be acquired within 60 days by exercising stock options.

(7) This amount includes 9,556,763 shares which may be acquired within 60 days by exercising stock options.

(8) This amount includes 1,207,707 shares which may be acquired within 60 days by exercising stock options.

(9) This amount includes 52,779 shares owned by Ms. Sammon's spouse and 7,635,071 shares which may be acquired within 60 days by exercising stock options.

(10) This amount includes 397,048 shares which may be acquired within 60 days by exercising stock options.

(11) This amount represents 12,500 shares owned jointly by Mr. Satre and his spouse and 50,001 shares which may be acquired within 60 days by exercising stock options.

(12) This amount includes 250,001 shares which may be acquired within 60 days by exercising stock options.

(13) This amount includes 705,436 shares owned jointly by Mr. Sokoloff and his spouse and 45,297,163 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.

(14) This amount includes 1,000,000 shares which may be acquired within 60 days by exercising stock options.

(15) This amount includes 554,096 shares which may be acquired within 60 days by exercising stock options.

(16) Green Equity Investors III, L.P. beneficially owns 45,297,163 shares of common stock. This number represents (i) the number of shares issuable within 60 days of the May 2, 2006 Record Date upon the conversion of 2,451,488.4480 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, 2006 on preferred stock held by Green Equity Investors III, L.P.

(17) 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.

(18) This amount, which is disclosed in a report on Schedule 13G filed on April 17, 2006, includes 28,710,996 shares with respect to which Glenview Capital Management, LLC, Glenview Capital GP, LLC and Lawrence M. Robbins share dispositive power.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Rite Aid has entered into a one-year agreement with Leonard Green & Partners L.P., effective January 1, 2006 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 2006, Rite Aid paid Leonard Green & Partners, L.P. a consulting fee of $300,000. Both John G. Danhakl and Jonathan D. Sokoloff, each a director of Rite Aid, are equity owners of Leonard Green & Partners, L.P. George G. Golleher, a member of the Company's Board, also serves on the Board of Directors of General Nutrition Centers, which is a related party of the Company.

STOCKHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING OF STOCKHOLDERS

Any Stockholder desiring to present a proposal for inclusion in the Company's Proxy Statement for the 2007 Annual Meeting of Stockholders must deliver the proposal to the Secretary not later than January 17, 2007. Only those proposals that comply with the requirements of Rule 14a-8 will be included in the Company's Proxy Statement for the 2007 Annual Meeting.

Stockholders may present proposals that are proper subjects for consideration at an annual meeting, even if the proposal is not submitted by the deadline for inclusion in the proxy statement. To do so, the stockholder must comply with the procedures specified in the Company's Bylaws. The Bylaws, which are available on the Company's website at *www.riteaid.com* under "Investor Information—Corp. Governance" and in print upon request from the Secretary, require all stockholders who intend to make proposals at an annual meeting of stockholders to submit their proposals to the Secretary not fewer than 90 and not more than 120 days before the anniversary date of the previous year's Annual Meeting of Stockholders. The Bylaws also provide that nominations for director may only be made by the Board of Directors (or an authorized Board committee) or by a stockholder of record entitled to vote who sends notice to the Secretary not fewer than 90 nor more than 120 days before the anniversary date of the previous year's Annual Meeting of Stockholders. Any nomination by a stockholder must comply with the procedures specified in the Company's Bylaws. To be eligible for consideration at the 2007 Annual Meeting, proposals which have not been submitted by the deadline for inclusion in the proxy statement and any nominations for director must be received by the Secretary between February 21, 2007 and March 23, 2007. This advance notice period is intended to allow all stockholders an opportunity to consider all business and nominees expected to be considered at the meeting.

All submissions to, or requests from, the Secretary should be made to:

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

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 2006 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 2007. 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 The Altman Group to assist in the solicitation of proxies for approximately $6,000, 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 2006 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 2006 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 Secretary at (717) 761-2633.

ANNUAL REPORT

A copy of Rite Aid's Annual Report on Form 10-K for fiscal year 2006 is being mailed together with this Proxy Statement to all Stockholders entitled to notice of and to vote at the Annual Meeting.

Appendix A

RITE AID CORPORATION
POLICY ON MAJORITY VOTING

In an uncontested election of Directors, any nominee who receives a greater number of votes "withheld" from his or her election than votes "for" his or her election will, within five days following the certification of the stockholder vote, tender his or her written resignation to the Chairman of the Board for consideration by the Nominating and Governance Committee (the "Committee"). As used in this Policy, an "uncontested election of Directors" is an election in which the only nominees are persons nominated by the Board of Directors.

The Committee will consider such tendered resignation and, within 45 days following the date of the stockholders' meeting at which the election occurred, will make a recommendation to the Board concerning the acceptance or rejection of such resignation. In determining its recommendation to the Board, the Committee will consider all factors deemed relevant by the members of the Committee including, without limitation, the stated reason or reasons why stockholders who cast "withhold" votes for the Director did so, the qualifications of the Director (including, for example, whether the Director serves on the audit committee of the Board as an "audit committee financial expert" and whether there are one or more other Directors qualified, eligible and available to serve on the audit committee in such capacity), and whether the Director's resignation from the Board would be in the best interests of the Company and its stockholders.

The Committee also will consider a range of possible alternatives concerning the Director's tendered resignation as the members of the Committee deem appropriate, including, without limitation, acceptance of the resignation, rejection of the resignation, or rejection of the resignation coupled with a commitment to seek to address and cure the underlying reasons reasonably believed by the Committee to have substantially resulted in the "withheld" votes.

The Board will take formal action on the Committee's recommendation no later than 75 days following the date of the stockholders' meeting at which the election occurred. In considering the Committee's recommendation, the Board will consider the information, factors and alternatives considered by the Committee and such additional information, factors and alternatives as the Board deems relevant.

Following the Board's decision on the Committee's recommendation, the Company, within four business days after such decision is made, will publicly disclose, in a Form 8-K filed with the Securities and Exchange Commission, the Board's decision, together with a full explanation of the process by which the decision was made and, if applicable, the Board's reason or reasons for rejecting the tendered resignation.

No Director who, in accordance with this Policy, is required to tender his or her resignation, shall participate in the Committee's deliberations or recommendation, or in the Board's deliberations or determination, with respect to accepting or rejecting his or her resignation as a Director. If a majority of the members of the Committee received a greater number of votes "withheld" from their election than votes "for" their election, then the independent Directors then serving on the Board who received a greater number of votes "for" their election than votes "withheld" from their election, and the Directors, if any, who were not standing for election, will appoint an ad hoc Board committee from amongst themselves (the "Ad Hoc Committee"), consisting of such number of Directors as they may determine to be appropriate, solely for the purpose of considering and making a recommendation to the Board with respect to the tendered resignations. The Ad Hoc Committee shall serve in place of the Committee and perform the Committee's duties for purposes of this Policy. Notwithstanding the foregoing, if an Ad Hoc Committee would have been created but fewer than three Directors would be eligible to serve on it, the entire Board (other than the Director whose resignation is being considered) will make the determination to accept or reject the tendered resignation without any recommendation from the Committee and without the creation of an Ad Hoc Committee.

This Policy, as it may from time to time be amended, will be summarized or included in the Company's proxy statement for each meeting of stockholders (annual or special) at which directors are to be elected.

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 March 4, 2006

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 if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or section 15(d) of the Exchange Act. Yes ☐ No ☒

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act. Large Accelerated ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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 27, 2005 was approximately $2,215,043,413. For purposes of this calculation, executive officers, directors and 5% shareholders are deemed to be affiliates of the registrant.

As of April 21, 2006 the registrant had outstanding 528,880,621 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 21, 2006 are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our 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 efforts of private and public third-party payors to reduce prescription drug reimbursement and encourage mail order;
- competitive pricing pressures and continued consolidation of the drugstore industry;
- changes in state or federal legislation or regulations;
- the outcome of lawsuits and governmental investigations;
- general economic conditions and inflation, interest rate movements and access to capital; and
- other risks and uncertainties described elsewhere in this filing and from time to time in our other filings with the Securities and Exchange Commission ("the SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—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 27 states across the country and in the District of Columbia. As of March 4, 2006, we operated 3,323 stores.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call “front-end” products. In fiscal 2006, prescription drug sales accounted for 63.2% of our total sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to favorable industry trends, including an aging population, increased life expectancy, the federal government’s adoption of a federally funded prescription drug benefit that began in January 2006 (Medicare Part D), which is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003, the discovery of new and better drug therapies and our on-going program of purchasing prescription files from independent pharmacies. We offer approximately 25,000 front-end products, which accounted for the remaining 36.8% of our total sales in fiscal 2006. 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 attempt to 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 2,700 products under the Rite Aid private brand, which contributed approximately 11.8% of our front-end sales in the categories where private brand products were offered in fiscal 2006.

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 12,800 square feet. The larger stores are concentrated in the western United States. As of March 4, 2006, approximately 54% of our stores are freestanding; approximately 41% of our stores include a drive-thru pharmacy; approximately 78% include one-hour photo shops; and approximately 34% 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.

Industry Trends

We believe pharmacy sales in the United States will grow between 6% and 9% each year over the next four years based upon studies published by a pharmaceutical market intelligence firm. This anticipated growth is expected to be driven by greater drug utilization, an aging population caused by the “baby boom” generation entering their sixties, the increasing life expectancy of the American population, the new Medicare Part D drug benefit program, the introduction of new drugs and the rate of inflation.

Generic prescription drugs help lower overall costs for customers and third party payors. We believe the utilization of existing generic pharmaceuticals is expected to continue to increase for several years. Further, we believe a significant number of new generics are expected to be introduced in the next couple of years. This increase in generic prescriptions improves gross profits in the retail drugstore industry.

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 sometimes resulting in the recall of a drug, such as the antiarthritic drug recalls.

The retail drugstore industry relies significantly on third party payors. Third party payors, including the Medicare Part D plans and the state sponsored Medicaid agencies, periodically evaluate and at times change the eligibility requirements to reduce the number of participants or reduce certain reimbursement rates. These evaluations and resulting changes and reductions are expected to continue. When third-party payors, including the Medicare Part D program and the state sponsored Medicaid agencies, reduce the number of participants or reduce their reimbursement rates, sales and margins in the industry could be reduced, and profitability of the industry could be adversely affected. These possible adverse effects can be partially or entirely offset by expense control, by dispensing more higher margin generics or dispensing more prescriptions, which could come from the anticipated growth opportunities mentioned above or from competitors.

Strategy

Our strategy is to continue to focus on improving the productivity of our existing stores and developing new and relocated 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. The program is focused on our strongest existing markets. Our goal is to open or relocate approximately 800 to 1,000 stores by the end of fiscal 2010, of which we expect that approximately 50% will be relocated stores and the remaining 50% will be new stores. As part of this program, we plan to continue remodeling stores. An integral part of the program is a new prototype store. Fifty-seven new or relocated stores have recently been constructed and opened utilizing the new prototype. We expect that almost all of the planned new and relocated stores will be the new prototype store. We believe that this program over the longer term, along with the execution of our near term strategy of improving store productivity, will 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. Our generic penetration continues to increase every year and we are setting our goals even higher in future years to take advantage of the substantial number of new generics expected to come to market in the next couple of years.

The implementation of the Medicare Part D Act in January of 2006 provides prescription drug coverage to numerous senior citizens who previously were not covered. We partnered with several third party health plans in programs that communicated information on the Medicare Part D Act to senior citizens. We also offer senior citizens newsletters and prescription discounts through our Living More

program, a customer loyalty program. We have also expanded our home health category to target senior citizens with products like wheelchairs, canes, electric scooters and products that enhance bath safety. We believe that programs like these will help us to grow prescription sales in this important market.

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. Other initiatives put in place in fiscal 2006 that we expect to grow our pharmacy sales include the opening of in-store health clinics in the Portland, Oregon area, and the launch of a medication therapy management program, a fee for service arrangement, in conjunction with physicians and the University of Pittsburgh. These initiatives have been effective at growing sales in their target markets and have scalable, replicable potential for future expansion.

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 several fully integrated health condition marketing programs, e.g., diabetes, allergy, vitamins, heart health, skincare and weight management, 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, expansion of the number of GNC store-within-Rite Aid-store, and utilizing digital technology in our one-hour photo development. We believe that the new store and relocation program described earlier 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 from independent third party customer surveys. We also have several programs in place that are designed to 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.

Expense Control. Our goal is to either lower expense or contain expense in order to leverage the pharmacy and front end sales growth strategies described earlier and allow more investment in the strategies critical for our future. All expense areas are budgeted and monitored but there are targeted areas of spend that are spotlighted for improvement. The targeted expense areas are subject to analysis of the processes involved, an emphasis on collaboration between areas in the company and vendors, utilization of competition between vendors and consolidation of spend volumes to achieve economies of scale. Examples of targeted expense areas include: (i) inventory returns, (ii) utility expense, and (iii) temporary labor. We plan to reduce the volume of merchandise returns and thereby reduce the labor expense and inventory valuation losses related to returns. Utility expense control is focused on improving the energy management practices and replacing certain equipment to lower consumption and accessing alternative energy sources for a lower cost. We plan to collaborate and consolidate the various temporary labor arrangements throughout our business to achieve economies of scale.

Products and Services

Sales of prescription drugs represented approximately 63.2%, 63.6%, and 63.6% of our total sales fiscal years 2006, 2005 and 2004, respectively. In fiscal years 2006, 2005 and 2004, prescription drug sales were $10.9 billion, $10.7 billion, and $10.5 billion, respectively.

We sell approximately 25,000 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 2006, although certain front-end product classes contributed in excess of 10% to our sales. Our principal classes of products in fiscal 2006 were the following:

Product Class	Percentage of Sales
Prescription drugs	63.2%
Over-the-counter medications and personal care	11.1%
Health and beauty aids	4.9%
General merchandise and other	20.8%

We offer approximately 2,700 products under the Rite Aid private brand, which contributed approximately 11.8% of our front-end sales in the categories where private brand products were offered in fiscal 2006. During fiscal 2006, we added 389 products under our private brand. We intend to continue to increase the number of private brand products.

We have a strategic alliance with GNC under which we have opened 1,145 GNC "stores-within-Rite Aid-stores" and have agreed to open an additional 155 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 customers to fill or refill prescriptions in any of our stores throughout the country, reduces chances of adverse drug interactions, and enables our pharmacists to fill prescriptions more accurately and efficiently. 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 March 4, 2006 we had installed ScriptPro automated pharmacy dispensing units, which are linked to our pharmacists' computers and fill and label prescription drug orders, in 970 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 has enhanced 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 2006, we purchased approximately 94% 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 directly from manufacturers. 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 2006, our stores served an average of 1.7 million customers per day. The loss of any one customer would not have a material adverse impact on our results of operations.

In fiscal 2006, 93.9% 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 2006, the top five third party payors accounted for approximately 31.0% of our total sales, the largest of which represented 8.9% of our total sales. During fiscal 2006, Medicaid related sales were approximately 11.4% of our total sales, of which the largest single Medicaid payor was less than 3% of our total sales. Beginning January 2006, a significant amount of our Medicaid prescriptions moved to coverage under the new Medicare Part D plans. After considering this shift in payor, we expect Medicaid related sales to represent approximately 8% of total sales in fiscal 2007. 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 2006, marketing and advertising expense was $293.5 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 promotions that provide incentives for customers that transfer their prescriptions to us, a card-based loyalty program for senior citizens called "Living More" that provides meaningful discounts and targeted newsletters and offers, direct marketing programs, comprehensive health condition management programs, 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 March 4, 2006, we had 70,200 associates, 12% of which were pharmacists, 47% 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, have added an on-boarding survey to find out how newly hired pharmacists are doing and have an advisory board made up entirely of associates that are 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-Rite Aid-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 cough, 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 quarters may fluctuate based upon the timing and severity of the cough, 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 and we could be subject to fines or penalties.

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, 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 SEC 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 Corporation, 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 reasonably practicable after we file these reports with, or furnish to, the SEC.

Item 1A. Risk Factors

Factors Affecting our Future Prospects

Set forth below is a description of certain risk factors which we believe may be relevant to an understanding of us and our business. Securityholders are cautioned that these and other factors may affect future performance and cause actual results to differ from those which may, from time to time, be anticipated. See "Cautionary Statement Regarding Forward-Looking Statements."

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 March 4, 2006, $3.1 billion of outstanding indebtedness and stockholders' equity of $1,606.9 million. We also had additional borrowing capacity under our revolving credit facility of $1,100.3 million at that time, net of outstanding letters of credit of $115.7 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 2007, 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 earnings were insufficient to cover fixed charges for fiscal 2006 and fiscal 2004 by $23.1 million and $2.6 million, respectively. Our ratio of earnings to fixed charges for fiscal 2005 was 1.15.

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, regulatory 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 secured 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 $534 million of our outstanding indebtedness as of March 4, 2006 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 limit 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 $100.0 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.

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 improving profitability and 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 or major industries can adversely affect drug benefit plans and reduce our pharmacy sales or can adversely affect

consumer buying practices and reduce our sales of front-end products, and cause a decrease in our profitability. Failure to continue to improve operations or a decline in major industries or 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.

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 94% 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 63.2% of our total sales during fiscal 2006, 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.

Drug benefit plan sponsors and third party payors could change their plan eligibility criteria and further encourage or require the use of mail-order prescriptions which could decrease our sales and reduce our margins and have a material adverse effect on our business.

An 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.

Another adverse trend for drugstore retailing has been for drug benefit plan sponsors and third party payors to change their plan eligibility requirements resulting in fewer beneficiaries covered and a reduction in the number of prescriptions allowed.

Mail-order prescription distribution and drug benefit plan eligibility changes have 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 and eligibility changes will be successful.

The availability of pharmacy drugs is subject to governmental regulations.

The continued conversion of various prescription drugs to over-the-counter medications may reduce our pharmacy sales and customers may seek to purchase such medications at non-pharmacy stores. Also, if the rate at which new prescription drugs become available slows or if new prescription drugs that are introduced into the market fail to achieve popularity, our pharmacy sales may be adversely affected. The withdrawal of certain drugs from the market or concerns about the safety or effectiveness of certain drugs or negative publicity surrounding certain categories of drugs may also have a negative effect on our pharmacy sales or may cause shifts in our pharmacy or front-end product mix. For example, growth in late 2004 and 2005 was slowed by the negative publicity surrounding certain arthritis medications and other high-volume drugs, which adversely affected pharmacy sales.

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 2006, sales of prescription drugs represented 63.2% of our sales and 93.9% of all of the prescription drugs that we sold were with third party payors. During fiscal 2006, the top five third-party payors accounted for approximately 31.0% of our total sales, the largest of which represented 8.9% of our total sales. In fiscal 2006, approximately 11.4% of our revenues were from state sponsored Medicaid agencies, the largest of which was less than 3% of our total sales. Beginning January 2006, a significant amount of our Medicaid related prescriptions moved to coverage under the new Medicare Part D plans. After considering this shift in payor, we expect Medicaid related sales to represent approximately 8% of total sales in fiscal 2007. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations.

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 Medicare Part D program, which went into effect January 1, 2006, has reimbursement levels that are lower than the previous level of reimbursement. There have been a number of recent proposals and enactments by the Federal government and 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 government laws and 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.

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.

Federal and state reform programs, such as healthcare reform and enforcement initiatives of federal and state governments may also affect our pharmacy business. These initiatives include:

- proposals designed to significantly reduce spending on Medicare, Medicaid and other government programs;
- changes in programs providing for reimbursement for the cost of prescription drugs by third party plans;
- the Medicare Modernization Act;
- increased scrutiny of, and litigation relating to, prescription drug manufacturers' pricing and marketing pactices; and
- regulatory changes relating to the approval process for prescription drugs.

These initiatives could lead to the enactment of, or changes to, federal regulations and state regulations that could adversely impact our prescription drug sales and, accordingly, our results of operations, financial condition or cash flows. It is uncertain at this time what additional healthcare reform initiatives, if any, will be implemented, or whether there will be other changes in the administration of governmental healthcare programs or interpretations of governmental policies or other changes affecting

the healthcare system. Future healthcare or budget legislation or other changes, including those referenced above, may materially adversely impact our pharmacy sales.

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. 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 1B. Unresolved SEC Staff Comments

None

Item 2. Properties

As of March 4, 2006, we operated 3,323 retail drugstores. The overall average selling square feet of each store in our chain is 11,000 square feet. The overall average total square feet of each store in our chain is 12,800. The stores in the eastern part of the U.S. average 8,800 selling square feet per store (9,900 average total square feet per store). The stores in the southern part of the U.S. average 9,300 selling square feet per store (10,200 average total square feet per store). The stores in the central part of the U.S. average 9,100 selling square feet per store (10,000 average total square feet per store). The stores in the western part of the U.S. average 16,300 selling square feet per store (20,200 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 11,500 and an overall average total square feet of 14,500. The new

store prototype in the eastern parts of the U.S. will average 10,200 square feet (13,000 average total square feet per store). The new store prototype in the western part of the U.S. will average 14,000 selling square feet (17,400 average total square feet per store).

The table below identifies the number of stores by state as of March 4, 2006:

State	Store Count
Alabama	110
California	588
Colorado	25
Connecticut	35
Delaware	24
District of Columbia	8
Georgia	47
Idaho	19
Indiana	9
Kentucky	116
Louisiana	68
Maine	79
Maryland	133
Michigan	317
Mississippi	28
Nevada	36
New Hampshire	38
New Jersey	156
New York	383
Ohio	236
Oregon	71
Pennsylvania	348
Tennessee	47
Utah	24
Vermont	12
Virginia	133
Washington	131
West Virginia	102
Total	3,323

Our stores have the following attributes at March 4, 2006:

Attribute	Number	Percentage
Freestanding	1,795	54%
Drive through pharmacy	1,354	41%
One-hour photo development department	2,607	78%
GNC stores-within a Rite Aid-store	1,145	34%

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 3,093 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
Wilsonville, Oregon(1)	Leased	96,000
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 March 4, 2006, we have 6,116,357 square feet of excess space, of which 4,148,653 square feet was subleased.

Item 3. Legal Proceedings

We had been under a federal government investigation by the United States Attorney, involving various matters related to prior management's business practices. We recorded an accrual of $20.0 million in fiscal 2003 in connection with this investigation. During 2006, this investigation concluded resulting in us not being required to pay any fine or penalty. Accordingly, the accrual of $20.0 million was reversed to zero in the fourth quarter of fiscal 2006.

We are subject from time to time to various claims and lawsuits and governmental investigations arising in the ordinary course of business. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. We believe 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, 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 21, 2006, we had approximately 24,842 shareholders of record. Quarterly high and low stock prices, based on the New York Stock Exchange ("NYSE") composite transactions, are shown below.

Fiscal Year	Quarter	High	Low
2007 (through April 21, 2006)	First	$ 4.48	$ 3.79
2006	First	4.24	3.49
	Second	4.82	3.96
	Third	4.28	3.28
	Fourth	4.10	3.45
2005	First	5.75	4.53
	Second	5.38	4.38
	Third	4.58	3.35
	Fourth	3.81	3.41

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 and some of the indentures that govern our other outstanding indebtedness restrict our ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

During fiscal 2006, we redeemed all shares of our Series F preferred stock for $124.9 million.

Other than 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 24, 2005 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 46-88.

	Fiscal Year Ended				
	March 4, 2006 (53 weeks)	February 26, 2005 (52 weeks)	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)
	(Dollars in thousands, except per share amounts)				
Summary of Operations:					
Revenues	$ 17,270,968	$ 16,816,439	$ 16,600,449	$ 15,791,278	$ 15,166,170
Costs and expense:					
Cost of goods sold(1)	12,571,860	12,202,894	12,163,735	11,611,829	11,252,229
Selling, general and administrative expenses(1) and (2)	4,307,421	4,127,536	4,029,220	3,900,553	3,850,134
Goodwill amortization(3)	—	—	—	—	21,007
Store closing and impairment charges	68,692	35,655	22,074	135,328	251,617
Interest expense	277,017	294,871	313,498	330,020	396,064
Interest rate swap contracts	—	—	—	278	41,894
Loss (gain) on debt modifications and retirements, net	9,186	19,229	35,315	(13,628)	221,054
Share of loss from equity investments	—	—	—	—	12,092
(Gain) loss on sale of assets and investments, net	(6,462)	2,247	2,023	(18,620)	(42,536)
Total costs and expenses	17,227,714	16,682,432	16,565,865	15,945,760	16,003,555
Income (loss) before income taxes	43,254	134,007	34,584	(154,482)	(837,385)
Income tax benefit	(1,229,752)	(168,471)	(48,795)	(41,940)	(11,745)
Net income (loss)	$ 1,273,006	$ 302,478	$ 83,379	$ (112,542)	$ (825,640)
Basic and diluted net income (loss) per share:					
Basic net income (loss) per share	$ 2.36	$ 0.50	$ 0.11	$ (0.28)	$ (1.81)
Diluted net income (loss) per share	$ 1.89	$ 0.47	$ 0.11	$ (0.28)	$ (1.81)
Year-End Financial Position:					
Working capital	$ 741,488	$ 1,335,017	$ 1,894,247	$ 1,676,889	$ 1,580,218
Property, plant and equipment, net	1,717,022	1,733,694	1,882,763	1,867,830	2,095,552
Total assets	6,988,371	5,932,583	6,245,634	6,132,766	6,491,281
Total debt(4)	3,051,446	3,311,336	3,891,666	3,862,628	4,056,468
Redeemable preferred stock(5)	19,970	19,868	19,766	19,663	19,561
Stockholders' equity (deficit)	1,606,921	322,934	(8,277)	(129,938)	(7,527)
Other Data:					
Cash flows from operations provided by (used in):					
Operating activities	417,165	518,446	227,515	305,383	16,343
Investing activities	(231,084)	(118,985)	(242,150)	(72,214)	342,531
Financing activities	(272,835)	(571,395)	(15,931)	(211,903)	(107,109)
Capital expenditures	341,349	222,417	267,373	116,154	187,383
Basic weighted average shares	523,938,000	518,716,000	515,822,000	515,129,000	474,028,000
Diluted weighted average shares(6)	676,666,000	634,062,000	525,831,000	515,129,000	474,028,000
Number of retail drugstores	3,323	3,356	3,382	3,404	3,497
Number of associates	70,200	71,200	72,500	72,000	75,000

(1) Costs of goods sold and selling, general and administrative expenses for the fiscal years ended February 26, 2005, February 28, 2004, March 1, 2003 and March 2, 2002 have been reclassified to conform to current year's presentation of occupancy costs in selling, general and administrative expenses and warehousing and outbound freight costs in costs of goods sold. See Note 1 of the notes to the accompanying consolidated financial statements for further discussion.

(2) Includes stock-based compensation expense (benefit). Stock-based compensation expense for the fiscal years ended March 4, 2006, 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 and March 2, 2002 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 March 4, 2006, February 26, 2005, February 28, 2004, and March 1, 2003.

(4) Total debt included capital lease obligations of $178.2 million, $168.3 million, $183.2 million, $176.2 million and $182.6 million, as of March 4, 2006, February 26, 2005, February 28, 2004, March 1, 2003 and March 2, 2002, respectively.

(5) Redeemable preferred stock was included in "Other Non-current liabilities" as of March 4, 2006, February 26, 2005 and February 28, 2004, respectively.

(6) Diluted weighted average shares for the years ended March 4, 2006 and February 26, 2005 included the impact of stock options, as calculated under the treasury stock method and convertible debt and preferred stock, as calculated under the if-converted 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 2006 was $1,273.0 million, or $1.89 per diluted share, compared to $302.5 million, or $0.47 per diluted share in fiscal 2005, and $83.4 million, or $0.11 per diluted share in fiscal 2004. Our operating results are described in detail in the Results of Operations and Liquidity and Capital Resources sections of this Item 7. However, some of the key factors that impacted our results in fiscal 2006, 2005, and 2004 are summarized as follows:

Income Tax Valuation Allowance Adjustment. Net income included a benefit of $1,231.1 million, or $1.90 per diluted share during fiscal 2006 and $179.5 million, or $0.32 per diluted share during fiscal 2005 related to the recognition of net deferred tax assets as a result of the release of a tax valuation allowance. 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 concluded at the end of fiscal 2006 that the majority of the net deferred tax assets would be utilized. Thus, pursuant to Statement of Financial Accounting Standards ("SFAS") No. 109, we recorded a tax benefit during fiscal 2006 releasing a majority of the remaining valuation allowance, resulting in a non-cash increase in net income of $1,231.1 million. Based upon the then available factors at the end of the fourth quarter of fiscal 2005, we recorded a tax benefit for a portion of our net deferred tax assets by releasing a portion of our valuation allowance, resulting in a non-cash increase in net income of $179.5 million during fiscal 2005. As of March 4, 2006, we maintain a valuation allowance of $259.6 million against remaining net deferred tax assets.

Sales Trends. Our revenue growth for fiscal 2006 compared to fiscal 2005 was 2.7% and for fiscal 2005 compared to fiscal 2004 was 1.3%. Factors affecting our growth are discussed more thoroughly in the Results of Operations section of this Item 7. Significant factors negatively impacting our revenue were customer concerns over the safety of certain categories of drugs, changes in various states' Medicaid coverages, a higher level of prescriptions using generic drugs and lower reimbursement rates, including the new Medicare Part D program. Another significant factor negatively effecting our revenue growth was the continuing penetration of mail order prescription programs, particularly the mandatory mail program that the United Auto Workers implemented beginning January 2004. Additionally, our revenue growth was negatively effected by 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 ended March 2004. As described in the Strategy section of Item 1 of this Form 10-K, we are taking steps to offset these negative factors by working to increase sales at our existing stores through improved customer service and developing new and relocated stores in our strongest markets. Compared to the prior year, our revenue declined by 0.5% in the first quarter and grew 0.2%, 0.9%, and 9.9% in the second, third and fourth quarters, respectively. Revenue growth in the fourth quarter of fiscal 2006 was impacted by an extra week, as fiscal 2006 was a fifty-three week year. The impact of this fifty-third week was 7.9%. However, we expect our revenue results to continue to face significant pressures from the existing competitive environment.

Hurricane Katrina. On August 29, 2005, Hurricane Katrina made landfall in Louisiana and proceeded to move through Mississippi and Alabama, causing one of the worst natural disasters in the

history of the United States. As of March 4, 2006, we had 16 stores that remained closed. We are still assessing whether to rebuild or re-open these stores, and do not expect these stores to be re-opened or rebuilt until sometime in fiscal 2007 or after.

During fiscal 2006, we incurred costs and damages related to Hurricane Katrina of $25.4 million. These costs and damages included the write-off of inventory and long-lived assets at net book value, relief and other payments to associates and other clean-up costs. In addition, we incurred $1.2 million of costs relating to the major remodeling and reconstruction of certain of the impacted stores. We maintain insurance coverage which provides for reimbursement from losses resulting from property damage, including flood, loss of product and business interruption. The insurance coverage is for current replacement value, less certain deductible amounts depending on the nature of the loss and number of occurances.

As of March 4, 2006, we received advance payments of $30.9 million from our insurance carriers. The excess of advance payments over the amounts written off of $5.5 million represents a deferred gain, and was included in other non-current liabilities. The $1.2 million of costs relating to the major remodeling and reconstruction of certain of the impacted stores was included in construction in progress.

The impact of Hurricane Katrina on our sales and operating results for fiscal 2006 was not material.

Debt Refinancing and Receivables Securitization. In fiscal years 2006, 2005 and 2004, we took several steps to improve our leverage, extend the terms of a substantial amount of our debt, lower our interest rates and obtain more flexibility. In fiscal 2006, we amended our senior secured credit facility to consist solely of a $1.75 billion revolving credit facility, paid at maturity the remaining outstanding principal on two existing notes and completed the early redemption of another existing note. As a result of amending our senior secured credit facility and the early redemption of an existing note, we recorded a loss on debt modifications of $9.2 million. 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, offset by net gains of $7.9 million related to the note repurchases described above. These steps and our operating cash flow have enabled us to reduce our debt from $3.9 billion as of March 1, 2003 to $3.1 billion as of March 4, 2006. These transactions are discussed in more detail in the Liquidity and Capital Resources section below.

Dilutive Equity Issuances. At March 4, 2006, 527.7 million shares of common stock were outstanding and an additional 213.2 million shares of common stock were issuable related to outstanding stock options, convertible notes and preferred stock.

Our 213.2 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	55,111	—	112,054	167,165
$5.51 to $7.50	2,189	38,462	—	40,651
$7.51 and over	5,418	—	—	5,418
Total issuable shares	62,718	38,462	112,054	213,234

(a) The exercise of these options would provide cash of $296.2 million

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

Results of Operations

Revenue and Other Operating Data

	Year Ended		
	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)	February 28, 2004 (52 Weeks)
	(Dollars in thousands)		
Revenues	$17,270,968	$16,816,439	$16,600,449
Revenue growth	2.7%	1.3%	5.1%
Same store sales growth(1)	1.1%	1.6%	5.7%
Pharmacy sales growth	2.0%	1.3%	5.8%
Same store pharmacy sales growth(1)	0.3%	1.6%	6.4%
Pharmacy sales as a % of total sales	63.2%	63.6%	63.6%
Third-party sales as a % of total pharmacy sales	93.9%	93.5%	93.3%
Front-end sales growth	3.8%	1.1%	3.9%
Same store front-end sales growth(1)	2.6%	1.6%	4.6%
Front-end sales as a % of total sales	36.8%	36.4%	36.4%
Store data:			
Total stores (beginning of period)	3,356	3,382	3,404
New stores	17	7	2
Closed stores	(56)	(38)	(26)
Store acquisitions, net	6	5	2
Total stores (end of period)	3,323	3,356	3,382
Remodeled stores	173	169	170
Relocated stores	53	13	7

(1) Same store sales for fiscal 2006 are calculated by comparing the 53 week period ended March 4, 2006 with the 53 week period ended March 5, 2005.

Revenues

Fiscal 2006 compared to Fiscal 2005: The 2.7% growth in revenues for fiscal 2006 was driven by front-end sales growth of 3.8% and pharmacy sales growth of 2.0%. Sales growth in front-end and pharmacy was driven by increases in same store sales, which are discussed in more detail in the paragraphs below, and by the additional week in fiscal 2006. 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 not included in same store sales.

Fiscal 2006 pharmacy same store sales increased by 0.3%, due to an increase in price per prescription, offset by an increase in generic sales, lower reimbursement rates, including the lower reimbursement rates from the new Medicare Part D program, and a decrease in the number of prescriptions filled. The decrease in the number of prescriptions filled was due primarily to certain third party payors requiring or encouraging customers to use mail order, competitor growth in our markets, changes in medicaid coverages, safety concerns in antiarthritic, psychotherapeutic and hormone therapy prescriptions and a milder cough, cold and flu season than the prior year.

Fiscal 2006 front-end same store sales increased by 2.6%, primarily as a result of improvement in our core categories such as over-the-counter, health and beauty care and consumable and food products partially offset by a decrease in photo and film sales and the decrease in categories negatively impacted by a milder cough, cold and flu season.

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.

Fiscal 2005 pharmacy same store sales increased by 1.6%, due to increases in price per prescription, offset by an increase in generic sales, lower reimbursement rates, and a decrease in the number of prescriptions filled. This reduction in prescriptions filled is due primarily to certain third party payors requiring or encouraging customers to use mail order, safety concerns in antiarthritic, psychotherapeutic and hormone therapy prescriptions, the movement of certain prescription drugs to over-the-counter and a milder cough, cold and flu season than in the prior year. 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 cough, 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.

Costs and Expenses

	Year Ended		
	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)	February 28, 2004 (52 Weeks)
	(Dollars in thousands)		
Costs of goods sold	$12,571,860	$12,202,894	$12,163,735
Gross profit	$ 4,699,108	$ 4,613,545	$ 4,436,714
Gross margin	27.2%	27.4%	26.7%
Selling, general and administrative expenses	$ 4,307,421	$ 4,127,536	$ 4,029,220
Selling, general and administrative expenses as a percentage of revenues	24.9%	24.5%	24.3%
Store closing and impairment charges	68,692	35,655	22,074
Interest expense	277,017	294,871	313,498
Loss on debt modifications and retirements, net	9,186	19,229	35,315
(Gain) loss on sale of assets and investments, net	(6,462)	2,247	2,023

Cost of Goods Sold

Gross margin was 27.2% for fiscal 2006 compared to 27.4% in fiscal 2005. Gross margin was negatively impacted by the recording of a LIFO charge of $32.2 million in fiscal 2006, compared to a LIFO credit of $18.9 million in fiscal 2005. The LIFO credit in fiscal 2005 was caused by significant generic drug deflation. This difference in the LIFO charge from fiscal 2005 to fiscal 2006 decreased gross margin by 0.3%. 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 negatively impacted by a decrease in front-end margin, which was driven by an increase in markdowns.

Gross margin was 27.4% for fiscal 2005 compared to 26.7% in fiscal 2004. Gross margin was positively impacted by improvements in pharmacy 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. Gross margin was also positively impacted by the recording

of a LIFO credit in fiscal 2005, as indicated above. 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.

We use the last-in, first-out (LIFO) method of inventory valuation. The LIFO charge (credit) was $32.2 million in fiscal 2006, ($18.9) million in fiscal 2005, and $19.9 million in fiscal 2004.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses ("SG&A") for fiscal 2006 was 24.9% as a percentage of revenues, compared to 24.5% for fiscal 2005. The increase in SG&A as a percent of revenues in fiscal 2006 was driven primarily by increases in pharmacy salaries, rent from new and relocated stores and the sale-leaseback of owned stores, securitization program fees, advertising expense, utility expense, and a decrease in income from litigation settlements. These items were partially offset by a decrease in self-insurance expense for general liability insurance and a $20.0 million accrual reversal resulting from the United States Attorney closing its investigation involving matters related to prior management's business practices.

SG&A expense for fiscal 2005 was 24.5% as a percentage of revenues, compared to 24.3% 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.

Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)	February 28, 2004 (52 Weeks)
		(Dollars in thousands)	
Impairment charges	$46,114	$30,014	$24,914
Store and equipment lease exit charges (credits)	22,578	5,641	(2,840)
	$68,692	$35,655	$22,074

Impairment Charges. In fiscal 2006, 2005, and 2004, store closing and impairment charges include non-cash charges of $46.1 million, $30.0 million and $24.9 million, respectively, for the impairment of long-lived assets at 414, 291, and 208 stores, respectively. These amounts include the write-down of long-lived assets to estimated fair value at stores that were identified for impairment as part of our on-going store performance review at all of our stores or management's intention to relocate or close the store.

Store and Equipment Lease Exit Charges (Credits). In fiscal 2006, 2005, and 2004, we recorded charges for 43, 13, and 5 stores, respectively, to be closed or relocated under long-term leases. 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 an increase in the number of stores for which a store closing charge was taken caused an increase in our store lease exit charge in fiscal 2006 over fiscal 2005. 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

In fiscal 2006, 2005, and 2004, interest expense was $277.0 million, $294.9 million, and $313.5 million, respectively. Interest expense for fiscal 2006 decreased from fiscal 2005 due to decreases in outstanding borrowings and a lower interest rate on our amended senior secured credit facility partially offset by an extra week in fiscal 2006. 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.

The annual weighted average interest rates on our indebtedness in fiscal 2006, fiscal 2005 and fiscal 2004 were 7.4%, 7.0%, and 6.8% respectively.

Income Taxes

Income tax benefits of $1,229.8 million, $168.5 million and $48.8 million have been recorded for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The fiscal 2006 benefit was primarily comprised of a federal and state tax benefit of $1,231.1 million for the release of valuation allowance for net deferred tax assets that have an expected future utilization. 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 2006 and 2005 benefits were 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.

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.

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 concluded at the end of fiscal 2006 that the majority of the net deferred tax assets would be utilized. Thus, pursuant to SFAS No. 109, we recorded a tax benefit during fiscal 2006 releasing a majority of the remaining valuation allowance, resulting in a non-cash increase in net income of $1,231.1 million. Based upon the then available factors at the fourth quarter of fiscal 2005, we recorded a tax benefit for a portion of our net deferred tax assets by releasing a portion of our valuation allowance, resulting in a non-cash increase in net income of $179.5 million during fiscal 2005. Until the fourth quarter of fiscal 2005, we provided a full valuation allowance against our net deferred tax assets. 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 $259.6 million against remaining net deferred tax assets at fiscal year end 2006. The majority of the valuation allowance relates to state net operating loss carryforwards.

We 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 and cash equivalents; (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.

2006 Transactions

Credit Facility

On September 30, 2005, we amended our senior secured credit facility. The amended senior credit facility consists solely of a $1.75 billion revolving credit facility. Borrowings under the amended senior secured credit facility currently bear interest at LIBOR plus 1.50%, if we choose to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending on the amount of revolver availability, as specified in the amended senior secured credit facility. We are required to pay fees of 0.25% per annum on the daily unused amount of the amended revolving credit facility. The amounts drawn on the amended revolving credit facility become due and payable in September 2010.

The amended senior secured credit facility allows us to have outstanding, at any time, up to $1.8 billion in secured debt in addition to the amended senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2010, as described below). We have the ability to incur additional unsecured debt of up to $750.0 million with a scheduled maturity date prior to December 31, 2010. The maximum amount of additional secured debt and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1.8 billion. At March 4, 2006 remaining additional permitted secured debt under the amended senior secured credit facility was $798.0 million in addition to what is available under the revolver; however, other debentures do not permit additional secured debt if the revolver is fully drawn. The amended senior secured credit facility allows us to incur an unlimited amount of unsecured debt with a maturity beyond December 31, 2010; however other debentures limit the amount of unsecured debt that can be incurred if certain fixed charge coverage levels are not met at the time of incurrence of said debt. The amended senior secured facility also allows for the repurchase of any debt with a maturity on or before September 2010, and for the repurchase of debt with a maturity after September 2010, if we maintain availability on the revolving credit facility of at least $100.0 million.

The amended senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, mergers and acquisitions and the granting of liens. The amended senior secured credit facility also requires us to maintain a minimum fixed charge coverage ratio, but only if availability on the revolving credit facility is less than $100.0 million.

The amended senior secured credit facility contains events of default including non-payment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having principal amount in excess of $50.0 million 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.

Our ability to borrow under the amended senior secured credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At March 4, 2006, we had $534.0 million of borrowings outstanding under the revolving credit facility. At March 4, 2006, we also had letters of credit outstanding against the revolving credit facility of $115.7 million, which gave us additional borrowing capacity of $1.1 billion.

Our amended senior secured credit facility is backed by a syndicate of banks. The lead banks in the syndicate, Citigroup Global Markets, Inc. and J.P. Morgan Securities, Inc. have provided certain financial advisory, investment banking and other services for us, for which they have received customary fees and commissions.

Preferred Stock Transactions

In fiscal 2006, we issued 4.8 million shares of Series I Mandatory Convertible Preferred Stock ("Series I preferred stock") at an offering price of $25 per share. Dividends on the Series I preferred stock are $1.38 per share per year, and are due and payable on a quarterly basis in either cash or common stock or a combination of both at our election. The Series I preferred stock will automatically convert into common stock on November 17, 2008 at a rate that is dependent upon the adjusted applicable market value of our common stock (as defined in the Series I Certificate of Designations). If the adjusted applicable market value of our common stock is $5.30 a share or higher at the conversion date, then the Series I preferred stock is convertible at a rate of 4.7134 per share of our common stock for every share of Series I preferred stock outstanding. If the adjusted applicable market value of our common stock is less than or equal to $4.42 per share at the conversion date, then the Series I preferred stock is convertible at a rate of 5.6561 shares of our common stock for every share of Series I preferred stock outstanding. If the adjusted applicable market value of our common stock is between $4.42 per share and $5.30 per share at the conversion date, then the Series I preferred stock is convertible into common stock at a rate that is between 4.7134 and 5.6561 per share. The holder may convert shares of the Series I preferred stock into common stock at any time prior to the mandatory conversion date at the rate of 4.7134 per share. The Series I preferred stock is also convertible at our option, but only if the adjusted applicable market value of our common stock exceeds $9.55. If we are subject to a cash acquisition (as defined in the Certificate of Designations) prior to the mandatory conversion date, the holder may elect to convert the shares of Series I preferred stock into shares of common stock using a conversion rate set forth in the Certificate of Designations. The holder will also receive a payment equal to the present value of all scheduled dividends through the mandatory conversion date.

Proceeds from the issuance of the Series I preferred stock, along with borrowings under the revolver, were used to redeem all shares of our Series F preferred stock, at 105% of the liquidation preference of $100 share. We paid a premium to redeem the Series F preferred stock of $5.9 million.

Sale Leaseback Transactions

During fiscal 2006, we sold the land and buildings on a total of 32 owned properties to independent third parties. Net proceeds from these sales were approximately $85.3 million. Concurrent with these sales, we entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. We accounted for 30 of these leases as operating leases and the remaining two leases were accounted for using the financing method, as these lease agreements contain a clause that allows the buyer to force us to repurchase the property under certain conditions. A gain on the sale of these properties of $15.9 million has been deferred and is being recorded over the minimum term of these leases. Losses of $1.0 million were recorded as losses on the sale of assets and investments in fiscal 2006.

Other Transactions

On December 15, 2005, we paid at maturity the remaining outstanding principal amount of $38.0 million of our 6.0% fixed-rate senior notes due December 2005.

On July 15, 2005, we completed the early redemption of all of our outstanding $150.0 million aggregate principal amount of 11.25% notes due July 2008 at their contractually determined early redemption price of 105.625% plus accrued interest. We funded this redemption with borrowings under our receivable securitization agreements. We recorded a loss on debt modification of $9.2 million related to this transaction.

On April 15, 2005, we paid at maturity the remaining outstanding principal amount of $170.5 million of our 7.625% senior notes due April 2005.

2005 Transactions

Credit Facility

On September 22, 2004, we amended our then existing senior secured credit facility. The facility consisted of a $450.0 million term loan and a $950.0 million revolving credit facility, and had a maturity date of September, 2009. The proceeds of the loans made on the closing date of the credit facility along with available cash and proceeds from receivables securitization agreements were used to repay outstanding amounts under the old credit facility.

Sale Leaseback Transactions

During fiscal 2005, we sold the land and buildings on 36 owned properties 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 was redeemable at our election at any point after issuance. We redeemed all of the outstanding shares of Series F preferred stock in fiscal 2006. 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 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 senior secured credit facility, subject to certain exceptions. The indenture governing our 7½% senior secured notes contains 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 amended our then existing 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. The indenture governing the 9.25% senior notes contains 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. The 9.25% senior notes do not have the benefit of subsidiary guarantees.

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 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 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.

Off Balance Sheet Obligations

We maintain securitization agreements with several multi-seller asset-backed commercial paper vehicles (“CPVs”). 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. The SPE then transfers an interest in these receivables to various CPVs. Transferred outstanding receivables cannot exceed $400.0 million.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution ("Securitization Formula"). Adjustments to this amount can occur on a weekly basis. At March 4, 2006 and February 26, 2005, the total of outstanding receivables that had been transferred to the CPVs were $330.0 million and $150.0 million, respectively. The average amount of outstanding receivables transferred during fiscal 2006 and 2005 was $243.6 million and $263.3 million, respectively. Total receivable transfers for fiscal 2006 and 2005 totaled $3.7 billion and $1.9 billion, respectively. Collections made by us as part of the servicing arrangement on behalf of the CPVs, for fiscal 2006 and 2005 totaled $3.5 billion and $1.7 billion, respectively. At March 4, 2006 and February 26, 2005, we retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $274.5 million and $426.4 million, respectively, exclusive of the allowance for uncollectible accounts, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

We are subject to an ongoing program fee of approximately LIBOR plus 1.125% on the amount transferred to the CPVs 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 2006 and 2005 were $12.8 million and $4.0 million, respectively. Rite Aid Corporation guarantees certain performance obligations of its affiliates under the securitization agreements, which includes the continued servicing of such receivables, but does not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2006 with the option to annually extend the commitment to purchase. Should any of the CPVs fail to renew their commitment under these securitization agreements, the Company has access to a backstop credit facility, which is backed by the CPVs and which expires in September 2007, to continue to provide liquidity to us.

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 (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to the Company's corporate concentration account. At March 4, 2006 and February 26, 2005, we had $2.2 million and $0.8 million of cash, respectively that was restricted for the payment of trustee fees.

We have determined 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, we have determined that we do not hold a variable interest in the CPVs, pursuant to the guidance in FIN 46R, "Consolidation of Variable Interest Entities", and therefore have determined that the de-recognition of the transferred receivables is appropriate.

As of March 4, 2006, we had no material off balance sheet arrangements, other than the receivables securitization agreements described above and operating leases, which are included in the table below.

Contractual Obligations and Commitment

The following table details the maturities of our indebtedness and lease financing obligations as of March 4, 2006, as well as other contractual cash obligations and commitments.

	Payment due by period				
	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)	$ 790,111	$ 496,532	$1,503,871	$1,578,096	$ 4,368,610
Capital lease obligations(2)	25,215	47,638	44,393	179,110	296,356
Operating leases(3)	562,169	1,052,507	931,144	3,349,310	5,895,130
Open purchase orders	260,156	—	—	—	260,156
Other, primarily self insurance and retirement plan obligations(4)	128,636	115,563	28,128	58,036	330,363
Total contractual cash obligations	$1,766,287	$1,712,240	$2,507,536	$5,164,552	$11,150,615
Commitments					
Lease guarantees	17,707	34,433	33,941	112,753	198,834
Outstanding letters of credit	115,703	—	—	—	115,703
Total commitments	$ 133,410	$ 34,433	$ 33,941	$ 112,753	$ 314,537

(1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of March 4, 2006.

(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, undiscounted payments for self-insured medical coverages, actuarially determined undiscounted payments for self-insured workers compensation and general liability, 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 $417.2 million in fiscal 2006. Operating cash flow was positively impacted by net proceeds of $180.0 million from the sale of certain of our third party receivables and receipts of cash related to insured losses. These items were partially offset by an increase in inventory net of an increase in accounts payable and an increase in accounts receivable and prepaid expenses.

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

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

Cash used in investing activities was $231.1 million in fiscal 2006. Cash of $287.8 million was used for the purchase of property, plant and equipment and cash of $53.6 million was used for the purchase of prescription files. Cash of $77.3 million was provided by proceeds from our sale leaseback transactions and cash of $26.4 million was provided by proceeds from other asset dispositions.

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 financing activities was $272.8 million in fiscal 2006, due to the amending of our credit facility and principal payments on long term debt.

Cash used in financing activities was $571.4 million in fiscal 2005, due to the amending 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 amending of our credit facility, the early redemption of several bonds and payments on certain bonds at maturity was largely offset by proceeds from bond issuances.

Capital Expenditures

We plan to make total capital expenditures of approximately $450 million to $500 million during fiscal 2007, consisting of approximately 75% related to new store construction, store relocation, store remodel and store improvement projects, 15% related to technology enhancements, improvements to distribution centers, and other corporate requirements, and approximately 10% related to the purchase of prescription files from independent pharmacies. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities and proceeds from sale leaseback transactions.

In fiscal 2005, we resumed our new store and store relocation program. In fiscal 2007, our goal is to open or relocate approximately 125 stores. Approximately 50% of the stores will be relocated or expanded stores and the remaining 50% will be new stores. The program is focused on our strongest existing markets. We also expect to continue remodeling stores in fiscal 2007.

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 available borrowings under the senior credit facility, sales of accounts receivable under our securitization agreements 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. The restrictions on the incurrence of additional indebtedness in our senior secured credit facility and several of our bond indentures may limit our ability to obtain additional funds. There can be no assurance that any such supplemental funding, if sought, could be obtained or if obtained, would be on terms acceptable to us.

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 of expense recognition. Fair value for stock options can be calculated using either a closed form or open form calculation method. SFAS No. 123R requires companies to recognize option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures. SFAS No. 123R is required to be adopted as of the first fiscal year beginning after December 15, 2005.

We had previously adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" effective March 2, 2003 and had been recognizing expense on a ratable basis related to share-based payments to associates using the fair value method. We will adopt the provisions of SFAS 123R effective March 5, 2006 using the modified prospective transition method. We do not expect the adoption of SFAS 123R to have a material impact on our financial position or results of operations.

SFAS No. 123R will also require us to change the classification of any tax benefits realized upon exercise of stock options in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts will be presented as a financing cash inflow rather than as a reduction of income taxes paid in our consolidated statement of cash flows.

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 was effective no later than the end of fiscal years ended after December 15, 2005 and accordingly, we have adopted FIN 47. The adoption of FIN 47 has not had a material impact on our financial position or results of operation.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific translation provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" to simplify accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. Certain of our public bonds contain an early call option that meets the definition of a hybrid financial instrument. However, these instruments are not required to be bifurcated from the host contracts and therefore the provisions set forth in SFAS No. 155 are not applicable to these instruments.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets". This standard is required to be adopted as of the first fiscal year beginning after September 15, 2006. We may be required to recognize a servicing asset or liability related to our securitization agreements. We have not

quantified the impact of adopting SFAS No. 156, but 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 recorded.

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 $656.0 million. In connection with the provisions of SFAS No. 142, we perform an annual impairment test of goodwill. Our test as of March 4, 2006 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 the 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 terms of which approximate 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 some 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.

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 March 4, 2006.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value at March 4, 2006
Long-term debt, Including current portion								
Fixed rate	$ 574,514	$ 632	$ 150,329	$ 120	$ 657,263	$ 956,361	$ 2,339,219	$ 2,233,048
Average Interest Rate	7.45%	8.00%	6.13%	8.00%	8.79%	7.65%	7.82%	
Variable Rate	—	—	—	—	534,000	—	534,000	534,000
Average Interest Rate	0.00%	0.00%	0.00%	0.00%	6.12%	0.00%	6.12%	

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 1.50% for 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 47 basis points) as compared to the LIBOR rate of 4.67% as of March 4, 2006 our annual interest expense would change by approximately $2.5 million based upon our variable-rate debt outstanding of approximately $534.0 million on March 4, 2006.

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 report 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

(a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of 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. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting

Management's Annual 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 Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, 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 March 4, 2006, 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.

Attestation Report of the Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm, Deloitte & Touche LLP, on our management's assessment of our internal control over financial reporting is included in the audit report which is included elsewhere in this report and incorporated by reference herein.

(c) Changes in Internal Control Over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our fourth fiscal quarter ended March 4, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 March 4, 2006, 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 March 4, 2006, 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 March 4, 2006, 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 March 4, 2006, of the Company and our report dated April 28, 2006 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, 2006

Item 9B. Other Information

None

PART III

We intend to file with the SEC a definitive proxy statement for our 2006 Annual Meeting of Stockholders, to be held on June 21, 2006, pursuant to Regulation 14A not later than 120 days after March 4, 2006. The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference from 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. 46
Consolidated Balance Sheets as of March 4, 2006 and February 26, 2005 47
Consolidated Statements of Operations for the fiscal years ended March 4, 2006, February 26, 2005 and February 28, 2004 48
Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended March 4, 2006, February 26, 2005 and February 28, 2004 49
Consolidated Statements of Cash Flows for the fiscal years ended March 4, 2006, February 26, 2005 and February 28, 2004 50
Notes to Consolidated Financial Statements 51

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	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
3.6	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
3.7	5.5% Series I Mandatory Convertible Preferred Stock Certificate of Designation dated August 2, 2005	Exhibit 3.1 to Form 8-K, filed on August 24, 2005
3.8	By-laws, as amended and restated	Exhibit 3.1 to Form 8-K, filed on December 14, 2005
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 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
4.7	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
4.8	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
4.9	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
4.10	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
4.11	Third Amendment and Restatement dated as of September 30, 2005, to the Credit Agreement dated as of June 27, 2001, as amended and restated as of September 22, 2004, among Rite Aid Corporation, a Delaware corporation, the lender from time to time party thereto, Citicorp North America, Inc., as administrative agent and collateral processing co-agent, JPMorgan Chase Bank, N.A., as syndication agent and collateral processing co-agent, Fleet Retail Group, Inc., as co-documentation agent and collateral agent, The CIT Group/Business Credit, Inc., as co-documentation agent, and General Electric Capital Corporation, as co-documentation agent.	Exhibit 4.11 to Form 10-Q, filed on October 3, 2005
4.12	Definitions Annex to the Senior Loan Documents and the Second Priority Debt Documents	Exhibit 4.12 to Form 10-Q, filed on October 3, 2005

Exhibit Numbers	Description	Incorporation By Reference To
4.13	Second Amendment, dated as of September 30, 2005, to the Amended and Restated Collateral Trust and Intercreditor Agreement, dated as of June 27, 2001, as amended and restated as of May 28, 2003, among Rite Aid Corporation and its subsidiaries that are a party thereto, the collateral trustees, the collateral processing co-agents and the trustees of various indentures covered by this agreement.	Exhibit 4.13 to Form 10-Q, filed on October 3, 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
10.3	2001 Stock Option Plan*	Exhibit 10.3 to Form 10-K, filed on May 21, 2001
10.4	2004 Omnibus Equity Plan*	Exhibit 10.4 to Form 10-K, filed on April 28, 2005
10.5	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
10.6	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of April 28, 2005*	Exhibit 10.8 to Form 10-K, filed on April 28, 2005
10.7	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
10.8	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
10.9	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
10.10	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
10.11	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
10.12	Employment Agreement by and between Rite Aid Corporation and Douglas E. Donley, dated as of August 1, 2000*	Exhibit 10.1 to Form 10-Q, Filed on December 22, 2005
10.13	Employment Agreement by and between Rite Aid Corporation and Mark de Bruin, dated as of February 5, 2003*	Exhibit 10.2 to Form 10-Q, Filed on December 22, 2005
10.14	Employment Agreement by and between Rite Aid Corporation and Mark C. Panzer, dated June 27, 2001*	Exhibit 10.34 to Form 10-K, filed on May 2, 2003

Exhibit Numbers	Description	Incorporation By Reference To
10.15	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
10.16	Rite Aid Corporation Special Executive Retirement Plan*	Exhibit 10.15 to Form 10-K, filed on April 26, 2004
10.17	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
10.18	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	Filed herewith (see note 2 to the consolidated financial statements)
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.

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 March 4, 2006 and February 26, 2005, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended March 4, 2006. Our audits also included the financial statement schedule listed in the Index 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, the financial statements referred to above present fairly, in all material respects, the financial position of Rite Aid Corporation and subsidiaries as of March 4, 2006 and February 26, 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 4, 2006, 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 March 4, 2006, 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, 2006 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, 2006

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	March 4, 2006	February 26, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,067	$ 162,821
Accounts receivable, net	354,949	483,455
Inventories, net	2,341,410	2,310,153
Prepaid expenses and other current assets	112,386	50,325
Total current assets	2,884,812	3,006,754
Property, plant and equipment, net	1,717,022	1,733,694
Goodwill	656,037	684,535
Other intangibles, net	193,228	179,480
Deferred tax assets	1,392,889	189,270
Other assets	144,383	138,850
Total assets	$ 6,988,371	$ 5,932,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of convertible notes, long-term debt and lease financing obligations	$ 584,196	$ 223,815
Accounts payable	862,192	757,571
Accrued salaries, wages and other current liabilities	696,936	690,351
Total current liabilities	2,143,324	1,671,737
Convertible notes	—	247,500
Long-term debt, less current maturities	2,298,706	2,680,998
Lease financing obligations, less current maturities	168,544	159,023
Other noncurrent liabilities	770,876	850,391
Total liabilities	5,381,450	5,609,649
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock—series E, par value $1 per share; liquidation value $50 per share; 2,500 shares authorized; shares issued 2,500	120,000	120,000
Preferred stock—series F, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 0 and 1,131	—	113,081
Preferred stock—series G, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,212 and 1,131	121,207	113,081
Preferred stock—series H, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,200 and 1,131	120,020	113,081
Preferred stock—series I, par value $1 per share; liquidation value $25 per share; 5,200 shares authorized; shares issued 4,820 and 0	116,074	—
Common stock, par value $1 per share; 1,000,000 shares authorized; shares issued and outstanding 527,667 and 520,438	527,667	520,438
Additional paid-in capital	3,114,997	3,121,404
Accumulated deficit	(2,489,023)	(3,756,146)
Accumulated other comprehensive loss	(24,021)	(22,005)
Total stockholders' equity	1,606,921	322,934
Total liabilities and stockholders' equity	$ 6,988,371	$ 5,932,583

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		
	March 4, 2006	February 26, 2005	February 28, 2004
Revenues	$17,270,968	$16,816,439	$16,600,449
Costs and expenses:			
Cost of goods sold	12,571,860	12,202,894	12,163,735
Selling, general and administrative expenses	4,307,421	4,127,536	4,029,220
Store closing and impairment charges	68,692	35,655	22,074
Interest expense	277,017	294,871	313,498
Loss on debt modifications and retirements, net	9,186	19,229	35,315
(Gain) loss on sale of assets and investments, net	(6,462)	2,247	2,023
	17,227,714	16,682,432	16,565,865
Income before income taxes	43,254	134,007	34,584
Income tax benefit	(1,229,752)	(168,471)	(48,795)
Net income	$ 1,273,006	$ 302,478	$ 83,379
Computation of income applicable to common stockholders:			
Net income	$ 1,273,006	$ 302,478	$ 83,379
Accretion of redeemable preferred stock	(102)	(102)	(102)
Preferred stock beneficial conversion	—	—	(625)
Cumulative preferred stock dividends	(32,723)	(35,226)	(24,098)
Premium to redeem preferred stock	(5,883)	(5,650)	—
Income applicable to common stockholders	$ 1,234,298	$ 261,500	$ 58,554
Basic and diluted income per share:			
Basic income per share	$ 2.36	$ 0.50	$ 0.11
Diluted income per share	$ 1.89	$ 0.47	$ 0.11

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 March 4, 2006, February 26, 2005 and February 28, 2004
(In thousands)

	Preferred Stock Series D		Preferred Stock Series E		Preferred Stock-Series F		Preferred Stock-Series G		Preferred Stock-Series H		Preferred Stock-Series I		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	Shares	Amount	Amount				
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, net of tax of $0																		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)		—
Stock-based compensation 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, net of tax of $0																		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
Stock-based compensation expense															16,709				16,709
Stock options exercised													1,105	1,105	1,937				3,042
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
Net income																1,273,006			1,273,006
Other comprehensive income:																			
Minimum pension liability adjustment																		(3,425)	(3,425)
Tax benefit from minimum pension liability adjustment																		1,409	1,409
Comprehensive income																			1,270,990
Exchange of restricted shares for taxes													(340)	(340)	(914)				(1,254)
Issuance of restricted stock													4,202	4,202	(4,202)				—
Cancellation of restricted stock													(839)	(839)	839				—
Amortization of restricted stock balance															6,274				6,274
Stock-based compensation expense															13,987				13,987
Stock options exercised													4,206	4,206	7,356				11,562
Tax benefit from exercise of stock options															2,976				2,976
Dividends on preferred stock					46	4,569	81	8,126	69	6,939					(19,634)				—
Issuance of Series I preferred stock											4,820	116,074							116,074
Redemption of Series F stock					(1,177)	(117,650)										(5,883)			(123,533)
Cash dividends paid on preferred shares															(13,089)				(13,089)
BALANCE MARCH 4, 2006	—	—	2,500	$120,000	—	—	1,212	$121,207	1,200	$120,020	4,820	$116,074	527,667	$527,667	$3,114,997	$(2,489,023)	—	$ (24,021)	$1,606,921

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		
	March 4, 2006	February 26, 2005	February 28, 2004
OPERATING ACTIVITIES:			
Net income	$ 1,273,006	$ 302,478	$ 83,379
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	249,755	246,742	264,584
Store closings and impairment charges	68,692	35,655	22,074
LIFO charges (credits)	32,188	(18,919)	19,873
(Gain) loss on sale of assets and investments, net	(6,462)	2,247	2,023
Stock-based compensation expense	20,261	19,020	29,821
Loss on debt modifications and retirements, net	9,186	19,229	35,315
Changes in deferred taxes	(1,211,646)	(179,538)	—
Tax benefit from the exercise of stock options	2,976	5,293	—
Proceeds from insured loss	24,319	—	—
Changes in operating assets and liabilities:			
Net proceeds from accounts receivable securitization	180,000	150,000	—
Accounts receivable	(51,494)	36,549	(94,486)
Inventories	(63,445)	(68,063)	(48,014)
Prepaid expenses and other current assets	(62,061)	60,301	(2,608)
Other assets	(13,961)	(11,806)	758
Income taxes receivable/payable	(21,263)	30,832	(61,209)
Accounts payable	71,641	(26,511)	(17,162)
Other liabilities	(84,527)	(85,063)	(6,833)
Net cash provided by operating activities	417,165	518,446	227,515
INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(287,785)	(190,792)	(250,668)
Intangible assets acquired	(53,564)	(31,625)	(16,705)
Proceeds from sale-leaseback transactions	77,307	94,151	—
Proceeds from dispositions of assets and investments	26,355	9,281	25,223
Proceeds from insured loss	6,603	—	—
Net cash used in investing activities	(231,084)	(118,985)	(242,150)
FINANCING ACTIVITIES:			
Proceeds from issuance of new bank credit facilities	—	438,015	1,150,000
Net proceeds from revolver	534,000	—	—
Principal payments on bank credit facilities	(448,875)	(1,151,125)	(1,372,500)
Proceeds from financing secured by owned property	8,001	—	—
Proceeds from the issuance of bonds	—	200,000	502,950
Principal payments on long-term debt	(377,023)	(82,116)	(264,324)
Change in zero balance cash accounts	26,393	25,792	(4,613)
Net proceeds from the issuance of common stock	11,562	3,042	3,541
Net proceeds from the issuance of preferred stock	116,885	120,975	—
Payments for the redemption of preferred stock	(123,533)	(118,651)	—
Payments for preferred stock dividends	(13,089)	(785)	—
Deferred financing costs paid	(7,156)	(6,542)	(30,985)
Net cash used in financing activities	(272,835)	(571,395)	(15,931)
Decrease in cash and cash equivalents	(86,754)	(171,934)	(30,566)
Cash and cash equivalents, beginning of year	162,821	334,755	365,321
Cash and cash equivalents, end of year	$ 76,067	$ 162,821	$ 334,755

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 4, 2006, February 26, 2005 and February 28, 2004

(In thousands, except per share amounts)

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 3,323 stores in operation as of March 4, 2006. The Company's drugstores' primary business is pharmacy services. The Company 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		
	March 4, 2006	February 26, 2005	February 28, 2004
Pharmacy sales	$10,868,291	$10,654,496	$10,517,703
Front-end sales	6,317,165	6,087,999	6,018,942
Other revenue	85,512	73,944	63,804
	$17,270,968	$16,816,439	$16,600,449

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal year ended March 4, 2006 included 53 weeks, and fiscal years ended February 26, 2005 and February 28, 2004 included 52 weeks.

Reclassifications

The statements of operations for years ended February 26, 2005 and February 28, 2004 have been reclassified to include store facility costs, including rent, facilities depreciation and utility costs as selling, general and administrative expenses and warehousing and outbound freight costs as cost of goods sold. For the year ended February 26, 2005, the impact of the reclassification was a decrease to cost of goods sold of $406,094 and a corresponding increase to selling, general and administrative expenses. For the year ended February 28, 2004, the impact of the reclassification was a decrease to cost of goods sold of $404,994 and a corresponding increase to selling, general and administrative expenses.

The statements of cash flows for the years ended February 26, 2005 and February 28, 2004 have been reclassified to reflect as separate components of cash provided by operating activities, LIFO charges (credits), prepaid expenses and other current assets, other assets, and other liabilities, which were previously aggregated.

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

Over 90% 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 March 4, 2006 and February 26, 2005, inventories were $503,608 and $471,417, 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 charge (credit) was $32,188, $(18,919), and $19,873 for fiscal years 2006, 2005, and 2004, 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 estimated fair value of the Company with its total capitalization including long term debt and stockholders' equity.

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 2006, 2005 and 2004, the Company capitalized costs of approximately $3,563, $2,991 and $3,117, 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.

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, purchasing costs and warehousing costs which include inbound freight costs from the vendor, distribution payroll and benefit costs, distribution center occupancy costs and depreciation expense and delivery expenses to the stores.

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. 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 store and corporate administrative payroll and benefit costs, occupancy costs which include retail store and corporate rent costs, facility and leasehold improvement depreciation and utility costs, advertising, repair and maintenance, insurance, equipment depreciation 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 2006, 2005 and 2004 were $293,545, $278,949, and $255,658, 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 the rate of increase in future compensation levels.

Stock-Based Compensation

The Company has several stock option plans, which are described in detail in Note 13. 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 2006, 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.

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:

	2006	2005	2004
Expected stock price volatility	50.3%	61.5%	85.5%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	4.62%	3.80%	3.00%
Expected life of options	4.0 years	4.0 years	5.0 years

The weighted-average fair value of each option granted during fiscal 2006, 2005 and 2004 was $1.99, $2.92 and $3.20, respectively.

Store Preopening Expenses

Costs incurred prior to the opening of a new or relocated store, associated with a remodeled store or related to the opening of a distribution facility are charged against earnings 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.

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 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 2006, the top five third party payors accounted for approximately 31.0% of the Company's total sales, the largest of which represented 8.9% 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 2006, state sponsored Medicaid agencies accounted for approximately 11.4% of the Company's 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 2006, the Company purchased approximately 94% 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 temporary difficulty filling prescriptions until a replacement strategy was executed, 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 March 4, 2006 and 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 of expense recognition. Fair value for stock options can be calculated using either a closed form or open form calculation method. SFAS No. 123R requires companies to recognize option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures. SFAS No. 123R is required to be adopted as of the first fiscal year beginning after December 15, 2005.

The Company has previously adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" effective March 2, 2003 and had been recognizing expense on a ratable basis related to share-based payments to associates using the fair value method. The Company will adopt the provisions of SFAS 123R effective March 5, 2006 using the modified prospective transition method. The Company does not expect the adoption of SFAS 123R to have a material impact on its financial position and results of operations.

SFAS No. 123R will also require us to change the classification of any tax benefits realized upon exercise of stock options in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts will be presented as a financing cash inflow rather than as a reduction of income taxes paid in our consolidated statement of cash flows.

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 is conditional upon a future event that may or may not be within control of the entity. FIN 47 was effective no later than the end of fiscal years ended after December 15, 2005 and accordingly, the Company has adopted FIN 47. The adoption of FIN 47 did not have a material impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" to simplify accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. Certain of the Company's public bonds contain an early call option that meets the definition of a hybrid financial instrument. However, these instruments are not required to be bifurcated from the host contracts and therefore the provisions set forth in SFAS No. 155 are not applicable to these instruments.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets". This standard is required to be adopted as of the first fiscal year beginning after September 15, 2006. The Company may be required to recognize a servicing asset or liability related to its securitization agreements. The Company has not quantified the impact of adopting SFAS No. 156, but does not expect the adoption to have a material impact on its financial position or results of operations.

2. Income Per Share

Basic income per share is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted income 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 of the Company subject to anti-dilution limitations.

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Numerator for income per share:			
Net income	$1,273,006	$302,478	$ 83,379
Accretion of redeemable preferred stock	(102)	(102)	(102)
Preferred stock beneficial conversion	—	—	(625)
Cumulative preferred stock dividends	(32,723)	(35,226)	(24,098)
Premium to redeem preferred stock	(5,883)	(5,650)	—
Income attributable to common stockholders	$1,234,298	$261,500	$ 58,554
Plus: Interest on convertible debt	5,936	11,872	—
Plus: Cumulative preferred stock dividends	32,723	26,420	—
Plus: Redemption premium on preferred stock	5,883	—	—
Income attributable to common stockholders—diluted	$1,278,840	$299,792	$ 58,554
Denominator:			
Basic weighted average shares	523,938	518,716	515,822
Outstanding options, net	7,749	12,293	10,009
Convertible preferred stock	106,517	64,591	—
Convertible debt	38,462	38,462	—
Diluted weighted average shares	676,666	634,062	525,831
Basic and diluted income per share:			
Basic income per share	$ 2.36	$ 0.50	$ 0.11
Diluted income per share	$ 1.89	$ 0.47	$ 0.11

The following potential common shares have been excluded from the computation of diluted earnings per share:

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Stock options	38,427	18,461	14,525
Convertible preferred stock	—	18,883	75,964
Convertible notes	—	—	38,462
	38,427	37,344	128,951

3. Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Impairment charges	$46,114	$30,014	$24,914
Store and equipment lease exit charges (credits)	22,578	5,641	(2,840)
	$68,692	$35,655	$22,074

Impairment Charges

In fiscal 2006, 2005, and 2004, store closing and impairment charges include non-cash charges of $46,114, $30,014, and $24,914, respectively, for the impairment of long-lived assets at 414, 291, and 208 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 2006, 2005, and 2004, the Company recorded charges for 43, 13, and 5 stores, respectively, to be closed or relocated under long term leases. 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 4.70%, 3.90% and 2.96% at March 4, 2006, February 26, 2005, and February 28, 2004, respectively.

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

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Balance—beginning of year	$220,903	$254,361	$306,485
Provision for present value of noncancellable lease payments of stores designated to be closed	18,482	14,515	1,949
Changes in assumptions about future sublease income, terminations and change of interest rate	(4,201)	(14,291)	(5,928)
Reversals of reserves for stores that management has determined will remain open	(271)	(2,137)	(6,458)
Interest accretion	8,814	8,188	7,987
Cash payments, net of sublease income	(35,272)	(39,733)	(49,674)
Balance—end of year	$208,455	$220,903	$254,361

The Company's revenues and income before income taxes for fiscal 2006, 2005, and 2004 include results from stores that have been closed as of March 4, 2006. The revenue and operating losses of these stores for the periods are presented as follows:

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Revenues	$127,895	$262,767	$341,067
Loss from operations	(8,128)	(6,652)	(2,736)

Included in loss from operations for fiscal 2006, 2005, and 2004 are depreciation and amortization charges of $1,131, $2,435 and $3,628, respectively, and closed store inventory liquidation charges of $10,236, $8,446, and $5,629, 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 March 4, 2006 and February 26, 2005 was $32,336 and $31,216, 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.

The Company maintains securitization agreements with several multi-seller asset-backed commercial paper vehicles ("CPVs"). 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. The SPE then transfers an interest in these receivables to various CPVs. Transferred outstanding receivables cannot exceed $400,000.

The amount of transferred receivables outstanding at any one time is dependent upon a formula that takes into account such factors as default history, obligor concentrations and potential dilution ("Securitization Formula"). Adjustments to this amount can occur on a weekly basis. At March 4, 2006 and February 26, 2005, the total of outstanding receivables that have been transferred to the CPVs were $330,000 and $150,000, respectively. The average amount of outstanding receivables transferred during fiscal 2006 and 2005 was $243,639 and $263,312, respectively. Total receivable transfers for fiscal 2006 and 2005 totaled approximately $3,716,000 and $1,897,000, respectively. Collections made by the Company as part of the servicing arrangement on behalf of the CPVs, for fiscal 2006 and 2005 totaled approximately $3,536,000 and $1,747,000, respectively. At March 4, 2006 and February 26, 2005, the Company retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $274,518 and $426,433, respectively, exclusive of the allowance for uncollectible accounts, which is included in accounts receivable, net, on the consolidated balance sheet at allocated cost, which approximates fair value.

The Company is subject to an ongoing program fee of approximately LIBOR plus 1.125% on the amount transferred to the CPVs 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 2006 and 2005 were $12,805 and $3,962, respectively. Rite Aid Corporation guarantees certain performance obligations of its affiliates under the securitization agreements, which includes the continued servicing of such receivables, but does not guarantee the collectibility of the receivables and obligor creditworthiness. The CPVs have a commitment to purchase that ends September 2006 with the option to annually extend the commitment to purchase. Should any of the CPVs fail to renew their commitment under these securitization agreements, the Company has access to a backstop credit facility, which is backed by the CPVs and which expires in September 2007, to continue to provide liquidity to the Company.

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 (1) fund amounts owed to the CPVs as a result of such collections and, (2) fund the CPVs when the Securitization Formula indicates a lesser amount of outstanding receivables transferred is warranted. The remaining collections are swept to the Company's corporate concentration account. At March 4, 2006 and February 26, 2005, the Company had $2,219 and $760 of cash, respectively that was restricted for the payment of trustee fees.

The Company has determined 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 has determined that it does not hold a variable interest in the CPVs, pursuant to the guidance in FIN 46R, "Consolidation of Variable Interest Entities", and therefore has determined that the de-recognition of the transferred receivables is appropriate.

5. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at March 4, 2006 and February 26, 2005:

	2006	2005
Land	$ 186,665	$ 201,413
Buildings	604,201	628,335
Leasehold improvements	1,174,883	1,127,497
Equipment	1,488,184	1,440,927
Construction in progress	70,046	34,927
	3,523,979	3,433,099
Accumulated depreciation	(1,806,957)	(1,699,405)
Property, plant and equipment, net	$ 1,717,022	$ 1,733,694

Depreciation expense, which includes the depreciation of assets recorded under capital leases, was $217,160 in fiscal 2006, $219,641 in fiscal 2005 and $231,548 in fiscal 2004.

Included in property, plant and equipment is the carrying amount of assets to be disposed of totaling $15,638 and $17,000 at March 4, 2006 and February 26, 2005, respectively.

6. 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 March 4, 2006, and concluded that there is no goodwill impairment loss to be recognized. However, goodwill was reduced by $28,499 related to the reduction in tax reserves established upon acquisition of a subsidiary. As of March 4, 2006 and February 26, 2005 the Company had goodwill of $656,037 and $684,535, respectively 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 March 4, 2006 and February 26, 2005.

	2006			2005		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period
Favorable leases and other	$306,665	$(195,669)	18 years	$311,635	$(191,482)	20 years
Prescription files	408,519	(326,287)	12 years	369,425	(310,098)	13 years
Total	$715,184	$(521,956)		$681,060	$(501,580)	

Amortization expense for these intangible assets was $32,595, $27,101, and $33,036 for fiscal 2006, 2005 and 2004, respectively. The anticipated annual amortization expense for these intangible assets is 2007—$35,124, 2008—$32,374, 2009—$28,441, 2010—$22,461 and 2011—$13,520.

7. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consist of the following at March 4, 2006 and February 26, 2005:

	2006	2005
Accrued wages, benefits and other personnel costs	$285,233	$274,844
Accrued self insurance liability, current portion	74,684	69,957
Accrued sales and other taxes payable	41,107	48,726
Accrued interest	38,503	43,047
Deferred vendor income, current portion	25,062	33,662
Accrued lease exit costs, current portion	28,883	30,243
Accrued store expense	28,529	25,632
Accrued real estate and personal property taxes	21,440	24,175
Accrued rent and other occupancy costs	23,937	28,867
Accrued legal and other professional fees	10,442	32,548
Other	119,116	78,650
	$696,936	$690,351

8. Income Taxes

The (benefit) provision for income tax was as follows:

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Current tax (benefit) expense			
Federal	$ (6,621)	$ 1,405	$(41,140)
State	(17,424)	14,092	5,766
	(24,045)	15,497	(35,374)
Deferred tax benefit:			
Federal	(1,088,507)	(176,031)	(13,421)
State	(117,200)	(7,937)	—
	(1,205,707)	(183,968)	(13,421)
Total income tax benefit	$(1,229,752)	$(168,471)	$(48,795)

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

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Expected federal statutory expense at 35%	$ 15,139	$ 46,903	$ 12,083
Nondeductible compensation	219	99	2,375
Other nondeductible expenses	2,349	2,974	981
State income taxes, net	3,155	4,001	1,962
Recoverable federal tax and reduction of previously recorded liabilities	(19,527)	—	(56,663)
Valuation allowance	(1,231,087)	(222,448)	(9,533)
Total income tax benefit	$(1,229,752)	$(168,471)	$(48,795)

The income tax benefit for fiscal 2006 includes $1,231,087 related to the reduction of the valuation allowance on federal and state net deferred tax assets that have an expected future utilization and were reserved prior to fiscal 2006.

The income tax benefit for fiscal 2005 included $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 included $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 tax effect of temporary differences that give rise to significant components of deferred tax assets and liabilities consist of the following at March 4, 2006 and February 26, 2005:

	2006	2005
Deferred tax assets:		
Accounts receivable	$ 18,405	$ 25,700
Accrued expenses	173,603	207,849
Liability for lease exit costs	85,768	91,037
Pension, retirement and other benefits	108,801	89,743
Investment	22,209	28,782
Long-lived assets	228,049	139,514
Credits	68,564	81,922
Net operating losses	1,083,522	1,317,572
Total gross deferred tax assets	1,788,921	1,982,119
Valuation allowance	(259,602)	(1,674,621)
Net deferred tax assets	1,529,319	307,498
Deferred tax liabilities		
Inventory	126,695	115,176
Other	3,272	3,052
Total gross deferred tax liabilities	129,967	118,228
Net deferred tax assets	$1,399,352	$ 189,270

Prior year classifications in the above table were reclassed during fiscal 2006 to conform to current year presentation. The Company continues to be examined by 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 March 4, 2006, the Company had federal net operating loss (NOL) carryforwards of approximately $2,340,000, the majority of which will 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 released.

At March 4, 2006, the Company had state NOL carryforwards of approximately $3,984,400, the majority of which will expire between fiscal 2015 and 2022.

At March 4, 2006, the Company had a capital loss carryforward of $279,335 which will expire, if not offset by future capital gains, by fiscal 2008.

At March 4, 2006, the Company had federal business tax credit carryforwards of $52,246, the majority of which will expire between fiscal 2013 and 2020. In addition to these credits, the Company has alternative minimum tax credit carryforwards of $8,736.

Valuation Allowances

The valuation allowances as of March 4, 2006 and February 26, 2005 apply to the net deferred tax assets of the Company. 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, management concluded at the end of fiscal 2006 that the majority of the net deferred tax assets would be utilized. Thus, pursuant to Statement of Financial Accounting Standards ("SFAS") No. 109, management recorded a tax benefit during fiscal 2006 releasing most of the remaining valuation allowance, resulting in a non-cash increase in net income of $1,231.1 million. Based upon the then available factors at the fourth quarter of fiscal 2005, management recorded a tax benefit for a portion of the Company's net deferred tax assets by releasing a portion of the valuation allowance, resulting in a non-cash increase in net income of $179.5 million during fiscal 2005. Until the fourth quarter of fiscal 2005, the Company provided a full valuation allowance against its net deferred tax assets. An additional reduction in the valuation allowance of $1,847 and $5,293 was recorded as additional paid-in capital in fiscal 2006 and fiscal 2005, respectively to reflect the tax benefit associated with previously recorded stock based compensation. The Company continues to maintain a valuation allowance of $259,602 against remaining net deferred tax assets at fiscal year end 2006, which relates primarily to state net operating loss carryforwards and federal capital loss carryforwards.

9. Indebtedness and Credit Agreement

Following is a summary of indebtedness and lease financing obligations at March 4, 2006 and February 26, 2005:

	March 4, 2006	February 26, 2005
Secured Debt:		
Senior Secured revolving credit facility due September 2010	$ 534,000	$ —
Senior secured credit facility term loan due September 2009	—	448,875
12.5% senior secured notes due September 2006 ($142,025 face value less unamortized discount of $1,040 and 2,599)	140,985	139,426
8.125% senior secured notes due May 2010 ($360,000 face value less unamortized discount of $2,834 and $3,501)	357,166	356,499
9.5% senior secured notes due February 2011	300,000	300,000
7.5% senior secured notes due January 2015	200,000	200,000
Other	1,962	2,338
	1,534,113	1,447,138
Lease Financing Obligations	178,227	168,285
Unsecured Debt:		
7.625% senior notes due April 2005	—	170,500
6.0% fixed-rate senior notes due December 2005	—	38,047
4.75% convertible notes due December 2006 ($250,000 face value less unamortized discount of $1,000 and $2,500)	249,000	247,500
7.125% notes due January 2007	184,074	184,074
11.25% senior notes due July 2008	—	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 $1,741 and $1,981)	148,259	148,019
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	128,000
	1,339,106	1,695,913
Total debt	3,051,446	3,311,336
Current maturities of convertible notes, long-term debt and lease financing obligations	(584,196)	(223,815)
Long-term debt and lease financing obligations, less current maturities	$2,467,250	$3,087,521

2006 Transactions:

Credit Facility

On September 30, 2005, the Company amended its senior secured credit facility. The amended senior credit facility consists solely of a $1,750,000 revolving credit facility. Borrowings under the amended senior secured credit facility currently bear interest at LIBOR plus 1.50%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 0.50%. The interest rate can fluctuate depending on the amount of revolver availability, as specified in the amended senior secured credit facility. The Company is required to pay fees of 0.25% per annum on the daily unused amount of the amended revolving credit facility. The amounts drawn on the amended revolving credit facility become due and payable in September 2010.

The amended 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 amended senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 2010, as described below). The Company has the ability to incur additional unsecured debt of up to $750,000 with a scheduled maturity date prior to December 31, 2010. The maximum amount of additional secured subordinated debt

and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1,800,000. At March 4, 2006 remaining additional permitted secured subordinated debt under the amended senior secured credit facility was $797,975 in addition to what is available under the revolver; however, other debentures do not permit additional secured debt if the revolver is fully drawn. The amended senior secured credit facility allows the Company to incur an unlimited amount of unsecured debt with a maturity beyond December 31, 2010; however other debentures limit the amount of unsecured debt that can be incurred if certain interest coverage levels are not met at the time of incurrence of said debt. The amended senior secured facility also allows for the repurchase of any debt with a maturity on or before September 2010, and for the repurchase of debt with a maturity after September 2010, if the Company maintains availability on the revolving credit facility of at least $100,000.

The amended senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payment of dividends, mergers and acquisitions and the granting of liens. The amended senior secured credit facility also requires the Company to maintain a minimum fixed charge coverage ratio, but only if availability on the revolving credit facility is less than $100,000.

The amended senior secured credit facility provides for 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 principal amount in excess of $50,000 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 amended senior secured credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At March 4, 2006, the Company had $534,000 of borrowings outstanding under the revolving credit facility. At March 4, 2006, the Company also had letters of credit outstanding against the revolving credit facility of $115,703, which gave the Company additional borrowing capacity of $1,100,297.

The Company's amended senior secured credit facility is backed by a syndicate of banks. The lead banks in the syndicate, Citigroup Global Markets, Inc. and J.P. Morgan Securities, Inc. have provided certain financial advisory, investment banking and other services for the Company, for which they have received customary fees and commissions.

Other Transactions

On December 15, 2005, the Company paid at maturity the remaining outstanding principal amount of $38,000 of the Company's 6.0% fixed-rate senior notes due December 2005.

On July 15, 2005, the Company completed the early redemption of all of the Company's $150,000 aggregate principle amount of 11.25% notes due July 2008 at the Company's contractually determined early redemption price of 105.625% plus accrued interest. The Company funded the redemption with borrowings under the Company's receivable securitization agreements. The Company recorded a loss on debt modification of $9,200 related to this transaction.

On April 15, 2005 the Company paid at maturity the remaining outstanding principal amount of $170,500 of the Company's 7.625% senior notes due April 2005.

2005 Transactions

Credit Facility

On September 22, 2004, the Company amended its senior secured credit facility. The facility consisted of a $450,000 term loan and a $950,000 revolving credit facility and had a maturity date of September 2009. The proceeds of the loans made on the closing date of the credit facility along with available cash and proceeds from the receivables securitization agreements were used to repay outstanding amounts under the credit facility.

As a result of the placement of the 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 7.5% 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 the 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 senior secured credit facility, subject to certain exceptions. The indenture governing the Company's 7.5% 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 the year ended February 26, 2005, the Company made open market purchases of the following securities:

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:

On May 28, 2003, the Company amended its senior secured credit facility. The 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 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 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 7.5% 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 for the year ended February 28, 2004.

Other:

The Company had outstanding letters of credit of $115,703 at March 4, 2006 and $114,115 at February 26, 2005.

The annual weighted average interest rate on the Company's indebtedness was 7.4%, 7.0%, and 6.8% for fiscal 2006, 2005, and 2004, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2007—$574,514; 2008—$632; 2009—$150,329; 2010—$120 and $2,147,624 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, 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 7.5% 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 facility and certain of the Company's indentures 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.

10. 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 $7,534, $7,499, and $8,892, was $569,269, $555,940, and $553,927 in fiscal 2006, 2005, and 2004, respectively. These amounts include contingent rentals of $31,345, $33,051, and $32,143 in fiscal 2006, 2005, and 2004, respectively.

During fiscal 2006, the Company sold 32 owned properties to several independent third parties. Proceeds from these sales totaled $85,308. The Company entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. Thirty leases are being accounted for as operating leases and two are being accounted for under the financing method as of March 4, 2006. Gains on these transactions of $15,935 have been deferred and are being recorded over the related minimum lease terms. Losses of $996, which relate to certain stores in these transactions, were recorded as losses on the sale of assets and investments for the year ended March 4, 2006.

During fiscal 2005, the Company sold 36 owned properties 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 March 4, 2006 and February 26, 2005 are summarized as follows:

	2006	2005
Land	$ 5,108	$ 5,108
Buildings	171,578	166,057
Equipment	11,353	11,353
Accumulated depreciation	(67,112)	(60,322)
	$120,927	$122,196

Following is a summary of lease finance obligations at March 4, 2006 and February 26, 2005:

	2006	2005
Obligations under capital leases	$170,838	$168,285
Sale-leaseback obligations	7,388	—
Less current obligation	(9,682)	(9,262)
Long-term lease finance obligations	$168,544	$159,023

Following are the minimum lease payments for all properties under a lease agreement, 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 March 4, 2006:

Fiscal year	Lease Financing Obligations	Operating Leases
2007	25,215	562,169
2008	24,825	540,849
2009	22,813	511,658
2010	22,209	481,894
2011	22,184	449,250
Later years	179,110	3,349,310
Total minimum lease payments	$ 296,356	$5,895,130
Amount representing interest	(118,129)	
Present value of minimum lease payments	$ 178,227	

11. 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 2006, 2005 and 2004. Pursuant to the adoption of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liability and Equity", the amount of this instrument is $19,970 and $19,868 and is recorded in Other Non-Current Liabilities as of March 4, 2006 and February 26, 2005, respectively.

12. Capital Stock

As of March 4, 2006, 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.

In fiscal 2006, the Company issued 4,820 shares of Series I Mandatory Convertible Preferred Stock ("Series I preferred stock") at an offering price of $25 per share. Dividends on the Series I preferred stock are $1.38 per share per year, and are due and payable on a quarterly basis in either cash or common stock or a combination of both at the Company's election. The Series I preferred stock will automatically convert into common stock on November 17, 2008 at a rate that is dependent upon the adjusted applicable market value of the Company's common stock (as defined in the Series I Certificate of Designations). If the adjusted applicable market value of the Company's common stock is $5.30 a share or higher at the conversion date, then the Series I preferred stock is convertible at a rate of 4.7134 share of the Company's common stock for every share of Series I preferred stock outstanding. If the adjusted applicable market value of the Company's common stock is less than or equal to $4.42 per share at the conversion date, then the Series I preferred stock is convertible at a rate of 5.6561 shares of the Company's common stock for every share of Series I preferred stock outstanding. If the adjusted applicable market value of the Company's common stock is between $4.42 per share and $5.30 per share at the conversion date, then the Series I preferred stock is convertible into common stock at a rate that is between 4.7134 and 5.6561 per share. The holder may convert shares of the Series I preferred stock into common stock at any time prior to the mandatory conversion date at the rate of 4.7134 per share. The Series I 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 $9.55. If the Company is subject to a cash acquisition (as defined in the Certificate of Designations) prior to the mandatory conversion date, the holder may elect to convert the shares of Series I preferred stock into shares of common stock using a conversion rate set forth in the Certificate Designations. The holder will also receive a payment equal to the present value of all scheduled dividends through the mandatory conversion date.

Proceeds from the issuance of the Series I preferred stock, along with borrowings under the revolver, were used to redeem all shares of the Company's Series F preferred stock, at 105% of the liquidation preference of $100 share. The Company paid a premium to redeem the Series F preferred stock of $5,883, which was recorded as an increase to the accumulated deficit in the year ended March 4, 2006. This premium reduces net income available to common stockholders for fiscal 2006. The Company's Series F preferred stock was held by Green Equity Investors, III, L.P., a related party of the Company.

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 and was recorded as an increase to the 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.

13. 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 73,295 as of March 4, 2006.

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 March 4, 2006, February 26, 2005, and February 28, 2004:

	Shares	Weighted Average Price Per Share
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
Granted	7,678	4.05
Exercised	(4,206)	2.75
Cancelled	(5,685)	5.93
Balance, March 4, 2006	62,718	$4.72

For various price ranges, weighted average characteristics of outstanding stock options at March 4, 2006 were as follows:

	Outstanding Options			Exercisable Options	
Range of exercise prices	Number Outstanding as of March 4, 2006	Remaining life (years)	Weighted Average Price	Shares	Weighted Average Price
$1.98 to $2.26	6,715	6.39	$ 2.17	5,692	$ 2.18
$2.30 to $2.58	2,366	6.49	$ 2.52	1,825	$ 2.52
$2.65 to $2.75	12,375	4.07	$ 2.75	12,183	$ 2.75
$3.00 to $3.83	2,763	7.72	$ 3.58	1,156	$ 3.38
$3.89 to $4.05	15,770	4.98	$ 4.05	15,486	$ 4.05
$4.06 to $4.47	7,240	8.85	$ 4.17	816	$ 4.40
$4.55 to $5.40	7,741	6.52	$ 5.35	4,235	$ 5.35
$5.44 to $16.94	6,306	5.02	$ 8.83	5,642	$ 9.16
$19.25 to $48.56	1,439	2.61	$28.19	1,439	$28.19
$48.81 to $48.81	3	2.84	$48.81	3	$48.81
$1.98 to $48.81	62,718	5.71	$ 4.72	48,477	$ 4.86

At February 26, 2005 and February 28, 2004, the amount of exercisable options and corresponding weighted average price per share was 50,723 and $4.89 and 46,928 and $4.98, respectively.

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. Following is a summary of restricted stock transactions for the fiscal years ended March 4, 2006, February 26, 2005, and February 28, 2004:

	Shares	Weighted Average Price Per Share
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
Granted	4,546	4.05
Vested	(905)	3.92
Cancelled	(2,377)	4.83
Balance, March 4, 2006	5,735	$4.00

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 March 4, 2006, February 26, 2005, and February 28, 2004, the Company recognized expense of $6,582, $2,311, and $693, 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 March 4, 2006, the Company had no stock appreciation units left outstanding. Amounts expensed relating to the stock appreciation rights units for fiscal 2006, 2005, and 2004 were $0, $0, and $1,062, respectively.

14. Retirement Plans

Defined Contribution Plans

The Company and its subsidiaries sponsor several retirement plans that are primarily 401(k) defined contribution plans covering nonunion associates and certain union associates. The Company does not contribute to all of the plans. 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 $32,633 in fiscal 2006, $30,358 in fiscal 2005, and $29,855 in fiscal 2004.

The Chairman of the Board and the President and Chief Executive Officer are entitled to supplemental retirement defined contribution 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 expense recognized for these plans was $4,862 in fiscal 2006, $5,170 in fiscal 2005, and $5,084 in fiscal 2004.

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. The Company's funding policy for the Rite Aid Pension Plan (the "Defined Benefit Pension Plan") is to contribute the minimum amount required by the Employee Retirement Income Security Act of 1974. However, the Company may, at its sole discretion, contribute additional funds to the plan. The Company made discretionary contributions of $8,100 in fiscal 2006, $0 in fiscal 2005 and $5,000 in fiscal 2004.

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 supplemental 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, 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 those obligations.

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

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

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2006	2005	2004	2006	2005	2004
Service cost	$ 3,142	$ 2,843	$ 2,614	$ 77	$ 71	$ 85
Interest cost	5,075	4,844	4,615	1,163	1,241	1,450
Expected return on plan assets	(3,788)	(2,687)	(1,481)	—	—	—
Amortization of unrecognized net transition obligation	—	—	—	87	87	87
Amortization of unrecognized prior service cost	831	669	452	—	—	—
Amortization of unrecognized net loss	1,732	1,862	3,287	238	387	335
Curtailment and settlement	—	—	—	—	—	(5,222)
Net pension expense (credit)	$ 6,992	$ 7,531	$ 9,487	$1,565	$1,786	$(3,265)

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 benefit plans, as well as the funded status and amounts recognized in the Company's balance sheet as of March 4, 2006 and February 26, 2005:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plan	
	2006	2005	2006	2005
Change in benefit obligations:				
Benefit obligation at end of prior year	$ 89,173	$ 81,907	$ 21,456	$ 21,724
Service cost	3,142	2,843	77	71
Interest cost	5,075	4,844	1,163	1,241
Distributions	(5,867)	(6,382)	(1,934)	(2,074)
Change due to change in assumptions	3,994	2,909	254	227
Change due to plan amendment	85	2,088	—	—
Actuarial loss	800	964	2	267
Benefit obligation at end of year	$ 96,402	$ 89,173	$ 21,018	$ 21,456
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 63,650	$ 59,985	$ —	$ —
Employer contributions	11,490	4,438	1,934	2,074
Actual return on plan assets	5,022	7,201	—	—
Distributions (including expenses paid by the plan)	(7,515)	(7,974)	(1,934)	(2,074)
Fair value of plan assets at end of year	$ 72,647	$ 63,650	$ —	$ —
Funded status	$(23,755)	$(25,523)	$(21,018)	$(21,456)
Unrecognized net loss	24,451	20,975	1,830	1,813
Unrecognized prior service cost	3,525	4,272	—	—
Unrecognized net transition obligation	—	—	173	260
Prepaid or (accrued) pension cost recognized	$ 4,221	$ (276)	$(19,015)	$(19,383)
Amounts recognized in consolidated balance sheets consisted of:				
Prepaid pension cost	$ 4,221	$ —	$ —	$ —
Accrued pension liability	(27,343)	(25,001)	(20,800)	(21,195)
Pension intangible asset	3,525	4,272	173	260
Accumulated other comprehensive income	23,818	20,453	1,612	1,552
Net amount recognized	$ 4,221	$ (276)	$(19,015)	$(19,383)

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

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2006	2005	2004	2006	2005	2004
Increase (decrease) in minimum liability included in other comprehensive income	$3,365	$(983)	$(5,163)	$60	$109	$24

The accumulated benefit obligation for all defined benefit plans was $116,568 and $109,847 as of March 4, 2006 and February 26, 2005, respectively.

The significant actuarial assumptions used for all defined benefit plans to determine the benefit obligation as of March 4, 2006, February 26, 2005, and February 28, 2004 were as follows:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2006	2005	2004	2006	2005	2004
Discount rate	5.50%	5.75%	6.00%	5.50%	5.75%	6.00%
Rate of increase in future compensation levels	5.00	4.50	4.50	3.00	3.00	3.00

Weighted average assumptions used to determine net cost for the fiscal years ended March 4, 2006, February 26, 2005 and February 28, 2004 were:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2006	2005	2004	2006	2005	2004
Discount rate	5.75%	6.00%	6.50%	5.50%	6.00%	6.32%
Rate of increase in future compensation levels	5.00	4.50	4.50	3.00	3.00	3.00
Expected long-term rate of return on plan assets	7.75	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 7.75% long-term rate of return on plan assets assumption for fiscal 2006 and the 8.00% long-term rate of return on plan assets assumption for fiscal 2005 and 2004.

The Company's pension plan asset allocations at March 4, 2006 and February 26, 2005 by asset category were as follows:

	March 4, 2006	February 26, 2005
Equity securities	62%	67%
Debt securities	38%	33%
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 over a full market cycle and is consistent with actuarial assumptions;
- Balance the correlation between assets and liabilities by diversifying the portfolio among various asset classes to address return risk and interest rate risk;
- Balance the allocation of assets between the investment managers to minimize concentration 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.

Investments in 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 correlation between assets and liabilities must be balanced to address higher volatility of equity investments (return risk) and interest rate risk.

The following targets are to be applied to the allocation of plan assets.

Category	Target Allocation
U.S. equities	45%
International equities	15%
U.S. fixed income	40%
Total	100%

The Company expects to contribute $10,700 to the Defined Benefit Pension Plan and $2,212 to the Nonqualified Executive Retirement Plan during fiscal 2007.

Following are the future benefit payments expected to be paid for the Defined Benefit Pension Plan and the Nonqualified Executive Retirement Plan during the years indicated:

Fiscal Year	Defined Benefit Pension Plan	Nonqualified Executive Retirement Plan
2007	$ 4,700	$ 2,200
2008	4,800	2,200
2009	5,100	2,200
2010	5,300	2,000
2011	5,600	1,600
2012–2016	31,100	8,800
Total	$56,600	$19,000

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 $11,642 in fiscal 2006, $11,750 in fiscal 2005 and $9,682 in fiscal 2004.

15. Commitments, Contingencies and Guarantees

Legal Proceedings

Federal investigations

The Company had been under investigation, by the United States Attorney, involving various matters related to prior management's business practices. The Company recorded an accrual of $20,000 in fiscal 2003 in connection with this investigation. During fiscal 2006, this investigation concluded resulting in the Company not being required to pay any fine or penalty. Accordingly, the accrual of $20,000 was reversed to zero in the fourth quarter of fiscal 2006.

Other

The Company is subject from time to time to various claims and lawsuits and governmental investigations arising in the ordinary course of business. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. 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 95 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 $198,834 as of March 4, 2006. 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.

16. Supplementary Cash Flow Data

	Year Ended		
	March 4, 2006	February 26, 2005	February 28, 2004
Cash paid for interest (net of capitalized amounts of $934, $250 and $133	$260,224	$274,964	$295,235
Cash (refunds from) paid for income taxes	$ (2,829)	$ (24,557)	$ 7,539
Equipment financed under capital leases	$ 12,173	$ 12,349	$ 17,828
Equipment received for noncash consideration	$ 1,506	$ 1,439	$ 24,781
Preferred stock dividends paid in additional shares	$ 19,634	$ 34,441	$ 24,098
Exchange of preferred shares	$ —	$348,243	$ —
Reduction in lease financing obligation	$ 3,028	$ —	$ —

17. Related Party Transactions

Included in other assets at March 4, 2006 and February 26, 2005 were receivables from related parties of $1,439 and $1,025.

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 2006, proceeds from the issuance of the Company's Series I preferred stock, along with borrowings under the Company's revolving credit facility, were used to redeem all of the Company's Series F preferred stock, which was held by Green Equity Investors, III, L.P., as discussed further in Note 12.

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 12.

During fiscal 2006, 2005 and 2004, the Company paid Leonard Green & Partners, L.P., fees of $300, $875 and $990 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., 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.

George G. Golleher, a member of the Company's Board of Directors, also serves on the Board of Director's of GNC, which is a related party of the Company. Included in current liabilities at March 4, 2006 and February 26, 2005 were payables to GNC of $4,186 and $5,924, respectively.

During fiscal 2004, the Company incurred $64, in legal fees payable to the sister of Mary F. Sammons, for representation of Ms. Sammons in a dispute concerning her employment agreement with a former employer.

18. Interim Financial Results (Unaudited)

	Fiscal Year 2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$4,221,436	$4,132,523	$4,145,683	$ 4,771,326	$ 17,270,968
Cost of goods sold	3,041,980	3,009,364	3,023,739	3,496,777	12,571,860
Selling, general and administrative expenses	1,046,276	1,044,062	1,060,054	1,157,029	4,307,421
Store closing and impairment charges	15,532	8,121	2,652	42,387	68,692
Interest expense	70,851	67,513	66,909	71,744	277,017
Loss on debt modifications and retirements, net	—	9,186	—	—	9,186
(Gain) on sale of assets and investments, net	(538)	(1,955)	(1,372)	(2,597)	(6,462)
	4,174,101	4,136,291	4,151,982	4,765,340	17,227,714
Income (loss) before income taxes	47,335	(3,768)	(6,299)	5,986	43,254
Income tax expense (benefit)	13,911	(2,197)	(1,079)	(1,240,387)	(1,229,752)
Net income (loss)	$ 33,424	$ (1,571)	$ (5,220)	$ 1,246,373	$ 1,273,006
Basic income (loss) per share(1)	$ 0.05	$ (0.03)	$ (0.02)	$ 2.36	$ 2.36
Diluted income (loss) per share(1)	$ 0.05	$ (0.03)	$ (0.02)	$ 1.83	$ 1.89

RITE AID CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the Years Ended March 4, 2006, February 26, 2005 and February 28, 2004
(In thousands, except per share amounts)

	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	3,089,508	2,995,114	2,994,341	3,123,931	12,202,894
Selling, general and administrative expenses	1,014,793	1,029,250	1,013,230	1,070,263	4,127,536
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

(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.

Costs of goods sold and selling, general and administrative expenses have been reclassified in all quarters presented to conform to the reclassifications of occupancy expense, outbound freight and warehouse costs described in Note 1.

During the fourth quarter of fiscal 2006, the Company recorded an income tax benefit of $1,231,087 from the reduction of a valuation allowance for deferred tax assets. The Company recorded a credit of $20,000 in selling, general and administrative expenses to reverse the accrual to zero recorded for the United States Attorney's investigation that was closed in fiscal 2006. The Company recorded $42,387 in store closing and impairment charges.

During the second quarter of Fiscal 2006, the Company recorded a loss on debt modification of $9,186 related to the amendment of its senior secured credit facility.

During the fourth quarter of fiscal 2005, the Company recorded an income tax benefit of $179,538 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.

19. Financial Instruments

The carrying amounts and fair values of financial instruments at March 4, 2006 and February 26, 2005 are listed as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	$ 534,000	$ 534,000	$ 448,875	$ 448,875
Fixed rate indebtedness	$2,339,219	$2,233,048	$2,694,176	$2,665,951

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.

20. Hurricane Katrina

On August 29, 2005, Hurricane Katrina made landfall in Louisiana and proceeded to move through Mississippi and Alabama, causing one of the worst natural disasters in the history of the United States. As of March 4, 2006, the Company had 16 stores that remained closed. The Company is assessing whether to rebuild or re-open these stores, and does not expect these stores to be re-opened or rebuilt until sometime in fiscal 2007 or after.

During fiscal 2006, the Company incurred costs and damages related to Hurricane Katrina of $25,407. These costs and damages included the write-off of inventory and long-lived assets at net book value, relief and other payment to associates and other clean-up costs. In addition, the Company incurred $1,200 of costs relating to the major remodeling and reconstruction of certain of the impacted stores. The Company maintains insurance coverage which provides for reimbursement from losses resulting from property damage, including flood, loss of product and business interruption. The insurance coverage is for current

replacement value, less certain deductible amounts depending on the nature of the loss and number of occurrences.

As of March 4, 2006, the Company received advance payments of $30,922 from its insurance carriers. The excess of advance payments over the amounts written off of $5,515 is included in other non-current liabilities. The $1,200 of costs relating to the major remodeling and reconstruction of certain of the impacted stores is included in construction in progress. The Company is unable to determine the amount and timing of any future insurance recoveries in excess of the amounts currently received from its carriers. In addition, should the ultimate settlement be less than the amount paid to the Company by the carriers, the Company could have to reimburse the carriers for a portion of the receipt. Therefore, the excess of receipts from the insurance carriers over the losses incurred will be deferred until a settlement of the claim is finalized. The Company is unable to determine the amount and timing of this settlement.

21. Subsequent events

In March 2006, the Company sold the land and buildings on a total of 9 owned properties to independent third parties. Net proceeds from these sales were approximately $25,600. Concurrent with these sales, the Company entered into agreements to lease the stores back from the purchasers over minimum lease terms of 20 years. The Company accounted for 6 of these leases as operating leases and the remaining 3 leases were accounted for using the financing method. A gain on the sale of these properties of approximately $300 will be deferred and recorded over the minimum term of these leases. Losses of $400 will be recorded as losses on the sale of assets and investments in the first quarter of fiscal 2007.

RITE AID CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 4, 2006, February 26, 2005, and February 28, 2004
(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 March 4, 2006	$31,216	$34,702	$33,582	$32,336
Year ended February 26, 2005	$16,535	$47,291	$32,610	$31,216
Year ended February 28, 2004	21,103	25,526	30,094	16,535

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 28, 2006

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 28, 2006.

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/ KEVIN TWOMEY Kevin Twomey	Chief Financial Officer and Executive Vice President
/s/ DOUGLAS E. DONLEY Douglas E. Donley	Chief Accounting Officer and Senior Vice President
/s/ JOSEPH B. ANDERSON, JR Joseph B. Anderson, Jr	Director
/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

Signature	Title
/s/ ROBERT A. MARIANO Robert A. Mariano	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
/s/ MARCY SYMS Marcy Syms	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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) 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 officer 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:
    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, 2006

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, Kevin Twomey, Executive Vice President 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) and internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) 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 officer 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:

   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, 2006

By: /s/ KEVIN TWOMEY
Kevin Twomey
Executive Vice President 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 March 4, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Mary F. Sammons, as President and Chief Executive Officer of the Company, and Kevin Twomey, as Executive Vice President and 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: President and Chief Executive Officer
Date: April 28, 2006

/s/ Kevin Twomey

Name: Kevin Twomey
Title: Executive Vice President and Chief Financial Officer
Date: April 28, 2006