RITE AID

- Letter to Stockholders
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The following information includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are 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;
- our ability to consummate our pending acquisition of the Brooks and Eckerd drugstore chains, and realize the benefits of the pending acquisition; 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 herein, whether as a result of new information, future events or otherwise, after the date of this filing. 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 our Annual Report on Form 10-K for the fiscal year ended March 3, 2007.

To Our Fellow Stockholders, Customers and Associates:

Fiscal 2007 was a milestone year for Rite Aid. Total sales increased to $17. 5 billion as we filled more prescriptions, improved our operations and opened more than 100 new and relocated stores with our popular Customer World design. At the same time, we reached an agreement to acquire the Brooks and Eckerd drugstore chains, which will add over 1,800 stores to Rite Aid and transform our company overnight. We'll grow to more than 5,000 stores, become the largest drugstore chain on the East Coast and significantly strengthen our place as the third largest national drugstore chain. We are creating a strong and successful future for your company.

Dramatically Accelerating Our Growth Strategy

Brooks Eckerd is a great strategic fit—70% of its stores are located where we already operate and acquiring them will dramatically jumpstart our plan to grow in key existing markets. We'll increase our store count by nearly 55% and have the #1 or #2 positions in 78% of our major markets like Philadelphia, Baltimore, Pittsburgh, New York City and Washington, D.C. We'll also enter Massachusetts, Rhode Island and North and South Carolina in a big way, with strong market positions in cities like Raleigh, Charlotte and Providence, and widen our footprint in Georgia and Virginia. This is in addition, of course, to our leading positions in major West Coast markets.

The acquisition will give us the scale to compete more effectively with our major rivals because we can leverage our systems, programs and best practices over a larger store base to achieve substantial cost savings and grow sales. It will also strengthen our ability to take advantage of the considerable growth opportunities driven by an aging population, increasing use of drug therapy and the introduction of more affordable generic drugs. Having more than 5,000 stores also will enable us to better withstand both industry and competitive challenges.

Our stockholders are excited about the transaction, giving their overwhelming approval at a special meeting in January. Our associates are excited too, and they have worked hard with our leadership team to develop a detailed integration plan for a smooth transition. With our team's substantial experience with past mergers, we're ready to hit the ground running as soon as the transaction closes. We expect that to be around the time you receive this report.

Improving Our Business, Turning Pharmacy Around

Our accomplishments this past year have put us in a good position to take on the integration. We grew our same-store pharmacy sales and increased the number of prescriptions we filled every quarter, further evidence that we have turned our pharmacy business around. Our emphasis on health and wellness, marketing programs especially targeted to seniors, prescription file buys and expanded managed care relationships helped attract new pharmacy customers to Rite Aid. We also saw solid gains in non-pharmacy sales and significantly increased revenues from our more than 2,500 Rite Aid private brand products, which save customers money and deliver higher margins. Our focus on improving execution in the stores also paid off, both on the bottom line and in the shopping experience, as customer satisfaction ratings once again improved over the year before. And our team did a great job of expense control.

We filled more generic prescriptions, saving money for both patients and health plans, as our industry-leading generic dispense rate climbed to 64% by year end. Although their lower prices depress sales growth, generics are more profitable than their branded counterparts and help reduce overall health care costs. With another $10 billion or more of branded drugs set to come off patent in 2007, we expect to beat our goal of a 66% generic dispense rate this year.

Seniors helped fuel our prescription growth thanks to Medicare Part D and our Living More senior loyalty program, the only program of its kind in the drugstore industry. Geared to patients aged 60 and over, Living More offers a variety of non-pharmacy discounts as well as health and wellness benefits, including newsletters from our pharmacists targeted to specific health conditions. We've already enrolled more than 2.6 million members, who spend twice as much as our other senior customers, helping to also boost non-pharmacy sales. Our goal is to double enrollment over the next several years.

Our ongoing health and wellness marketing programs around conditions like diabetes, skin care, allergies and heart health enabled us to cross sell the pharmacy and the front of the store and continued to differentiate Rite Aid from the competition. So did our approximately 1,300 GNC "Living Well" vitamin departments, which make it easier for our customers to stay fit. More Rite Aid stores will get GNC departments this year.

In support of our strategic vision to be the customer's first choice for health and wellness products, services and information, we added in-store clinics to some of our stores in California. But instead of adopting a cookie cutter approach, we believe partnering with local and regional organizations that already have a reputation for superior health care will deliver the best results. That's why we opened clinics with Sutter Health, a well-respected hospital and health care system, in Sacramento and with Lindora, recognized for weight management programs at its 35 Lindora medical clinics, in Orange County. We'll follow this strategy to expand the concept to more of our stores.

Maintaining Momentum in Fiscal 2008

Our focus on core Rite Aid will not change because of the acquisition. In fiscal 2008, we'll continue to concentrate on the critical priorities that worked for us this past year. That means developing and expanding our initiatives that profitably grow pharmacy sales and the number of prescriptions we fill, increase profitable front end sales, improve customer and associate satisfaction, strengthen operational execution and focus on spend management.

We'll make a significant investment in our existing store base this year by upgrading front-of-the-store technology and remodeling more stores. We expect to open 125 new and relocated Customer World stores as part of our plan to add nearly 1,000 new stores over the next five years. We'll also continue to look for prescription file buys and other acquisitions that make strategic and financial sense.

Planning a Smooth, Successful Integration

Of course, we've added another critical priority to our list: the successful integration of the Brooks and Eckerd stores. We're getting good stores in good locations and are eager to integrate them into Rite Aid. And we've got the infrastructure, management team, best practices and plan to do it. But at the same time, we know how important it is to limit disruption to our customers and associates and maintain the continuity of our business. So instead of one Big Bang, we've adopted a four-phased approach.

By the time you read this, we will be finished with Phase 1, which includes getting the acquired stores and six distribution centers ready so we can communicate with them the day they become Rite Aid and start the integration as soon as we close.

Phase 2 will start right after we finalize the transaction. Our plan is to convert the acquired distribution centers the first 90 days so we can add 8,000 additional non-pharmacy items, including Rite Aid private brand products, to the stores in the first few months. At the same time, we'll test our full conversion process on 23 pilot stores to make sure our plan works as intended. Next we'll start replacing all Brooks Eckerd store systems with Rite Aid systems so our more than 5,000 stores will be connected by one network by the end of this fiscal year. During this phase, we'll also introduce our Living More senior loyalty program and other health and wellness programs and services to our new customers.

Once systems are converted, a store will move into Phase 3 or the “Now I’m a Rite Aid” phase. This means a minor remodel that includes upgraded décor with elements of our Customer World design and a full merchandise reset modeled after our current Rite Aid assortment. This is when exterior signs will permanently change to Rite Aid.

We will have extensive training programs and support systems in place for phases 2 and 3, detailed metrics to monitor our progress and a marketing program that tells customers what’s happening every step of the way. Because our plan is designed to limit disruption to our business—and because we’ll slow integration activities during the busy Thanksgiving and Christmas season—we expect Phase 3 to be substantially completed about 16 months from close.

Phase 4 will take place over the next several years when we fully remodel almost all of the acquired stores. When we’ve completed this phase, we expect to have invested a total of more than $1 billion in the acquired stores and distribution network.

Benefiting Shareholders With More than 5,000 Stores

The day we acquire Brooks Eckerd, Rite Aid will become a Fortune 100 company with about $27 billion in sales and about 116,000 associates. While we expect a net loss in fiscal 2008 because of the acquisition, we expect the annual cost savings from combining the two companies to be accretive to earnings by $.18 to $.20 cents per diluted share in fiscal 2009, which begins next March. And we believe further margin and revenue upside could be significant as we benefit from additional purchasing efficiencies and improving operations at the Brooks Eckerd stores, like increasing the productivity of their front of store sales, which are now on average 35% less productive than at Rite Aid. While we will take on more debt to pay for Brooks Eckerd, we expect to reduce our debt ratio to below the level it is today by the end of fiscal 2009.

In closing, we’d like to give special thanks to the Rite Aid team for their contributions this past year, not only to improving our core business but also for the hundreds of thousands of hours many of them collectively spent getting ready for the Brooks Eckerd integration. We continually appreciate their commitment to our future and their eagerness to take on additional responsibilities to make sure the process goes smoothly.

We welcome in advance the 46,000 Brooks Eckerd associates who will be joining Rite Aid. We’ve met hundreds of them over the last nine months, and they share our vision to use both of our strengths to make Rite Aid one great company. Brooks Eckerd customers can rest assured they will continue to be served by the same friendly faces and that their stores will be supported by the same talented field management team. We thank the Brooks Eckerd members of our integration team for sharing their best practices and valuable insight to help develop the best integration plan.

We thank our customers for their loyalty and promise to keep focused on serving them better every day and look forward to introducing the Rite Aid experience to many new shoppers. We thank our suppliers, who are terrific partners, and have pledged to support our move to more than 5,000 stores. We thank our Board of Directors for challenging us to be our best and appreciate their wise counsel in all aspects of our business.

And we thank our stockholders for their continued support, especially for their overwhelming approval of the Brooks Eckerd acquisition, and hope their patience has been rewarded with the 42% increase in our stock price this past fiscal year. We are proud of our accomplishments in fiscal 2007 and excited about the opportunities ahead for our industry and our company. While we know there will also be challenges, we believe we have the right initiatives to continue to improve our core business, the right plan for a successful Brooks Eckerd integration and the right team to do both and continue to deliver value to our shareholders. And we are both very excited and energized about what we believe is a very bright future for Rite Aid.

Robert G. Miller
Chairman

Mary Sammons
President, CEO and Director

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

Notice of Annual Meeting of Stockholders
To Be Held on June 27, 2007

To Our Stockholders:

What: Our 2007 Annual Meeting of Stockholders

When: June 27, 2007 at 1:00 p.m., local time

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

Why: At this Annual Meeting, we plan to:

1. Elect four directors to hold office until the 2010 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified; provided, that if our acquisition of the Brooks and Eckerd drugstore chains from The Jean Coutu Group (PJC) Inc. has not been completed by the date of the Annual Meeting, then stockholders will vote to elect three directors to hold office until the 2010 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified; and

2. Transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

The close of business on May 8, 2007 has been fixed as the record date for determining those Rite Aid stockholders entitled to vote at the Annual Meeting. Accordingly, only stockholders of record at the close of business on that date will receive this notice of, and be eligible to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting. The above items of business for the Annual Meeting are more fully described in the proxy statement accompanying this notice.

Your vote is important. Please read the proxy statement and the instructions on the enclosed proxy card and then, whether or not you plan to attend the Annual Meeting in person, and no matter how many shares you own, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the enclosed proxy card, or by completing, dating and returning your proxy card in the envelope provided. This will not prevent you from voting in person at the Annual Meeting. It will, however, help to assure a quorum and to avoid added proxy solicitation costs.

You may revoke your proxy at any time before the vote is taken by 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 by voting your shares in person at the Annual Meeting, in which case your prior proxy would be disregarded.

By order of the Board of Directors

Robert B. Sari
Secretary

Camp Hill, Pennsylvania
May 25, 2007

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

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 27, 2007

GENERAL INFORMATION

This proxy statement is being furnished to you by the Board of Directors of Rite Aid Corporation to solicit your proxy to vote your shares at our 2007 Annual Meeting of Stockholders. The Annual Meeting will be held on June 27, 2007 at 1:00 p.m., local time, at the Hilton Harrisburg, One North Second Street, Harrisburg, Pennsylvania 17101. This proxy statement, the foregoing notice and the accompanying proxy card are first being mailed on or about May 25, 2007 to all holders of our common stock, par value $1.00 per share, and 7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock and 6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock, entitled to vote at the Annual Meeting.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Who is entitled to vote at the Annual Meeting?

Holders of Rite Aid common stock and shares of 7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock and 6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock, which are collectively referred to in this proxy statement as the "LGP preferred stock," as of the close of business on the record date, May 8, 2007, will receive notice of, and be eligible to vote at, the Annual Meeting and any adjournment or postponement of the Annual Meeting. At the close of business on the record date, Rite Aid had outstanding and entitled to vote 539,402,608 shares of common stock and 2,614,864.3765 shares of LGP preferred stock (which, on an as-if-converted basis, are entitled to an aggregate of 47,542,989 votes). No other shares of Rite Aid capital stock are entitled to notice of and to vote at the Annual Meeting.

What matters will be voted on at the Annual Meeting?

There is one proposal that is scheduled to be considered and voted on at the Annual Meeting:

- Proposal No. 1: The election of four directors to hold office until the 2010 Annual Meeting of Stockholders; provided, that if our acquisition of the Brooks and Eckerd drugstore chains from The Jean Coutu Group (PJC) Inc. has not been completed by the date of the Annual Meeting, then stockholders will vote to elect three directors to hold office until the 2010 Annual Meeting of Stockholders.

Stockholders will also be asked to consider and vote at the Annual Meeting on any other matter that may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting. At this time, the Board of Directors is unaware of any matters, other than those set forth above, that may properly come before the Annual Meeting.

What are the Board's voting recommendations?

The Board recommends that you vote "FOR" the nominees of the Board in the election of directors.

How can I vote my shares before the Annual Meeting?

If you hold your shares in your own name, you may submit a proxy by telephone, via the Internet or by mail.

- *Submitting a Proxy by Telephone*: You can submit a proxy for your shares by telephone until 11:59 p.m. Eastern Daylight Time on June 26, 2007 by calling the toll-free telephone number on the enclosed proxy card, 1-800-PROXIES (1-800-776-9437). Telephone proxy submission is available 24 hours a day. Easy-to-follow voice prompts allow you to submit a proxy for your shares and confirm that your instructions have been properly recorded. Our telephone proxy submission procedures are designed to authenticate stockholders by using individual control numbers.
- *Submitting a Proxy via the Internet*: You can submit a proxy via the Internet until 11:59 p.m. Eastern Daylight Time on June 26, 2007 by accessing the web site listed on your proxy card, *www.voteproxy.com*, and following the instructions you will find on the web site. Internet proxy submission is available 24 hours a day. As with telephone proxy submission, you will be given the opportunity to confirm that your instructions have been properly recorded.
- *Submitting a Proxy by Mail*: If you choose to submit a proxy by mail, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided.

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. You may also attend the Annual Meeting and vote in person.

If your shares are held in the name of a bank, broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted. Please follow their instructions carefully. Also, please note that if the holder of record of your shares is a broker, bank or other nominee and you wish to vote in person at the Annual Meeting, you must request a legal proxy from your bank, broker or other nominee that holds your shares and present that proxy and proof of identification at the Annual Meeting.

If I am the beneficial owner of shares held in "street name" by my broker, will my broker automatically vote my shares for me?

New York Stock Exchange rules applicable to broker-dealers grant your broker discretionary authority to vote your shares without receiving your instructions on certain matters, which include the election of directors. However, your broker does not have discretionary authority to vote your shares for certain other types of matters.

How will my shares be voted if I give my proxy but do not specify how my shares should be voted?

If you provide specific voting instructions, your shares will be voted at the Annual Meeting in accordance with your instructions. If you hold shares in your name and sign and return a proxy card without giving specific voting instructions, your shares will be voted "FOR" the nominees of the Board in the election of directors.

How do I vote my shares held in one of the Rite Aid 401(k) plans? What happens if I do not vote my 401(k) plan shares?

If you are a participant in one of Rite Aid's 401(k) plans, the voter instruction card sent to you will serve as a voting instruction card to the trustee of the 401(k) plans for all shares of our common stock you own through the applicable 401(k) plan. You are entitled to instruct the plan trustee on how to vote your shares in the 401(k) plan by telephone, via the Internet or by mail as described above, except that, if you vote by mail, the card that you use will be a voting instruction card rather than a proxy card. The trustee will vote your shares held in the plans in accordance with your instructions. Your instructions will be kept confidential by the trustee and will not be disclosed to Rite Aid. Any shares held by a 401(k) plan participant for which timely instructions are not received by the trustee will be voted by the trustee in its sole discretion.

Could other matters be decided at the Annual Meeting?

At this time, we are unaware of any matters, other than as set forth above, that may properly come before the Annual Meeting. If any other matters properly come before the Annual Meeting, the persons named in the enclosed proxy, or their duly constituted substitutes acting at the Annual Meeting or any adjournment or postponement of the Annual Meeting, will be deemed authorized to vote or otherwise act on such matters in accordance with their judgment.

Can I vote in person at the Annual Meeting?

Yes. If you hold shares in your own name as a stockholder of record, you may come to the Annual Meeting and cast your vote at the meeting by properly completing and submitting a ballot. If you are the beneficial owner of shares held in the name of your broker, bank or other nominee, you must first obtain a legal proxy from your broker, bank or other nominee giving you the right to vote those shares and submit that proxy along with a properly completed ballot at the meeting.

How can I change my vote?

You may revoke your proxy at any time before it is exercised by:

- Delivering to the Secretary a written notice of revocation, dated later than the proxy, before the vote is taken at the Annual Meeting;
- Delivering to the Secretary an executed proxy bearing a later date, before the vote is taken at the Annual Meeting;
- Submitting a proxy on a later date by telephone or via the Internet (only your last telephone or Internet proxy will be counted), before 11:59 p.m. Eastern Daylight Time on June 26, 2007; or
- Attending the Annual Meeting and voting in person (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 the Secretary at the Annual Meeting before we begin voting.

If your shares of Rite Aid common stock are held by a bank, broker or other nominee, you must follow the instructions provided by the bank, broker or other nominee if you wish to change your vote.

What is an "abstention" and how would it affect the vote?

An "abstention" occurs when a stockholder sends in a proxy with explicit instructions to decline to vote regarding a particular matter (other than the election of directors for which the choice is limited to "for" or "withhold"). Abstentions are counted as present for purposes of determining a quorum. Abstentions will not be counted as having been voted and will have no effect on the outcome of the vote on the election of directors.

What is a broker "non-vote" and how would it affect the vote?

A broker non-vote occurs when a broker or other nominee who holds shares for another person does not vote on a particular proposal because that holder does not have discretionary voting power for the proposal and has not received voting instructions from the beneficial owner of the shares. Brokers will have discretionary voting power to vote shares for which no voting instructions have been provided by the beneficial owner with respect to the election of directors. Shares that are the subject of a broker non-vote are included for quorum purposes but will not affect the outcome of the vote on any of the matters scheduled for a vote at the Annual Meeting.

What are the quorum and voting requirements for the proposal to elect directors?

In deciding the proposal to elect directors that is scheduled for a vote at 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 47,542,989 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.

In order to take action on the proposal to elect directors, a quorum, consisting of the holders of 293,472,799 shares (a majority of the aggregate number of shares of Rite Aid common stock and LGP preferred stock (on an as-if-converted basis) issued and outstanding and entitled to vote as of the record date for the Annual Meeting), must be present in person or by proxy. This is referred to as a "quorum." Proxies marked "Abstain" and broker "non-votes," if any, will be treated as shares that are present for purposes of determining the presence of a quorum.

The vote required to approve the proposal to elect directors is set forth below:

Proposal No. 1 to elect the director nominees requires the affirmative vote of a majority of the total number of votes cast on the proposal (with Rite Aid common stock and LGP preferred stock voting together as a single class); provided that if our acquisition of the Brooks and Eckerd drugstore chains from The Jean Coutu Group (PJC) Inc. has not been completed by the date of the Annual Meeting, then the affirmative vote of a plurality of the total number of votes cast on the proposal would be required. Votes may be cast for or withheld with respect to all of the director nominees, or any of them. The election of directors by a "plurality" of the votes cast at the meeting means that the nominees receiving the greatest number of votes cast will be elected as directors up to the maximum number of directors to be elected at the meeting.

What happens if a quorum is not present at the meeting?

If the shares present in person or represented by proxy at the Annual Meeting are not sufficient to constitute a quorum, the stockholders by a vote of the holders of a majority of votes present in person or represented by proxy (which may be voted by the proxyholders), may, without further notice to any stockholder (unless a new record date is set), adjourn the meeting to a different time and place to permit further solicitations of proxies sufficient to constitute a quorum.

Who will count the votes?

Officers of Rite Aid will serve as proxy tabulator and count the votes. The results will be certified by the inspectors of election.

Who will conduct the proxy solicitation and how much will it cost?

We are soliciting proxies from stockholders on behalf of our Board and will pay for all costs incurred by it in connection with the solicitation. In addition to solicitation by mail, the directors, officers and employees of Rite Aid and its subsidiaries may solicit proxies from stockholders of Rite Aid in person or by telephone, facsimile or email without additional compensation other than reimbursement for their actual expenses.

We have retained The Altman Group, a proxy solicitation firm, to assist us in the solicitation of proxies for the Annual Meeting. Rite Aid will pay The Altman Group a fee of approximately $6,000 and reimburse the firm for reasonable out-of-pocket expenses.

Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and we will reimburse such custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in connection with the forwarding of solicitation materials to the beneficial owners of our stock.

If you have any questions about voting your shares or attending the Annual Meeting, please call our Investor Relations Department at (717) 730-7766.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General

Our 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. The Board of Directors has fixed the number of directors at 14 effective upon completion of our acquisition of the Brooks and Eckerd drugstore chains from The Jean Coutu Group (PJC) Inc. (the “Brooks/Eckerd Transaction”), but will be reduced to 13 directors when Mr. Sloan resigns from the Board when his term expires at the 2007 Annual Meeting. As previously announced, we expect the Brooks/Eckerd Transaction to be completed by June 1, 2007, pending final regulatory approval by the Federal Trade Commission and satisfaction of customary closing conditions. Our Board of Directors is divided into three classes, with each class to be as nearly equal in number as possible. The Board of Directors currently consists of four directors whose terms expire this year, four directors whose terms expire in 2008 and four directors whose terms expire in 2009. Upon completion of the Brooks/Eckerd Transaction, Board of Directors will consist of five directors whose terms expire this year, four directors whose terms expire in 2008 and five directors whose terms expire in 2009. Generally, the term of one class of directors expires at each annual meeting of stockholders and each class serves a three-year term.

In connection with the Brooks/Eckerd Transaction, The Jean Coutu Group (PJC) Inc., or Jean Coutu Group, will become the owner of approximately 31.7% of Rite Aid common stock, which will represent approximately 29.9% of the voting power outstanding. The shares of Rite Aid common stock to be issued in connection with the Brooks/Eckerd Transaction will be issued following the record date and, accordingly, will not be entitled to vote at the Annual Meeting. As part of that Transaction, we entered into a stockholder agreement with Jean Coutu Group and certain members of the Coutu family. Pursuant to the terms of the stockholder agreement, upon closing the transaction, our Board will be expanded to 14 directors and, based on the recommendation of the Nominating and Governance Committee, will appoint the following four directors designated by Jean Coutu Group to the Board: André Belzile, François J. Coutu, Michel Coutu and Dennis Wood. These appointments will fill the vacancies on the Board created by the increase in the size of the board by two directors and the resignations, effective and contingent upon the completion of the transaction, of current Rite Aid directors John G. Danhakl and Alfred M. Gleason. The right of Jean Coutu Group to continue to designate a certain number of director nominees is subject to its maintenance of specified ownership thresholds of Rite Aid common stock as set forth in the stockholder agreement.

Director Nominees

The Board of Directors has nominated André Belzile, George G. Golleher, Mary F. Sammons and Philip G. Satre to be elected directors at the Annual Meeting. Each of the nominees for director to be elected at the Annual Meeting currently serves as a Rite Aid director, except for Mr. Belzile, who will be appointed by the Board to serve as a director upon and contingent on completion of the Brooks/Eckerd Transaction. In the event that the Brooks/Eckerd Transaction has not been completed prior to the date of the Annual Meeting, Mr. Belzile’s nomination will be deemed to be withdrawn. Each director elected at the Annual Meeting will hold office until the 2010 Annual Meeting of Stockholders and until their successors are duly elected and qualified. 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 our directors and director nominees as of the record date and the directors to be appointed to the Board of Directors upon the completion of the Brooks/Eckerd Transaction:

Name	Age	Position with Rite Aid	Year First Became Director	Term as Director Will Expire(1)
Mary F. Sammons	60	Chairman, President and Chief Executive Officer(2)	1999	2007
Michel Coutu.	53	Non-Executive Co-Chairman(3)	2007	2009
Joseph B. Anderson, Jr.	64	Director	2005	2009
André Belzile	45	Director(3)	2007	2007
François J. Coutu	52	Director(3)	2007	2008
John G. Danhakl	51	Director(4)	2003	2008
Michael A. Friedman, MD	63	Director	2004	2008
Alfred M. Gleason	77	Director(4)	2000	2008
George G. Golleher	59	Director	2002	2007
Robert A. Mariano	57	Director	2005	2009
Robert G. Miller	63	Director(2)	1999	2008
Philip G. Satre	58	Director	2005	2007
Stuart M. Sloan	63	Director(4)	2000	2007
Jonathan Sokoloff	49	Director	1999	2009
Marcy Syms	56	Director	2005	2009
Dennis Wood	68	Director(3)	2007	2008

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

(2) Upon completion of the Brooks/Eckerd Transaction, Robert G. Miller, currently Chairman of the Board, will step down as Chairman and Ms. Sammons will become Chairman of the Board.

(3) Upon completion of the Brooks/Eckerd Transaction, Messrs. Belzile, François J. Coutu, Michel Coutu and Wood will be appointed to the Board, and Mr. Michel Coutu will become the Non-Executive Co-Chairman of the Board.

(4) Messrs. Danhakl and Gleason will resign from the Board effective upon completion of the Brooks/Eckerd Transaction, and Mr. Sloan will not stand for reelection at the 2007 Annual Meeting.

Following are the biographies for our director nominees and our directors who will continue to serve after the 2007 Annual Meeting:

Mary F. Sammons. Ms. Sammons will become Chairman of the Board of Rite Aid upon completion of the Brooks/Eckerd Transaction and 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 Drug Stores, a trade association, and is a director of First Horizon National Corporation and of The Rite Aid Foundation.

Michel Coutu. Mr. Michel Coutu will become Non-Executive Co-Chairman of the Board upon completion of the Brooks/Eckerd Transaction. He currently serves as President of the U.S. operations of Jean Coutu Group and Chief Executive Officer of Jean Coutu USA, positions he has held since 1986. He has also served as a member of the board of directors of Jean Coutu Group since December 1985. Mr. Coutu holds a degree in finance and a license in law from the University of Sherbrooke and a masters in business administration from the Simon School of Business at the University of Rochester. He is a member of the Board of the National Association of Chain Drug Stores, a trade association. Mr. Michel Coutu will be appointed as a Rite Aid director (and as Non-Executive Co-Chairman) pursuant to board representation rights granted to Jean Coutu Group under the stockholder agreement in connection with the Brooks/Eckerd Transaction.

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., Sierra Pacific Resources and Valassis Communications, Inc.

André Belzile. Mr. Belzile has been the Senior Vice-President, Finance and Corporate Affairs of Jean Coutu Group since May 2004. Prior to serving in this position, from 1992 until May 2004 he served as Vice-President and Chief Financial Officer of Cascades Inc., a producer and marketer of packaging products. Mr. Belzile is a chartered accountant who earned a bachelor's degree at Les Hautes Études Commerciales (HEC MONTRÉAL). Mr. Belzile also serves as a director and member of the audit committee of NB Capital Corporation, a U.S. subsidiary of the National Bank of Canada, and as a director of Radiologie Montérégie Inc., a private clinic. Mr. Belzile will be appointed as a Rite Aid director pursuant to board representation rights granted to Jean Coutu Group under the stockholder agreement in connection with the Brooks/Eckerd Transaction.

François J. Coutu. Mr. François J. Coutu has served as President of Canadian operations and Vice-Chairman of the board of directors of Jean Coutu Group since 2005. Previously, Mr. Coutu held the positions of President and Chief Executive Officer from 2002 to 2005 and President and Chief Operating Officer of Jean Coutu Group from 1992 to 2002. Mr. Coutu has been a member of the board of directors of Jean Coutu Group since December 1985. He is a pharmacist by profession, holds a bachelor's degree in administration from McGill University and a bachelor's degree in pharmacy from Samford University. He is a current director and former chair of the Canadian Association of Chain Drug Stores, a trade association, and previously served as a member of the board of directors of the National Bank of Canada, where he was a member of the human resources and credit committees. Mr. François Coutu will be appointed as a Rite Aid director pursuant to board representation rights granted to Jean Coutu Group under the stockholder agreement in connection with the Brooks/Eckerd Transaction.

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.

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. 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 Linens 'N Things, Inc., and he served as a director of Simon Worldwide from November 1999 to April 2006 and of General Nutrition Centers, Inc. from December 2003 to March 2007.

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.

Robert G. Miller. Mr. Miller has been Chief Executive Officer of Albertsons LLC since June 2006. Mr. Miller has been a member of Rite Aid's Board of Directors since December 1999, serving as our Chairman of the Board from December 1999 until the closing of the Brooks/Eckerd Transaction. From December 1999 until June 2003, Mr. Miller was also Rite Aid's Chief Executive Officer. 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 Kroger acquired Fred Meyer, Inc., a food, drug and general merchandise chain. From 1991 until the March 1999 acquisition, he served as Chief Executive Officer of Fred Meyer, Inc. Mr. Miller also is a director of Harrah's Entertainment, Inc. and Nordstrom, Inc.

Philip G. Satre. Mr. Satre is currently a self-employed private 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 National World War II Museum, the Nevada Cancer Institute, TABCORP Holdings Limited of Australia, Sierra Pacific Resources and Nordstrom, Inc. and is a trustee of Stanford University.

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. 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 boards of directors of Manhattan Theatre Club, New York Chapter of the American Heart Association and the New Jersey Economic Growth Council. Ms. Syms also is a founding member of the Board of Directors of the Sy Syms School of Business at Yeshiva University.

Dennis Wood, O.C. Mr. Wood is Chairman, President and Chief Executive Officer of Dennis Wood Holdings Inc., a privately owned portfolio company, a position he has held since 1973. Since April 2005, he has served as Interim President and Chief Executive Officer of Groupe Bocenor Inc., a window and door manufacturer, and also serves as a director and as Chair of its Executive Committee. Between 1992 and 2001, Mr. Wood served as Chairman, President and Chief Executive Officer of C-MAC Industries Inc., a designer and manufacturer of integrated electronic manufacturing solutions. Mr. Wood has been a member of the board of the Jean Coutu Group since March 2004. He is currently a member of the Audit Committee and chairs the Liaison and Strategic Planning Committee. In April 2007 he was appointed as Chairman of the Board of Azimut Exploration Inc. and serves as a member of the board of directors of the following public companies: Transat A.T. Inc., Victhom Human Bionics Inc., and Azimut Exploration Inc. Furthermore, Mr. Wood serves on the boards of Blue Mountain Wallcoverings Inc., a privately held company, and the National Bank Trust. He has been awarded Canada's top honor, the Order or Canada and has an honorary degree from the University of Sherbrooke. Mr. Wood will be appointed as a Rite Aid director pursuant to board representation rights granted to Jean Coutu Group under the stockholder agreement in connection with the Brooks/Eckerd Transaction.

Corporate Governance

We recognize that good corporate governance is an important means of protecting the interests of our stockholders, associates, customers, and the community. The Board of Directors 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 interpreting and implementing Sarbanes-Oxley, and the corporate governance listing standards of the New York Stock Exchange.

Website Access to Corporate Governance Materials. Our corporate governance information and materials, including our Certificate of Incorporation, By-Laws, Corporate Governance Guidelines, current charters for each of the Audit Committee, Compensation Committee and Nominating and Governance Committee, Code of Ethics for the Chief Executive Officer and Senior Financial Officers, Code of Ethics and Business Conduct, and our Related Person Transactions Approval Policy, are posted on our website at *www.riteaid.com* under the headings "Our Company—Corporate Governance" 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 promptly on our website at *www.riteaid.com* under the headings "Our Company—Corporate Governance—Code of Ethics."

Director Independence. For a director to be considered independent under the New York Stock Exchange corporate governance listing standards, the Board of Directors must affirmatively 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. The Board considers all relevant facts and circumstances in making its independence determinations. Only independent directors may serve on our Audit Committee, Compensation Committee and Nominating and Governance Committee.

As a result of this review, the Board affirmatively determined that the following directors, including each director serving on the Audit Committee, the Compensation Committee and the Nominating and Governance Committee, satisfy the independence requirements of the NYSE listing standards: Joseph B.

Anderson, Jr., Michael A. Friedman, MD, Alfred M. Gleason, George G. Golleher, Robert A. Mariano, Philip G. Satre, Stuart M. Sloan and Marcy Syms. In addition, the Board affirmatively determined that each of the following directors to be appointed upon completion of the Brooks/Eckerd Transaction satisfied the independence requirements of the NYSE listing standards: André Belzile, François J. Coutu and Dennis Wood. The Board also determined 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. In determining each individual's status as an independent director, the Board considered the following transactions, relationships and arrangements:

- Joseph B. Anderson serves as a director of Valassis Communications, Inc., which does business with Rite Aid. Because Mr. Anderson serves only as an outside director of, and is not an officer of or otherwise employed by, Valassis Communications, Inc., the Board determined that the relationship between Rite Aid and Valassis Communications, Inc. does not constitute a material relationship between Mr. Anderson and Rite Aid.
- Until March 2007, George G. Golleher served as director of General Nutrition Centers, which does business with Rite Aid. Because 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 Rite Aid and General Nutrition Centers does not constitute a material relationship between Mr. Golleher and Rite Aid.

There is no family relationship between any of the nominees, continuing directors and executive officers of Rite Aid, except that directors François Coutu and Michel Coutu are brothers.

Majority Voting Standard and Policy. In April 2007, the Board amended the Company's Amended and Restated By-Laws (the "By-Laws"), which will become effective upon the closing of the Brooks/Eckerd Transaction, to change the voting standard for the election of directors from a plurality to a majority voting standard in uncontested elections. Under the new majority voting standard, a nominee for director will be elected to the Board if the votes cast for such nominee's election exceed the votes cast against such nominee's election. Directors will continue to be elected by plurality vote at any meeting of stockholders for which (i) the Secretary of the Company receives a notice that a stockholder has nominated a person for election to the Board in compliance with the advance notice requirements for stockholder nominees for director set forth in the By-Laws and (ii) such nomination has not been withdrawn by such stockholder on or prior to the fourteenth day preceding the date the Company first mails its notice of meeting for such meeting to the stockholders.

In connection with the By-Law amendment concerning the majority vote standard for the election of directors, the Board of Directors adopted an amendment to the Company's Corporate Governance Guidelines (the "Guidelines"), which will become effective upon the closing of the Brooks/Eckerd Transaction. The amendment to the Guidelines provides that a director who fails to receive the required number of votes for re-election in accordance with the By-Laws will, within five days following certification of the stockholder vote, tender his or her written resignation to the Chairman of the Board for consideration by the Board, subject to the procedures set forth in the Guidelines.. A copy of the policy is attached as Appendix A.

Committees of the Board of Directors

The Board of Directors has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Executive Committee. Current copies of the charters for each of these committees are available on our website at *www.riteaid.com* under the headings "Our Company—Corporate Governance—Committee Charters."

Audit Committee. The Audit Committee, which held nine meetings during fiscal year 2007, currently consists of Alfred M. Gleason (Chairman), George G. Golleher, Robert A. Mariano, Philip G. Satre and Marcy Syms. Upon the completion of the Brooks/Eckerd Transaction, the Audit Committee will consist of Philip G. Satre (Chairman), André Belzile, Robert A. Mariano and Marcy Syms. The Board has determined that each of these individuals 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 the section entitled "Corporate Governance—Director Independence" above. The Board has determined that George G. Golleher qualifies, and upon the completion of the Brooks/Eckerd Transaction Mr. Satre will qualify, 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 our 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 the section entitled "Audit Committee Report."

Compensation Committee. The Compensation Committee, which met seven times during fiscal year 2007, currently consists of Philip G. Satre (Chairman), Michael A. Friedman, MD and Stuart M. Sloan. Upon the completion of the Brooks/Eckerd Transaction, the Compensation Committee will consist of George G. Golleher (Chairman), Michael A. Friedman, MD, Stuart M. Sloan and Dennis Wood. Stuart M. Sloan will not stand for reelection and thus will cease to be a director and a member of the Compensation Committee following the 2007 Annual Meeting. The Board has determined that each of these individuals is an independent director under the NYSE listing standards. See the section entitled "Corporate Governance—Director Independence" above.

The functions of the Compensation Committee include the following:

- Administering Rite Aid'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.

The Compensation 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 details of the processes and procedures for the consideration and determination of executive and director compensation are described in the section entitled "Compensation Discussion and Analysis."

The Compensation Committee also has access to independent compensation data and from time to time engages outside compensation consultants. In fiscal year 2007, the Compensation Committee considered the report of outside compensation consultants with respect to executive 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.

Nominating and Governance Committee. The Nominating and Governance Committee, which held one meeting during fiscal year 2007, currently consists of Joseph B. Anderson, Jr. (Chairman), Michael A. Friedman, MD and George G. Golleher. Upon the completion of the Brooks/Eckerd Transaction, the Nominating and Governance Committee will consist of Joseph B. Anderson, Jr. (Chairman), François J. Coutu, Michael A. Friedman, MD and Robert A. Mariano. The Board has determined that each of these individuals is an independent director under the NYSE listing standards. See the section entitled "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 Rite Aid directors;
- Recommending to the Board individual 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 Rite Aid and overseeing corporate governance matters generally;
- Overseeing the annual evaluation of the Board and management; and
- Reviewing, evaluating and recommending for approval by the Board related person transactions of the Company.

Executive Committee. The members of the Executive Committee currently are Robert G. Miller, Mary F. Sammons, Jonathan D. Sokoloff and Stuart M. Sloan. Upon the completion of our acquisition of the Brooks/Eckerd Transaction, the Executive Committee will consist of Mary F. Sammons (Chairman), Michel Coutu (Co-Chairman), Robert G. Miller, Philip G. Satre and Stuart M. Sloan. Stuart M. Sloan will not stand for reelection and thus will cease to be a director and a member of the Executive Committee following the 2007 Annual Meeting. The Executive Committee did not meet during fiscal year 2007. However, on one occasion in fiscal year 2007, 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 Rite Aid 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 Rite Aid director 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 Rite Aid's most recent annual meeting of stockholders.

The Nominating and Governance Committee believes that the minimum qualifications for serving as a Rite Aid director 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 Rite Aid's business and affairs 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. As of the completion of the Brooks/Eckerd Transaction, these sessions will be presided over by the Non-Executive Co-Chairman of the Board of Directors. The non-management directors met in executive session four times during fiscal year 2007.

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 our website at *www.riteaid.com*. Under the headings "Our Company—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 web site 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 four regular meetings, six special meetings and on one occasion acted by unanimous written consent during fiscal year 2007. Each incumbent director 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 our policy that directors are invited and encouraged to attend the annual meeting of stockholders. Ten of our directors were in attendance at the 2006 Annual Meeting of Stockholders.

Directors' Compensation

Except for Robert G. Miller, whose compensation arrangements are discussed in the section below entitled "Agreement with Mr. Miller," and except as noted below under the director compensation plan, each non-employee director other than Mr. Sokoloff (who is affiliated with Leonard Green & Partners L.P., an entity that provides services to Rite Aid, 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 and the annual payment to Michel Coutu in his capacity as Non-Executive Co-Chairman will be $500,000. 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 Rite Aid employees and Mr. 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 Rite

Aid's 2001 Stock Option Plan to the following directors: on June 21, 2006, Ms. Syms and Messrs. Anderson, Friedman, Gleason, Golleher, Mariano, Miller, Satre and Sloan each received options to purchase 50,000 shares, with an exercise price of $4.55 per share; and on the date of the closing of the Brooks/Eckerd Transaction, André Belzile, François J. Coutu, Michel Coutu and Dennis Wood will be appointed to the Board of Directors and each of them will receive non-qualified stock options to purchase 100,000 shares with an exercise price equal to the market price of the Company's common stock as of the close of business on the date of grant. In fiscal year 2007, 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.

DIRECTOR COMPENSATION TABLE FOR FISCAL YEAR 2007

The following Director Compensation Table sets forth fees, awards and other compensation paid to or earned by our directors (other than Named Executive Officers) for the fiscal year 2007:

Name	Fees Earned or Paid in Cash($)	Option Awards ($)(4)	Change In Pension Value and Nonqualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($)(3)	Total
Joseph B. Anderson, Jr.	65,250	92,208		—	157,458
John G. Danhakl	—	—		—	—
Michael A. Friedman, MD	67,000	135,208		—	202,208
Alfred M. Gleason	98,500	116,375		—	214,875
George G. Golleher	80,000	116,375		17,606	213,981
Robert A. Mariano	76,000	92,208		—	168,208
Robert G. Miller	350,000(1)	113,875	5,324	621,335	1,090,534
Philip G. Satre	98,000	127,542		—	225,542
Stuart M. Sloan	68,750	116,375		—	185,125
Jonathan Sokoloff	—	—		—	—
Marcy Syms	80,000	92,208		—	172,208

(1) Represents annual base pay as discussed in section "Agreement with Mr. Miller."

(2) Represents above market earnings (over 120% of the "applicable federal rate" or "AFR") under the Company's supplemental executive (defined contribution) retirement plan.

(3) All Other Compensation for Mr. Golleher consists of $17,606 for personal use of aircraft. All Other Compensation for Mr. Miller consists of $240,000 contributed by the Company to a supplemental executive retirement plan, $113,491 of earnings equal to 120% of AFR under said plan, $8,800 in company matching contributions made to the Company's 401(k) plan, $10,000 for financial planning services, and $249,044 for personal use of aircraft.

(4) Represents the total expense recorded in fiscal 2007 in accordance with SFAS No. 123(R) for stock option awards granted in fiscal 2005, 2006, and 2007. The assumptions used in determining the fair value of the options is set forth in Note 14 to our financial statements contained in our Annual Report on Form 10–K for the year ended March 3, 2007. We recognize expense ratably over the three-year vesting period.

The number of unexercised options outstanding as of March 3, 2007 for each director is detailed in the table below. Note that the grant date fair value is included for those options being expensed in fiscal 2007. All unexercisable options below will vest upon the completion of the Brooks/Eckerd transaction.

Name	Grant Date	Exercise Price	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Grant Date Fair Value
Joseph B. Anderson, Jr	9/21/2005	3.65	33,334	66,666	1.84
	6/21/2006	4.55	—	50,000	2.47
Michael A. Friedman, MD	10/7/2004	3.53	66,667	33,333	2.12
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
Alfred M. Gleason	1/10/2001	3.44	100,000	—	—
	1/30/2002	2.26	50,000	—	—
	12/11/2002	2.10	50,000	—	—
	4/7/2004	5.40	33,333	16,667	3.11
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
George C. Golleher	1/30/2002	2.26	100,000	—	—
	12/11/2002	2.10	50,000	—	—
	4/7/2004	5.40	33,333	16,667	3.11
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
Robert A. Mariano	9/21/2005	3.65	33,334	66,666	1.84
	6/21/2006	4.55	—	50,000	2.47
Robert G. Miller	11/20/2000	2.75	4,200,000	—	—
	2/13/2001	4.05	4,500,000	—	—
	1/30/2002	2.26	431,762	—	—
	12/11/2002	2.10	500,000	—	—
	6/24/2004	5.38	33,334	16,666	2.96
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
Philip G. Satre	4/6/2005	3.77	33,334	66,666	1.89
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
Stuart M. Sloan	1/10/2001	3.44	100,000	—	—
	1/30/2002	2.26	50,000	—	—
	12/11/2002	2.10	50,000	—	—
	4/7/2004	5.40	33,334	66,666	3.11
	6/23/2005	4.11	16,667	33,333	2.02
	6/21/2006	4.55	—	50,000	2.47
Marcy Syms	9/21/2005	3.65	33,334	66,666	1.84
	6/21/2006	4.55	—	50,000	2.47

Agreement with Mr. Miller

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. On November 28, 2006, Rite Aid amended the April 9, 2003 agreement with Mr. Miller pursuant to which Mr. Miller has agreed to step down as Chairman upon the closing of the Brooks/Eckerd Transaction and will continue to serve solely as a director 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 became Chairman in December 1999 and will continue to serve as Chairman until he steps down upon the closing of the Brooks/Eckerd Transaction, and Mr. Miller will continue to serve as a director 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). Mr. Miller has waived any right he would have pursuant to his employment agreement upon his ceasing to serve as Chairman or a change in control triggered by the transaction to acquire the Brooks and Eckerd drugstore chains.

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, including Pierre Legault, who will become an executive officer upon completion of the Brooks/Eckerd Transaction.

Name	Age	Position with Rite Aid
Mary F. Sammons(1)	60	Chairman, President and Chief Executive Officer
James P. Mastrian	64	Chief Operating Officer
Pierre Legault(2)	46	Senior Executive Vice President, Chief Administrative Officer
Mark C. Panzer	50	Senior Executive Vice President, Chief Marketing Officer
Jerry Mark deBruin	48	Executive Vice President, Pharmacy
Robert B. Sari	51	Executive Vice President, General Counsel and Secretary
Kevin Twomey	56	Executive Vice President, Chief Financial Officer
Douglas E. Donley	44	Senior Vice President, Chief Accounting Officer

(1) Ms. Sammons' biographical information is provided above in the section identifying the director nominees. She will become Chairman upon completion of the Brooks/Eckerd Transaction.

(2) Mr. Legault will become Senior Executive Vice President, Chief Administrative Officer upon completion of the Brooks/Eckerd Transaction.

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.

Pierre Legault. Mr. Legault will be appointed Senior Executive Vice President, Chief Administrative Officer upon the closing of the Brooks/Eckerd Transaction pursuant to the stockholder agreement with Jean Coutu Group relating to the acquisition. He currently serves as Executive Vice President of Jean Coutu Group from January 2006 to March 2007. Prior to serving as Executive Vice President of Jean Coutu Group, Mr. Legault held several senior positions with Sanofi-Aventis and predecessor companies over a period of 16 years, last serving in the position of President of the Global Dermatology division of Sanofi-Aventis Group until December 2005. Some of the positions held by Mr. Legault were Senior Vice-President and Chief Financial Officer for the North American business of Aventis from 2000 to 2003, Global Senior Vice-President Finance and Treasury of Hoechst Marion Roussel, Inc. from 1998 to 2000, Vice-President and Chief Financial Officer/Chief Information Officer, North America Finance, Information Services and Administration of Marion Merrell Dow, Inc. from 1997 to 1998 and Vice-President and Chief Financial Officer (Finance, Information Systems and Administration) of Marion Merrell Dow Pharmaceutical Canada from 1990 to 1996. Mr. Legault has served as a director of Jean Coutu Group since August 2004.

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 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, Inc. from December 1999 to January 2003, when Albertson's, Inc. merged with American Stores Company. From 1994 to 1999, Mr. deBruin 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 2007, pursuant to a plea agreement, Mr. Donley pled guilty to state misdemeanor offenses related to driving under the influence. Mr. Donley was fined $2,033, served 72 hours incarceration, was given 6 months of supervised parole, had his drivers license suspended for 24 months and was required to attend alcohol and driving safety classes. The Company believes that these matters do not adversely affect his fitness to serve as an officer.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

Rite Aid Corporation (the "Company" or "Rite Aid") is the third largest retail drugstore chain in the United States based on revenues and number of stores, operating approximately 3,300 stores in 27 states and the District of Columbia. The Company faces a wide range of competitive challenges including, but not limited to, national non-drugstore retailers, other retail drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, dollar stores and mail order pharmacies. A primary component of the Company's human resource strategy is to attract, motivate, and retain highly talented individuals at all levels of the organization who are committed to the Company's core values of excellence, integrity, and respect for people and have the ability to execute the Company's strategic and operational priorities.

Objectives of Executive Compensation

All executive compensation and benefits programs are within the purview of the Compensation Committee, which bases these programs on the same objectives that guide the Company in establishing all of its compensation programs, outlined below. The Compensation Committee also administers the Company's equity incentive compensation plans. In establishing or approving the compensation of our executive officers in any given year, the Compensation Committee is generally guided by the following objectives:

> Compensation should be based on the level of job responsibility, individual performance, and company performance, and should foster the long-term focus required for success in the retail drugstore industry. As associates progress to higher levels in the organization, an increasing proportion of their pay should be linked to company performance and shareholder returns and to longer-term performance because they are in a position to have greater influence on longer-term results.
>
> Compensation should reflect the value of the job in the marketplace. To attract and retain a highly skilled work force, we must remain competitive with the pay of other employers who compete with us for talent.
>
> Compensation should reward performance. Our programs should deliver compensation in relationship to company performance. Where company performance falls short of expectations, the programs should deliver lower-tier compensation. In addition, the objectives of pay-for-performance and retention must be balanced. Even in periods of temporary downturns in company performance,

the programs should continue to ensure that successful, high-achieving employees will remain motivated and committed to the Company to support the stability and future performance needs of the Company.

To be effective, performance-based compensation programs should enable associates to easily understand how their efforts can affect their pay, both directly through individual performance accomplishments and indirectly through contributing to the Company's achievement of its strategic and operational goals.

Compensation and benefit programs should be set across consistent measures and goals at all levels of the organization. While the programs and individual pay levels will always reflect differences in job responsibilities, geographies, and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across the organization.

Compensation and benefit programs should attract associates who are interested in a career at Rite Aid.

The Committee's Processes

The Compensation Committee has established a number of processes to assist it in ensuring that the Company's executive compensation program is achieving its objectives. Among those are:

Assessment of Company Performance. The Compensation Committee uses company performance measures in two ways. First, in establishing total compensation ranges, the Compensation Committee considers various measures of company and industry performance, including, but not limited to, comparable store sales growth, Adjusted EBITDA, earnings growth, return on sales, return on average invested capital and assets, and total shareholder return. The Compensation Committee does not apply a formula or assign these performance measures relative weights. Instead, it makes a subjective determination after considering such measures collectively. Second, as described in more detail below, the Compensation Committee has established specific company target incentive/award levels and performance measures that determine the size of payouts under the Company's two formula-based incentive programs - the cash incentive bonus program and the equity program.

Assessment of Individual Performance. Individual performance has a strong impact on the compensation of all employees, including the CEO and the other executive officers. With respect to the CEO, the independent directors meet with the CEO in executive session annually at the beginning of the year to agree upon the CEO's performance objectives (both individual and company objectives) for the year. At the end of the year, the independent directors meet in executive session to conduct a performance review of the CEO based on his or her achievement of the agreed-upon objectives, contribution to the Company's performance, and other leadership accomplishments. This evaluation is shared with the CEO and is provided to the Compensation Committee for its consideration in setting the CEO's compensation.

For the other named executive officers, the Compensation Committee receives a performance assessment and compensation recommendation from the CEO and also exercises its judgment based on the board's interactions with the executive officer. As with the CEO, the performance evaluation of these executives is based on achievement of pre-agreed objectives by the executive and his or her organization, his or her contribution to the Company's performance, and other leadership accomplishments.

Benchmarking. The Compensation Committee benchmarks the Company's programs with a peer group of retail organizations via external survey and compensation recommendations from Mercer Human Resources Consulting a qualified, independent compensation consultant that reports its findings directly to the Compensation Committee. For the Company's 2007 fiscal year, this peer group consisted of the following companies: Albertson's Inc.; BJ's Wholesale; Costco; CVS; Dollar General; Family Dollar Stores; Great Atlantic & Pacific Tea Co.; Home Depot; Longs Drug Store; Lowe's Companies; Safeway, Inc.; Target Corp. and Walgreen Co. The Compensation Committee compares the companies' executive compensation programs as a whole, and also compares the pay of individual executives if the jobs are sufficiently similar to make the comparison meaningful. The Compensation Committee uses the peer group data primarily to ensure that the executive compensation program as a whole is competitive, meaning generally within the broad middle range of comparative pay of the peer group companies when the Company achieves the targeted performance levels.

Total Compensation Review. The Compensation Committee reviews each executive's base pay, bonus, and equity incentives annually with the guidance of the Compensation Committee's independent consultant. Following the fiscal year 2007 review, the Compensation Committee determined that these elements of compensation were reasonable in the aggregate.

Components of Executive Compensation for Fiscal Year 2007

For Fiscal Year 2007, the compensation of executives consisted of four primary components—base salary, a cash incentive bonus award under the Company Bonus Plan, equity grants of stock options, restricted stock, performance units and a benefits package. The Compensation Committee believes that this program balances both the mix of cash and equity compensation, the mix of currently-paid and longer-term compensation, and the security of base benefits in a way that furthers the compensation objectives discussed above. Following is a discussion of the Compensation Committee's considerations in establishing each of the components for the executive officers.

Base Salary

Base salary is the guaranteed element of an executive's annual cash compensation during employment. The value of base salary reflects the employee's long-term performance, skill set and the market value of that skill set. In setting base salaries for fiscal year 2007, the Compensation Committee considered the following factors:

The median of comparable companies. The Compensation Committee generally attempts to provide base compensation approximating the median of the selected group of peer companies listed above.

Internal relativity, meaning the relative pay differences for different job levels.

Individual performance. Except for increases associated with promotions or increased responsibility, increases in base salary for executives from year to year are generally limited to minimal adjustments to reflect individual performance.

Peer group data specific to the executive's position, where applicable. As noted above, we used the peer group data to test for reasonableness and competitiveness of base salaries, but we also exercised subjective judgment in view of our compensation objectives.

Consideration of the mix of overall compensation. Consistent with our compensation objectives, as executives progress to higher levels in the organization, a greater proportion of overall compensation is directly linked to Company performance and shareholder returns. Thus, for example, Ms. Sammons' overall compensation is more heavily weighted toward incentive compensation and equity compensation than that of the other executive officers.

In establishing Ms. Sammons' base salary for fiscal year 2007, the Compensation Committee applied the principles described above under "The Committee's Processes." In an executive session including all independent directors, the Compensation Committee assessed Ms. Sammons' fiscal year 2006 performance. They considered the Company's and Ms. Sammons' accomplishment of objectives that had been established at the beginning of the year and its own subjective assessment of her performance. They noted that under Ms. Sammons' leadership, in fiscal year 2006 the Company continued to develop and execute against its strategic plan and improve its competitive positioning. Although the Company did not achieve its overall financial goals for fiscal year 2006, the Company's capital structure was improved, its new store development program continued to increase our presence in key strategic markets and customer satisfaction ratings in both the front end and pharmacy improved. In recognition of her continued strong leadership in fiscal year 2006, the Compensation Committee set Ms. Sammons' base salary for fiscal year 2007 at $1,000,000, the same level that it was for fiscal years 2004 through 2006.

The Compensation Committee reviewed similar considerations for each of the other named executives. With regard to Mr. Panzer's performance, the Compensation Committee considered his new role as Chief Marketing Officer and increased his annual salary by two percent in fiscal year 2007. The Compensation Committee had increased Mr. Twomey's annual salary by three percent in fiscal year 2007 based upon his performance as Chief Financial Officer. The Compensation Committee also increased Mr. deBruin's annual salary by three percent in fiscal year 2007 based upon his performance as Executive Vice President, Pharmacy. No adjustment was made to Mr. Mastrian's annual salary in fiscal year 2007.

Cash Incentive Bonuses

The Company has established an annual cash bonus program in order to incentivize associates' to meet the Company's Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and certain other adjustments) and customer satisfaction targets for the fiscal year 2007. Named executive officers, other executive officers and key managers of the Company participate in the cash bonus program. The bonuses paid for fiscal year 2007 appear in the Summary Compensation Table under the "Non-Equity Incentive Plan Compensation" column. Under the program, bonus target amounts, expressed as a percentage of base salary, are established for participants at the beginning of each fiscal year. Bonus payouts for the year are then determined by the Company's financial and customer satisfaction results for the year relative to predetermined performance measures. The Compensation Committee considered the following when establishing the awards for fiscal year 2007:

Bonus Targets. Bonus targets for each individual were based on job responsibilities, internal relativity, and peer group data. Our objective was to set bonus targets such that total annual cash compensation was within the broad middle range of peer group companies and a substantial portion of that compensation was linked to company performance. Consistent with our executive compensation policy, individuals with greater job responsibilities had a greater proportion of their total cash compensation tied to company performance through the bonus plan. Thus, the Compensation Committee established the following bonus targets for fiscal year 2007 (expressed as a percentage of base salary): Ms. Sammons, 150 percent; Mr. Mastrian, 110 percent; Mr. Panzer, 100 percent; Mr. Twomey, 60 percent; and Mr. deBruin, 60 percent.

Company performance measures. For all participants in the corporate plan, including the named executive officers, the Compensation Committee established fiscal year 2007 company performance measures between the minimum ($650 million) and the maximum ($740 million) Adjusted EBITDA targets and the minimum (70%) and maximum (85%) of overall customer satisfaction survey targets. The measures were determined in April 2006. The Compensation Committee believes that this mix of performance measures encourages associates to focus appropriately on improving both operating results and customer service. The measures are also effective motivators because they are easy to track and clearly understood by associates. Under the plan formula, payouts can range from zero to 200 percent of target depending on company performance. In establishing the target for Adjusted EBITDA and customer satisfaction, the Compensation Committee considered the expected 2007 performance of these measures. The bonuses paid to executive officers for fiscal year 2007 correlated to the achievement of 102.91 percent of the combined Adjusted EBITDA and customer satisfaction results targets.

Equity Incentive Program

In fiscal year 2007, we employed three forms of equity incentives granted under the Company's Stock Option and Stock Award Plans: stock options, performance awards and restricted stock. For the executive officers, stock option grants comprised 60 percent, performance awards comprised 30 percent and restricted stock comprised 10 percent of the total long-term equity incentive level established by the Compensation Committee. These incentives foster the long-term perspective necessary for continued success in our business. They also ensure that our leaders are properly focused on shareholder value. Stock options and restricted stock have traditionally been granted broadly and deeply within the organization, with approximately 10,000 management, field and store associates now participating in our equity incentive program. In determining the value of grants for executives, the Compensation Committee's overall objective was to set combined grant values of stock options, restricted stock and performance awards that were competitive within the broad middle range of peer company long-term incentive grant amounts. The Compensation Committee approves grant values prior to the pre-established grant date. The Compensation Committee's process for setting grant dates is discussed below. Then, on the grant date those values are converted to the equivalent number of shares based on the closing price of the Company's common stock on the date of grant for restricted shares and performance units, and using the Black-Scholes valuation method for stock options.

Grant Timing and Price. The Compensation Committee's procedure for timing of equity grants (performance awards, restricted stock and stock options) provides assurance that grant timing is not being manipulated to result in a price that is favorable to associates. The annual equity grant date for all eligible employees, including executive officers (more than 10,000 associates), is in late-June. This date is established by the Compensation Committee well in advance of the date of grant—typically at the Compensation Committee's September or December meeting. The late-June grant date timing is driven by several considerations:

- It follows the Company's assessment of prior year goals and objectives, establishment of the current fiscal year's goals and objectives and assessment of management's performance, allowing supervisors to deliver the equity awards close in time to performance appraisals.
- It follows the filing of the financial statements for the prior fiscal year, so that the stock price at that time can reasonably be expected to fairly represent the market's collective view of our then-current results and prospects.

For fiscal year 2007, the Compensation Committee maintained the same total grant values as in the prior fiscal year. In making this determination, the Compensation Committee reviewed available peer group data and found that the design of the long-term equity incentive program is reasonably aligned with those of the general retail industry market practice. Grant values for individual executive officers were determined by individual performance and internal relativity. Consistent with the Company's compensation philosophy, executive officers at higher levels received a greater proportion of total pay in the form of equity incentives.

Equity Incentives—Stock Options

Stock options align associate incentives with shareholders because options have value only if the stock price increases over time. The Company's ten-year options, granted at the market price on the date of grant, help focus employees on long-term growth. In addition, options are intended to help retain key associates because they vest over a four-year period, which also helps keep employees focused on long-term performance. The Company does not reprice options; likewise, if the stock price declines after the grant date, we do not replace options.

The Compensation Committee considered the following in establishing the fiscal year 2007 option grants to executive officers:

Grant size. As noted above under "Equity Incentive Program," stock option grants were 60 percent of the total equity grant values (measured in accordance with SFAS No. 123(R)) established by the Compensation Committee. The total equity grant values were unchanged from fiscal year 2006.

Equity Incentives—Performance Awards

Performance awards provide the named executive officers and other executives with units, payable in cash or shares of Rite Aid stock if certain company performance goals are achieved, aligning executives with shareholder interests and providing an ownership stake in the Company. The awards, normally granted annually, are structured as a targeted number of units based on the Company's achievement of specific Adjusted EBITDA levels over a specified time period of three years. We granted performance awards for fiscal year 2007 to executive officers with possible payouts ranging from zero to 200 percent of the target amount, depending on Adjusted EBITDA as compared to target for fiscal years 2007, 2008 and 2009. No dividends are paid on the awards during the performance period. The awards are paid in cash or in stock, at the Company's election, at the end of the three year performance period.

The Compensation Committee approved the terms of the fiscal year 2007 performance awards in June 2006, and took into consideration the following:

Target grant size. As noted above under "Equity Incentive Program," performance awards were 30 percent of the total equity grant values (measured in accordance with SFAS No. 123(R)) established by the Compensation Committee The Compensation Committee decided to maintain the same grant values in fiscal year 2007 as in the prior fiscal year.

Company performance measure. As in previous years, the Compensation Committee established the performance measure as Adjusted EBITDA for each fiscal year over a three-year period. The Compensation Committee believes Adjusted EBITDA is an effective motivator because it is closely linked to shareholder value and has the greater ability to be impacted by the executives. In setting the target Adjusted EBITDA for fiscal year 2007, the Compensation Committee considered the expected earnings performance of the Company. There was no performance award payout in fiscal year 2007 in respect of previous years' award cycles.

Longer-term focus and retention considerations. To enhance the performance awards' incentives for longer-term focus and retention, the awards to executive officers for fiscal year 2007 are payable in cash or restricted stock that is subject to forfeiture if the executive leaves the Company prior to February 2009 or such later date that Adjusted EBITDA performance for the period is determined, except by reason of death, disability, retirement, or by consent of the Compensation Committee.

Equity Incentives—Restricted Stock

Restricted stock grants are intended to help retain key associates because they generally vest over a three-year period, which also helps keep employees focused on long-term performance. Combined grants (restricted stock, performance awards and stock options) provide a better balance for executive officers between risk and potential reward as compared to a grant of only stock options.

The Compensation Committee considered the following in establishing the fiscal year 2007 restricted stock grants to executive officers:

> *Grant size.* As noted above under "Equity Incentive Program," restricted stock grants were 10 percent of the total equity grant values (measured in accordance with SFAS No. 123(R)) established by the Compensation Committee. The total equity grant values were unchanged from fiscal year 2006.

Post-Retirement Benefits

Supplemental Executive Retirement Plans. Rite Aid established a defined contribution supplemental executive retirement plan for the benefit of our CEO, Ms. Sammons, and Mr. Miller, our current Chairman of the Board. 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. 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.

Messrs. Mastrian, Panzer, deBruin and Twomey receive benefits under a defined contribution supplemental executive retirement plan ("Plan"), which is different from the retirement plan maintained for Ms. Sammons noted above. Under the Plan, Rite Aid credits a specific sum to an individual account established for Messrs. Mastrian, Panzer, deBruin and Twomey, and other participating executive officers, on a monthly basis. The amount credited is equal to 2% of the executive officer'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 participant shall vest upon a "change in control" of the Company, as defined in the Plan. 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) a hardship withdrawal pursuant to the terms of the Plan; and (iv) a withdrawal election pursuant to the terms of the Plan.

Other Post-Employment and Change in Control Benefits

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 3, 2003, Rite Aid entered into an employment agreement with Jerry Mark deBruin; and on September 1, 2003, Rite Aid entered into an employment agreement with Kevin Twomey (referred to herein as the "Named Executive Officers"). The terms of the employment agreements are described in more detail under the caption "Employment Agreements". Severance and change in control benefits provided under the employment agreements are described under the caption "Potential Payments Upon Termination or Change in Control". In connection with the Brooks/Eckerd Transaction, the Compensation Committee revisited the terms of the employment agreements and the change in control provisions in particular. Upon the advice of its independent compensation consultant, the Compensation Committee determined that the existing employment agreements did not need to be revised in light of the relatively limited change in control benefits provided. Under Ms. Sammons's employment agreement, any termination of employment by Ms. Sammons 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," as defined in the agreement. Ms. Sammons has waived any right she would have pursuant to her employment agreement upon a change in control triggered by the Brooks/Eckerd Transaction.

Deductibility Cap on Executive Compensation

The Compensation Committee is aware that Section 162(m) of 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. However, certain payments made to the Named Executive Officers will not qualify as performance-based compensation under Section 162(m). The Compensation Committee reserves the right to pay compensation that may be non-deductible to the Company if it determines that it would be in the best interests of the Company.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

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

SUMMARY COMPENSATION TABLE FOR FISCAL 2007

The following summary compensation table sets forth, the cash and non-cash compensation paid to or earned by our Chief Executive Officer, Chief Financial Officer and the other three most highly compensated executive officers of the Company (collectively, the “Named Executive Officers”) for the fiscal year 2007. As used herein, the term “Named Executive Officers” means all persons identified in the Summary Compensation Table.

Name and Principal Position	Fiscal Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)	Change In Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(5)	Total ($)(11)
Mary F. Sammons (President & CEO)	2007	1,000,000	666,569	602,593	1,543,631	6,719	451,454(6)	4,270,966
James P. Mastrian (Chief Operating Officer)	2007	775,000	1,158,367(4)	294,038	877,297	122,565	345,959(7)	3,573,226
Mark C. Panzer (Sr Exec VP, Chief Marketing Officer)	2007	611,769	369,529	291,345	629,802	69,973	209,138(8)	2,181,556
Kevin Twomey (Exec VP & CFO)	2007	437,505	109,769	97,288	270,290	—	147,328(9)	1,062,180
Jerry Mark deBruin (Exec VP, Pharmacy)	2007	386,034	261,683	120,661	238,491	46,417	128,372(10)	1,181,658

[1] Represents the total expense recorded in fiscal 2007 in accordance with SFAS No. 123(R) for restricted stock awards granted in fiscal 2005, 2006, and 2007. For information regarding assumptions used in determining the fair value of an award, please refer to Note 14 of the Company’s Annual Report on Form 10-K filed with the SEC on April 30, 2007.

[2] Represents the total expense recorded in fiscal 2007 in accordance with SFAS No. 123(R) for stock option awards granted in fiscal 2004, 2005, 2006, and 2007. For information regarding assumptions used in determining an award’s fair value, please refer to Note 14 of the Company’s Annual Report on Form 10-K filed with the SEC on April 30, 2007.

[3] Represents above market earnings (over 120% of the “applicable federal rate” or “AFR”) under the Company’s supplemental executive (defined contribution) retirement plans.

[4] Includes restricted stock awarded to Mr. Mastrian in connection with his promotion to Chief Operating Officer.

[5] With respect to personal use of aircraft as described in these footnotes to the Summary Compensation Table, the Company determines the incremental cost of an officer’s aircraft usage by calculating the variable flight-hour cost associated with the particular aircraft. Variable cost in general includes fuel, landing fees, maintenance costs per flight, per hour and catering.

[6] All Other Compensation for Ms. Sammons includes $240,000 for Company contributions to a supplemental executive retirement plan, $104,911 of earnings equal to 120% of AFR under said plan, $89,343 for personal use of aircraft, $12,000 car allowance, and $5,200 for personal financial planning services.

[7] All Other Compensation for Mr. Mastrian includes $180,000 for Company contributions to a supplemental executive retirement plan, $46,352 of earnings equal to 120% of AFR under said plan, $8,800 for Company matching contributions to our 401(k) plan, $93,807 for personal use of aircraft, $12,000 car allowance, and $5,000 for personal financial planning services.

[8] All Other Compensation for Mr. Panzer includes $146,400 for Company contributions to a supplemental executive retirement plan, $39,715 of earnings equal to 120% of AFR under said plan, $8,873 for Company matching contributions to our 401(k) plan, $2,150 for personal use of aircraft and a $12,000 car allowance.

[9] All Other Compensation for Mr. Twomey includes $104,550 for Company contributions to a supplemental executive retirement plan, $21,900 of earnings equal to or less than 120% of AFR under said plan, $8,878 for Company matching contributions to our 401(k) plan, and a $12,000 car allowance.

[10] All Other Compensation for Mr. deBruin includes $92,250 for Company contributions to a supplemental executive retirement plan, $15,253 of earnings equal to 120% of AFR under said plan, $8,869 for Company matching contributions to our 401(k) plan, and a $12,000 car allowance.

[11] For each Named Executive Officer, the amount of salary (non-performance based compensation) and bonus (the performance based bonuses shown in the “Non-Equity Incentive Plan Compensation” column) in relation to total compensation is as follows: Ms. Sammons, 64%, Mr. Mastrian, 48%, Mr. Panzer, 60%, Mr. Twomey, 70%, and Mr. deBruin, 55%.

GRANTS OF PLAN-BASED AWARDS TABLE FOR FISCAL 2007

The following table summarizes grants of plan-based awards made to Named Executive Officers during fiscal year 2007. Awards under Non-Equity Incentive Plans relate to cash incentive bonuses as discussed in the Compensation Discussion and Analysis. Awards under Equity Incentive Plans relate to performance awards that may be earned based on Company performance as further described in Note 2 below. Other stock awards and other option awards relate to restricted share grants and stock option grants, respectively.

		Estimated Future Payouts Under Non-Equity Incentive Plans(1)			Estimated Future Payouts Under Equity Incentive Plans(2)						
Name	Grant Date	Threshold 50% $	Target 100% $	Max 200% $	Threshold	Target	Max	Other Stock Awards #	Other Option Awards #	Exercise or Base Price of Option Awards $	Grant Date Fair Value of Stock and Option Awards $(3)
Mary F. Sammons	4/5/2006	—	—	—	—	—	—	199,501	—	—	799,999
	6/20/2006	750,000	1,500,000	3,000,000	36,652	73,303	146,606	24,434	279,943	4.42	799,457
James P. Mastrian	4/5/2006	—	—	—	—	—	—	74,813	—	—	300,000
	6/20/2006	426,250	852,500	1,705,000	18,937	37,873	75,746	12,624	144,637	4.42	413,051
Mark C. Panzer.	4/5/2006	—	—	—	—	—	—	74,813	—	—	300,000
	6/20/2006	306,000	612,000	1,224,000	14,954	29,908	59,816	9,969	114,217	4.42	326,179
Kevin Twomey	4/5/2006	—	—	—	—	—	—	31,796	—	—	127,502
	6/20/2006	131,325	262,650	525,300	8,914	17,827	35,654	5,942	68,081	4.42	194,424
Jerry Mark deBruin. .	4/5/2006	—	—	—	—	—	—	28,055	—	—	112,501
	6/20/2006	115,875	231,750	463,500	7,865	15,730	31,460	5,243	60,071	4.42	171,549

[1] Actual awards for fiscal 2007, based on the achievement of 102.91 percent of target were as follows: Ms. Sammons—$1,543,631, Mr. Mastrian—$877,297, Mr. Panzer—$629,802, Mr. Twomey—$270,290 and Mr. deBruin $238,491. See the compensation Discussion and Analysis, above, for more information regarding the Company's annual cash incentive plan.

[2] On June 20, 2006, 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 Adjusted EBITDA goal. Vesting for the performance units will occur, provided performance targets are met, on February 28, 2009 (the end of the Company's fiscal year 2009) or such later date as the Adjusted EBITDA performance for fiscal years 2007-2009 is determined. The award payout will be the equivalent to the cash value of one share of stock for each unit earned.

[3] Represents the grant date fair value, measured in accordance with SFAS No. 123(R), of stock and option awards made in Fiscal 2007. Except as noted above, grant date fair values are calculated pursuant to assumptions described in Note 14 of the Company's 2007 Annual Report on Form 10-K filed with the SEC on April 30, 2007. The per share price of our common stock was $4.01 on April 5, 2006, the grant date of the stock awards and $4.42 on June 20, 2006, the grant date of the stock option awards.

Executive Employment Agreements

Rite Aid has entered into employment agreements with each of the Named Executive Officers, the material terms of which are described below.

- 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. Twomey was appointed Senior Vice President, Chief Accounting Officer and is now Executive Vice President, Chief Financial Officer; and
- Mr. deBruin was appointed Senior Vice President, Pharmacy Services, and is now Executive Vice President, Pharmacy.

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

Salary and Incentive Bonus. The respective agreements provide each Executive with a base salary and incentive compensation (which may be reviewed periodically for increase by the Compensation Committee) that includes, with respect to fiscal year 2007:

- 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 2007). 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 $775,000 in fiscal year 2007). 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 $612,000 in fiscal year 2007). 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. Twomey is entitled to receive an annual base salary of not less than $317,000 (and received an annualized base salary of $437,750 in fiscal year 2007). 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.
- Mr. deBruin is entitled to receive an annual base salary of not less than $250,000 (and received an annualized base salary of $386,250 in fiscal year 2007). If Rite Aid's performance meets certain targets in the future, Mr. deBruin 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.

Restrictive Covenants. The employment agreement of each Named Executive Officer prohibits the officer 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, Twomey and deBruin, two years, thereafter.

Termination and Change in Control Benefits. The provisions of the employment agreements relating to termination of employment are described under the caption "Potential Payments Upon Termination or Change in Control" below.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the number of securities underlying outstanding equity awards for the Named Executive Officers as of March 3, 2007:

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END TABLE

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (9)	Option Exercise price $	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)(9)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: # of Unearned Shares or Units That Have Not Vested (#)(9)	Equity Incentive Plan Awards: Market or Payout Value of Shares or Units of Stock That Have Not Vested ($)
Mary F. Sammons	2,000,000	—	2.75	12/5/2009	9,293(1)	53,992	78,832	$458,014
	1,050,000	—	2.75	6/29/2010	17,518(3)	101,780	73,303	425,890
	3,500,000	—	4.05	2/13/2011	199,501(4)	1,159,101		
	497,216	—	2.26	1/30/2012	24,434(5)	141,962		
	500,000	—	2.10	12/11/2012				
	146,104	146,104	5.38	6/24/2014				
	66,751	200,250	4.11	6/23/2015				
	—	279,943	4.42	6/20/2016				
James P. Mastrian	150,000	—	38.19	7/6/2008	4,027(1)	23,397	35,212	204,582
	150,000	—	24.25	6/4/2009	7,824(3)	45,457	37,873	220,042
	266,454	—	2.69	11/10/2009	300,000(6)	1,743,000		
	33,546	—	2.75	1/17/2010	74,813(7)	434,664		
	300,000	—	2.75	6/29/2010	12,624(5)	73,345		
	1,000,000	—	4.05	2/13/2011				
	168,750	—	2.26	1/30/2012				
	300,000	—	2.10	12/11/2012				
	63,312	63,311	5.38	6/24/2014				
	29,816	89,445	4.11	6/23/2015				
	—	144,637	4.42	6/20/2016				
Mark C. Panzer	500,000	—	8.56	6/27/2011	3,562(1)	20,695	31,533	183,207
	100,000	—	2.26	1/30/2012	7,007(3)	40,711	29,908	173,765
	300,000	—	2.55	6/26/2012	74,813(4)	434,664		
	300,000	—	2.10	12/11/2012	9,969(5)	57,920		
	56,007	56,006	5.38	6/24/2014				
	26,700	80,100	4.11	6/23/2015				
	—	114,217	4.42	6/20/2016				
Kevin Twomey	200,000	—	3.44	1/10/2011	1,214(2)	7,053	10,609	61,638
	200,000	—	4.05	2/13/2011	2,357(3)	13,694	17,827	103,575
	70,000	—	2.26	1/30/2012	31,796(4)	184,735		
	75,000	—	2.10	12/11/2012	5,942(5)	34,523		
	18,863	18,862	5.40	4/7/2014				
	8,983	26,948	4.11	6/23/2015				
	—	68,081	4.42	6/20/2016				
Jerry Mark deBruin	43,750	—	2.58	2/12/2013	1,227(2)	7,129	12,022	69,848
	19,050	19,049	5.40	4/7/2014	2,671(3)	15,519	15,730	91,391
	10,180	30,538	4.11	6/23/2015	83,333(8)	484,165		
	—	60,071	4.42	6/20/2016	28,055(4)	163,000		
					5,243(5)	30,462		

(1) Restricted stock awards were granted on June 24, 2004. The remaining unvested awards shown will vest on June 24, 2007.

(2) Restricted stock awards were granted on April 7, 2004. The remaining unvested awards shown vested on April 7, 2007.

(3) Restricted stock awards were granted on June 23, 2005. The remaining unvested awards will vest one-half on June 23, 2007 and the remaining half on June 23, 2008 based on continued employment.

(4) Restricted stock awards were granted as a retention award on April 5, 2006 and one-third will vest on each of the anniversary dates of April 5, 2007, April 5, 2008, and April 5, 2009 based on continued employment.

(5) Restricted stock awards were granted on June 20, 2006 and one-third will vest on each of the anniversary dates of June 20, 2007, June 20, 2008, and June 20, 2009 based on continued employment.

(6) Restricted stock awards were granted to Mr. Mastrian on October 10, 2005 in connection with his promotion to Chief Operating Officer. These awards will vest on October 10, 2007 based on continued employment.

(7) Restricted stock awards were granted as a retention award to Mr. Mastrian on April 5, 2006 and will vest on October 10, 2007.

(8) Restricted stock awards were granted to Mr. deBruin on October 10, 2005 in connection with his promotion to Executive Vice President, Pharmacy and were scheduled to vest in annual one-third increments over a three-year period. The remaining unvested awards will vest one-half on October 10, 2007 and one-half on October 10, 2008 based on continued employment.

(9) Refer to Potential Payments Upon Termination or Change in Control for circumstances under which the terms of the vesting of equity awards may be accelerated.

OPTIONS EXERCISES AND STOCK VESTED TABLE FOR FISCAL 2007

The following table summarizes for each Named Executive Officer the stock option exercises and shares vested during fiscal year 2007:

	Options		Awards	
Name	# shares acquired	Value realized($)	# shares acquired	Value Realized ($)
Mary F. Sammons	—	—	18,053	75,462
James P. Mastrian	—	—	49,606	226,103
Mark C. Panzer	—	—	27,067	122,140
Kevin Twomey	—	—	2,394	9,837
Jerry Mark deBruin	87,500	164,063	44,230	200,543

NONQUALIFIED DEFINED CONTRIBUTION AND OTHER NONQUALIFIED DEFERRED COMPENSATION PLANS FOR FISCAL 2007

The following table provides information concerning the non-qualified defined contribution and deferred compensation of each of the Named Executive Officers in fiscal 2007:

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(3)
Mary F. Sammons(1)	0	240,000	111,630	0	2,077,142
James P. Mastrian(2)	0	180,000	168,917	0	1,111,281
Mark C. Panzer(2)	0	146,400	109,688	0	909,298
Kevin Twomey(2)	0	104,550	21,900	0	525,406
Jerry Mark deBruin(2)	0	92,250	61,670	0	404,796

(1) Amounts shown relate to a supplemental executive retirement plan for Ms. Sammons. Please refer to the Compensation Discussion and Analysis for a description of the material terms of this plan.

(2) Amounts show relate to a supplemental executive retirement plan. Please refer to the Compensation Discussion and Analysis for a description of the material terms of this plan.

(3) Includes contributions to the Supplemental Executive Retirement Plans that were previously disclosed in prior Summary Compensation Tables for Ms. Sammons of $1,185,000, Mr. Mastrian of $563,200, Mr. Panzer of $490,000, Mr. Twomey of $387,540, and Mr. de Bruin of $202,400.

Rite Aid established a defined contribution supplemental executive retirement plan for the benefit of Mr. Miller and Ms. Sammons, which is described in the “Compensation Discussion and Analysis” above.

Messrs. Mastrian, Panzer, deBruin and Twomey receive benefits under a defined contribution supplemental executive retirement plan, which is different from the one noted above. It is described in the “Compensation Discussion and Analysis” above.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

As discussed above under the caption “Employment Agreements”, the Company has entered into employment agreements with each of the Named Executive Officers. Upon written notice, the employment agreement of each of the Named Executive Officers is terminable by either Rite Aid or the individual officer 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 supplemental executive retirement plan (discussed in the Compensation Discussion and Analysis) had she continued employment with Rite Aid through the end of the then-remaining Employment Period and she will continue to receive medical benefits for life.

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

- terminates her employment for “good reason,” all of the stock options 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 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 our senior executives immediately prior to such termination, excepting payments for periods that the Company provides such coverage described above.

Pursuant to their employment agreements with the Company, if any of Messrs. Mastrian, Panzer, Twomey or deBruin is terminated by Rite Aid “without cause” or if such officer’s employment is terminated by the officer for “good reason” (as such terms are defined in the employment agreement), then the officer will 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 Named Executive Officers "for cause," or any of the Named Executive Officers 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.

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." Ms. Sammons has waived any right she would have pursuant to her employment agreement upon a change in control triggered by the Brooks/Eckerd Transaction.

Under Mr. Mastrian's employment agreement, upon a "change in control," all of his stock options will immediately vest and be exercisable and any restrictions on restricted stock will immediately lapse. Under Mr. deBruin's employment agreement, upon a "change in control," any restrictions on restricted stock will immediately lapse.

A "change in control" of the Company has no effect under Messrs. Panzer's and Twomey's employment agreements.

Each employment agreement provides that the Named Executive Officer will receive an additional payment to reimburse the officer 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.

The unvested account balance of the Supplemental Executive Retirement Plan in which Messrs. Mastrian, Panzer, Twomey and deBruin participate will vest upon a "change in control" of the Company as defined in said plan.

Quantification

The termination and change of control payments that would have been made to the Named Executive Officers had their employment been terminated as of March 3, 2007 under the circumstances described in the tables below are quantified in the tables below.

Executive— Mary F. Sammons (CEO)	Death	Disability	Change of Control (Without Termination)	Termination Without Cause or Quit for Good Reason	Termination Without Cause, Quit for Good Reason or Right to Resign Within 6 Months After Change of Control
3 X Base Salary	N/A	N/A	N/A	$3,000,000	$3,000,000
3 X Target Bonus	N/A	N/A	N/A	$4,500,000	$4,500,000
Pro-Rated Bonus for Past Fiscal Year	$1,500,000	$1,500,000	N/A	$1,500,000	$1,500,000
Health Benefit Continuation for Life	$ 200,000	$ 200,000	N/A	$ 200,000	$ 200,000
SERP Continuation for 3 Years	$ 720,000	$ 720,000	N/A	$ 720,000	$ 720,000
SERP Vesting (Sammons already fully vested)	N/A	N/A	N/A	N/A	N/A
Vesting of Unvested Options and Restricted Stock(1)	$2,249,204	2,249,204	$2,249,204	$2,249,204	$2,249,204
Excise Tax Gross-Up	N/A	N/A	$ 0	N/A	$3,172,616

James P. Mastrian	Death	Disability	Change of Control (Without Termination)	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 6 Months After Change of Control
2 X Base Salary	N/A	N/A	N/A	$1,550,000	$1,550,000
2 X Bonus	N/A	N/A	N/A	$1,705,000	$1,705,000
Pro-Rated Bonus for Past Fiscal Year	N/A	N/A	N/A	$ 852,500	$ 852,500
Health Benefit Continuation for Life	$ 157,000	$ 157,000	N/A	$ 157,000	$ 157,000
Vesting of Unvested Options and Restricted Stock(1)	$2,524,533	$2,524,533	$2,700,189	$2,524,533	$2,700,189
SERP Vesting (Not applicable—Mastrian already fully vested)	N/A	N/A	N/A	N/A	N/A
Excise Tax Gross-Up	N/A	N/A	$ 0	N/A	$1,299,568

Mark C. Panzer	Death	Disability	Change of Control (Without Termination)	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 6 Months After Change of Control
2 X Base Salary	N/A	N/A	N/A	$1,224,000	$1,224,000
2 X Bonus	N/A	N/A	N/A	$1,224,000	$1,224,000
Pro-Rated Bonus for Past Fiscal Year	N/A	N/A	N/A	$ 612,000	$ 612,000
Health Benefit Continuation for 2 Years	$ 28,460	$ 28,460	N/A	$ 28,460	$ 28,460
Vesting of Unvested Equity	$ 84,172	$ 84,172	$ 0	$ 719,966	$ 719,966
SERP Vesting of Nonvested Portion	$373,765	$373,765	$373,765	$ 373,765	$ 373,765
Excise Tax Gross-Up	N/A	N/A	$ 0	N/A	$ 921,347

Kevin Twomey	Death	Disability	Change of Control (Without Termination)	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 6 Months After Change of Control
2 X Base Salary	N/A	N/A	N/A	$875,500	$875,500
2 X Bonus	N/A	N/A	N/A	$525,300	$525,300
Pro-Rated Bonus for Past Fiscal Year	N/A	N/A	N/A	$262,650	$262,650
Health Benefit Continuation for 2 Years	$ 20,742	$ 20,742	N/A	$ 20,742	$ 20,742
Vesting of Unvested Equity	$267,632	$267,632	$0	$267,632	$267,632
SERP Vesting of Nonvested Portion	$209,156	$209,156	$209,156	$209,156	$209,156
Excise Tax Gross-Up	N/A	N/A	$ 0	N/A	$520,821

Jerry Mark deBruin	Death	Disability	Change of Control (Without Termination)	Termination Without Cause or Quit for Good Reason	Termination Without Cause or Quit for Good Reason Within 6 Months After Change of Control
2 X Base Salary	N/A	N/A	N/A	$772,500	$772,500
2 X Bonus	N/A	N/A	N/A	$463,500	$463,500
Pro-Rated Bonus for Past Fiscal Year	N/A	N/A	N/A	$231,750	$231,750
Health Benefit Continuation for 2 Years	$ 26,140	$ 26,140	N/A	$ 26,140	$ 26,140
Vesting of Unvested Equity(2)	$719,966	$719,966	$700,273	$719,966	$784,445
SERP Vesting of Nonvested Portion	$218,389	$218,389	$218,389	$218,389	$218,389
Excise Tax Gross-Up	N/A	N/A	$ 0	N/A	$519,009

(1) Upon a change of control (as defined in his employment agreement), Mr. Mastrian would become fully vested in certain outstanding stock option and restricted stock grants that were not yet vested on the date of the change of control. The value of stock options shown is based on the excess of $5.81, the closing price of a share of Rite Aid common stock on March 3, 2007 over the excise price of such options, multiplied by the number of unvested stock options held by the officer. The value of restricted stock shown is determined by multiplying the number of shares of restricted stock that would vest as of March 3, 2007 and $5.81, the closing price of a share of Rite Aid common stock on March 3, 2007.

(2) Upon a change of control (as defined in his employment agreement), Mr. deBruin would become fully vested in certain outstanding restricted stock grants that were not yet vested on the date of the change of control. The value of restricted stock shown is determined by multiplying the number of shares of restricted stock that would vest as of March 3, 2007 and $5.81, the closing price of a share of Rite Aid common stock on March 3, 2007.

AUDIT COMMITTEE REPORT

The Board of Directors 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 registered public accounting firm 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 registered public accounting firm is 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 registered public accounting firm also is responsible for expressing an opinion on management's assessment of the effectiveness of our internal control over financial reporting and an opinion on the effectiveness of our internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee met nine times during fiscal year 2007.

During those meetings the Audit Committee:

- Met with our internal auditors and independent registered public accounting firm, 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 registered public accounting firm, 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 registered public accounting firm 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 registered public accounting firm, as required by Rule 2-07 of Regulation S-X under the Securities Exchange Act of 1934.
- Discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended ("Communication with Audit Committees"), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.
- Discussed with our independent registered public accounting firm matters relating to their independence and received the written disclosures and the letter from our independent registered public accounting firm required by Independence Standards Board Standard No. 1 ("Independence Discussions with Audit Committees") as adopted by the Public Company Accounting Oversight Board in Rule 3600T. The Audit Committee has considered whether the level of non-audit related services provided by our independent registered public accounting firm is consistent with maintaining their independence.
- Pre-approved audit, other audit-related and tax services performed by our independent registered public accounting firm.

In addition to pre-approving the audit, other audit-related and tax services performed by our independent registered public accounting firm, 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 registered public accounting firm 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.

As outlined in the table below, we incurred the following fees, including expenses billed to the Company for the fiscal years ended March 3, 2007 and March 4, 2006 by our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates.

Description of Fees	Year Ended March 3, 2007	Year Ended March 4, 2006
	(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	$2.6	$3.0
Audit-Related Fees:		
Acquisition due diligence fees and audits of employee benefit plans' financial statements	0.8	0.2
Tax Fees, tax compliance advice and planning	0.1	0.2
Total	$3.5	$3.4

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 our Annual Report on Form 10-K for the fiscal year ended March 3, 2007 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 3, 2007 with respect to the compensation plans under which our common stock may be issued:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Further Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	30,586,918	$5.04	51,979,671
Equity compensation plans not approved by stockholders*	30,655,732	$4.17	1,015,603
Total	61,242,650		52,995,274

* 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 6,563,000 options are outstanding pursuant to option grants made in accordance with the provisions of individual agreements with certain of our 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.

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 Rite Aid 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, we have determined that during fiscal year 2007 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 May 8, 2007, certain information concerning the beneficial shareholdings of (a) each director, (b) each nominee for director, (c) each executive officer named in the Summary Compensation Table in this proxy statement, (d) each holder of more than 5% of Rite Aid common stock and (e) all directors and executive officers as a group (based on 539,402,608 shares of common stock outstanding as of May 8, 2007, plus the number of shares of common stock into which the outstanding shares of LGP preferred stock are convertible and any shares that may be acquired by the stockholder in question within 60 days of May 8, 2007). 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, Directors and Director Nominees:		
Joseph B. Anderson, Jr.	50,001(2)	*
André Belzile.	0	*
John G. Danhakl	48,382,871(3)	8.23%
Jerry Mark deBruin	208,484(4)	*
Michael A. Friedman, MD	116,668(5)	*
Alfred M. Gleason	478,301(6)	*
George G. Golleher	300,001(7)	*
Robert A. Mariano	50,001(8)	*
James P. Mastrian	3,060,014(9)	*
Robert G. Miller	8,812,780(10)	1.61%
Mark C. Panzer	1,506,729(11)	*
Mary F. Sammons	8,973,463(12)	1.64%
Philip G. Satre	129,168(13)	*
Stuart M. Sloan.	316,645(14)	*
Jonathan D. Sokoloff.	49,021,656(15)	8.34%
Marcy Syms	50,001(16)	*
Kevin Twomey	690,699(17)	*
All Executive Officers and Directors (19 persons)	74,348,346	12.65%
5% or Greater Stockholders:		
Green Equity Investors III, L.P 11111 Santa Monica Blvd., Suite 2000 Los Angeles, CA 90025	48,316,220(18)	8.22%(19)
FMR Corp. 82 Devonshire St. Boston, MA 02109	63,254,357(20)	10.76%
Tudor Investment Corp. 1275 King St. Greenwich, CT 06831	33,223,259(21)	5.65%
Thornburg Investment Management Inc. 119 E. Marcy Street Santa Fe, NM 87501	30,743,708(22)	5.23%

* 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 8, 2007.

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

(3) This amount includes 66,651 shares owned directly by Mr. Danhakl and 48,316,220 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.

(4) This amount includes 63,953 shares which may be acquired within 60 days by exercising stock options.

(5) This amount includes 116,668 shares which may be acquired within 60 days by exercising stock options.

(6) This amount includes 71,500 shares owned by Mr. Gleason's spouse and 300,001 shares which may be acquired within 60 days by exercising stock options.

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

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

(9) This amount includes 2,559,509 shares which may be acquired within 60 days by exercising stock options.

(10) This amount includes 8,800,001 shares which may be acquired within 60 days by exercising stock options.

(11) This amount includes 1,313,465 shares which may be acquired within 60 days by exercising stock options.

(12) This amount includes 52,779 shares owned by Ms. Sammon's spouse and 7,969,859 shares which may be acquired within 60 days by exercising stock options.

(13) This amount represents 12,500 shares owned jointly by Mr. Satre and his spouse and 116,668 shares which may be acquired within 60 days by exercising stock options.

(14) This amount includes 300,001 shares which may be acquired within 60 days by exercising stock options.

(15) This amount includes 705,436 shares owned jointly by Mr. Sokoloff and his spouse and 48,316,220 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.

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

(17) This amount includes 608,281 shares which may be acquired within 60 days by exercising stock options.

(18) Green Equity Investors III, L.P. beneficially owns 48,316,220 shares of common stock. This number represents (i) the number of shares issuable within 60 days of May 8, 2007 upon the conversion of 2,614,864.3765 shares of convertible preferred stock, and (ii) 42,527.7282 shares, on a converted basis, that will be paid as a dividend on June 30, 2007 on preferred stock held by Green Equity Investors III, L.P.

(19) Based upon the number of shares outstanding within 60 days of the record date and assuming conversion of all LGP preferred stock by Green Equity Investors III, L.P.

(20) Based solely on a Schedule 13G/A filed with the Commission on February 14, 2007, which indicates that as of December 31, 2006, these shares are beneficially owned by FMR Corp. ("FMR") and various FMR subsidiaries and related persons and entities, including Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR and an investment adviser ("Fidelity"), Edward C. Johnson III, Chairman of FMR, and other entities. The Schedule 13G/A reports sole power to vote or direct the voting of 12,456,682 shares and sole power to dispose or direct the disposition of 63,254,357 shares.

(21) Based solely on a Schedule 13G/A filed with the Commission on February 14, 2007, which indicates that as of December 31, 2006, these shares are beneficially owned by Tudor Investment Corp. ("Tudor") and various Tudor subsidiaries and related persons and entities, including Tudor Proprietary Trading, LLC ("TPT"), The Tudor BVI Global Portfolio Ltd., The Raptor Global Portfolio Ltd., The Altar Rock Fund LP, Paul Tudor Jones, II, controlling shareholder of Tudor, and James J. Pallotta, portfolio manager of Tudor and TPT. The Schedule 13G/A reports shared voting and dispositive power of 33,223,259 shares.

(22) Based solely on a Schedule 13G/A filed with the Commission on April 19, 2007, which indicates that as of December 31, 2006, these shares are beneficially owned by Thornburg Investment Management, Inc. The Schedule 13G/A reports sole power to vote or direct the voting of 20,317,808 shares and sole power to dispose or direct the disposition of 30,743,708 shares.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Person Transactions

We have adopted a written policy concerning the review, approval or ratification of transactions with related persons. The Nominating and Governance Committee is responsible for review, approval or ratification of "related person transactions" between the Company or its subsidiaries and related persons. Under SEC rules, a related person is, or anytime since the beginning of the last fiscal year was, a director, officer, nominee for director, an immediate family member (as defined under applicable SEC rules) of such persons, or a 5% stockholder of the Company. A related person transaction is any transaction or series of transactions in which the Company or a subsidiary is a participant, the amount involved exceeds $120,000, and a related person has a direct or indirect material interest.

Directors, executive officers and nominees must complete an annual questionnaire and disclose all potential related person transactions involving themselves and their immediate family members that are known to them. Throughout the year, directors and executive officers must notify the Corporate Secretary and Chief Accounting Officer of any potential Related Person Transactions as soon as they become aware of any such transaction. The Corporate Secretary and Chief Accounting Officer inform the Nominating and Governance Committee of any related person transaction of which they are aware. The Corporate Secretary and Chief Accounting Officer are responsible for conducting a preliminary analysis and review of potential related person transactions and presentation to the Nominating and Governance Committee for review including provision of additional information to enable proper consideration by the Committee. As necessary, the Nominating and Governance Committee shall review approved Related Person Transactions on a periodic basis throughout the duration of the transaction to ensure that the transactions remains in the best interests of the Company. The Nominating and Governance Committee may, in its discretion, engage outside counsel to review certain related person transactions. In addition, the Nominating and Governance Committee may request that the full Board of Directors consider the approval or ratification of related person transactions if it deems advisable. A copy of our full policy concerning transactions with related persons is available on the Corporate Governance section of our website at www.riteaid.com.

Relationship with Leonard Green & Partners L.P.

Rite Aid has entered into a one-year agreement with Leonard Green & Partners L.P., or Leonard Green, effective January 1, 2006, whereby Rite Aid has agreed to pay Leonard Green a fee of $300,000 per year for its consulting services. The consulting agreement was extended effective January 1, 2007 on a month-to-month basis, which also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green. This agreement is an extension of Rite Aid's existing consulting agreement with Leonard Green. Pursuant to the consulting agreement, Rite Aid may engage Leonard Green to provide financial advisory and investment banking services in connection with major financial transactions that it undertakes in the future. During fiscal year 2007, Rite Aid paid Leonard Green a consulting fee of $275,000. This transaction was reviewed and ratified by our Board in April 2007 under our related person transactions approval policy described above. Jonathan D. Sokoloff, a director of Rite Aid, is an equity owner of Leonard Green.

Agreements with Jean Coutu Group

In connection with Rite Aid's acquisition of the Brooks and Eckerd drugstore chains from Jean Coutu Group, Rite Aid and Jean Coutu Group became a party to a series of agreements which are described below. Upon the closing of the Brooks/Eckerd Transaction, which is expected to close by June 1, 2007 pending final regulatory approval by the Federal Trade Commission and satisfaction of customary closing conditions, Jean Coutu Group will become a related person of Rite Aid.

Stock Purchase Agreement

Rite Aid entered into a stock purchase agreement with Jean Coutu Group to acquire all of the capital stock of The Jean Coutu Group (PJC) USA, Inc., or Jean Coutu USA, which was a wholly-owned subsidiary of Jean Coutu Group and the holding company for the Brooks and Eckerd drugstore chains. Pursuant to the stock purchase agreement, certain of the provisions extend beyond the closing of the Brooks/Eckerd Transaction.

Working Capital Adjustment. The stock purchase agreement contains a closing working capital adjustment mechanism designed to ensure that Jean Coutu USA will have a specified level of working capital upon completion of the transaction. Under the working capital adjustment, Rite Aid may be required to pay Jean Coutu Group additional cash consideration in the event the closing working capital of Jean Coutu USA is above a specified level. Similarly, Jean Coutu Group may be required to repay to Rite Aid some of the cash consideration in the event the closing working capital of Jean Coutu USA is below a specified level.

Non-Competition Covenant. Jean Coutu Group has agreed that for five years after the closing of the Brooks/Eckerd Transaction it will not (other than as a stockholder of Rite Aid and through its designees on Rite Aid's Board of Directors) engage in the retail pharmacy business in the United States or the pharmacy benefits management business in the United States. In a related agreement, Michel Coutu, our Non-Executive Co-Chairman, has agreed that for three years after the closing of the Brooks/Eckerd Transaction, he will not (other than as a stockholder of Rite Aid and in his capacity as a Rite Aid director), engage in the retail pharmacy business in the United States or the pharmacy benefits management business in the United States.

Indemnification. The stock purchase agreement provides for indemnification for losses arising from breaches of representations and warranties, breaches of covenants and certain actions relating to the conduct of the business of Jean Coutu Group (other than Jean Coutu USA). Each party's indemnification obligation for breaches of representations and warranties is subject to a $35 million deductible and each party's indemnification obligation for breaches of representations and warranties and for breaches of covenants is subject to an aggregate cap of $450 million. The deductible and cap do not apply to losses arising from or relating to the conduct of the business of Jean Coutu Group. No claim for a breach of a representation and warranty may be brought by either party or included in the aggregate losses for purposes of satisfying the deductible unless it exceeds a minimum threshold of $10,000.

Jean Coutu Group also has agreed to indemnify Rite Aid for losses arising from pre-closing taxes of Jean Coutu USA, any breaches of tax representations and warranties or breaches of tax covenants and for half of any transfer taxes resulting from the transaction. The deductible and cap do not apply to losses arising from tax matters.

Stockholder Agreement

Concurrently with entering into the stock purchase agreement, Rite Aid, Jean Coutu Group and certain Coutu family members entered into a stockholder agreement. The stockholder agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters.

Board and Board Committee Representation. The stockholder agreement provides that the Jean Coutu Group initially will have the right to designate four members of Rite Aid's Board of Directors. Thereafter, Jean Coutu Group will have the right to designate a certain number of director nominees for election to our Board, taking into account Jean Coutu Group designees then serving in a class or classes of directors whose terms are not yet expiring, subject to Jean Coutu Group's maintenance of specified percentage thresholds of Rite Aid total voting power.

Percentage of Total Voting Power	Number of Directors/Director Nominees
25% and above	4
17.9% - 24.9%	3
10.7% - 17.8%	2
5% - 10.6%	1

For so long as Jean Coutu Group is entitled to designate at least two directors and subject to NYSE independence requirements for directors, Jean Coutu Group will have the right to designate one of its designees to each of the Audit, Compensation and Nominating and Governance Committees of the Rite Aid Board. In the event that only one of Jean Coutu Group's designees qualifies as an independent director of Rite Aid, that designee will be appointed to one of the three committees and other Jean Coutu Group designees will be provided "observer status" to attend committee meetings (subject to the committees meeting in executive session) of the other two committees.

Voting Arrangements. The stockholder agreement provides that for a period of five years after the closing of the Brooks/Eckerd Transaction, Jean Coutu Group agrees to vote its shares for each Rite Aid director nominee recommended by the Board. Thereafter, Jean Coutu Group will vote its shares for each Rite Aid director nominee it designated and, in its discretion, either for each other Rite Aid director nominee recommended by the Board or for each other Rite Aid director nominee recommended by the Board and for nominees recommended by other persons in the same proportion as votes cast by all other Rite Aid stockholders for those nominees.

Right to Purchase Securities. For so long as Jean Coutu Group owns at least 20% of the total Rite Aid voting power, Jean Coutu Group will have the right to purchase securities in future issuances of Rite Aid voting securities (other than in certain types of issuances described below) to permit Jean Coutu Group to maintain the same percentage of total voting power it held prior to the issuance. These purchase rights will not apply to issuances of Rite Aid stock in connection with conversions of convertible preferred stock, equity compensation plan awards, acquisitions by Rite Aid, equity-for-debt exchanges and certain other types of issuances. Subject to certain conditions, under circumstances in which Jean Coutu Group is not permitted to purchase voting securities in a Rite Aid issuance of voting securities, Jean Coutu Group will be permitted to make open market purchases of Rite Aid common stock in order to maintain the same percentage of total voting power it held prior to the issuance.

Standstill Restrictions. For so long as Jean Coutu Group (or any Coutu family stockholder or group of Coutu family stockholders) owns at least 5% of the total voting power of Rite Aid and for nine months thereafter, Jean Coutu Group or such Coutu family stockholders or group of Coutu family stockholders will be subject to restrictions on the acquisition of additional Rite Aid voting securities, other than with Rite Aid's consent or through the stock purchase rights discussed above, as well as restrictions on taking certain actions relating to Rite Aid.

Transfer Restrictions. For so long as Jean Coutu Group owns 5% or more of the voting power of Rite Aid's securities and for nine months thereafter, Rite Aid voting securities owned by Jean Coutu Group will be subject to restrictions on transfer included in the stockholder agreement, other than transfers in accordance with Rule 144, in a registered public offering, in connection with a pro rata dividend, spinoff or distribution to Jean Coutu Group stockholders and certain other permitted transfers.

In addition, subject to the foregoing, Jean Coutu Group may not transfer shares to someone who, as a result of the transfer, would own more than 5% of the outstanding shares of Rite Aid common stock.

Supermajority Board Approval. For so long as Jean Coutu Group owns at least 25% of the total voting power of Rite Aid, certain matters will require the approval of two-thirds of all of the Rite Aid Board of Directors, including increases in the number of authorized shares, significant issuances of Rite Aid equity securities, mergers, reorganizations, consolidations or similar business combinations involving Rite Aid, significant asset sales and certain other actions specified in the stockholder agreement.

Registration Rights Agreement

Concurrently with entering into the stock purchase agreement, Rite Aid, Jean Coutu Group and certain Coutu family members entered into a registration rights agreement. Pursuant to the registration rights agreement, subject to certain conditions, Jean Coutu Group has the right, on six occasions, to demand that Rite Aid register shares of Rite Aid common stock held by Jean Coutu Group for resale in an underwritten public offering, provided that the anticipated aggregate offering price would exceed $100 million or the registration is for at least 25% of the Rite Aid common stock held by Jean Coutu Group. Jean Coutu Group also may request that Rite Aid include those shares in certain registration statements that Rite Aid may file in the future in connection with underwritten offerings.

Transition Services Agreement

Effective upon the closing of the Brooks/Eckerd Transaction, Rite Aid and Jean Coutu Group will enter into a transition services agreement consistent with certain principles set forth in the stock purchase agreement. Pursuant to the transition services agreement, Jean Coutu Group will provide for a period of up to nine months following the closing date, subject to up to three, three-month extensions, certain transition services, including information technology, network and support services, to Jean Coutu USA to facilitate the transition of the businesses to Rite Aid.

The transactions with Jean Coutu Group were reviewed by our Board in connection with the closing of the Brooks/Eckerd Transaction and ratified under our related person transactions approval policy described above.

STOCKHOLDER PROPOSALS FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS

Any stockholder desiring to present a proposal for inclusion in Rite Aid's proxy statement for the 2008 Annual Meeting of Stockholders must deliver the proposal to the Secretary not later than January 26, 2008. Only those proposals that comply with the requirements of Rule 14a-8 will be included in Rite Aid's proxy statement for the 2008 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 Rite Aid's by-laws. The by-laws, which are available on Rite Aid's website at *www.riteaid.com* under "Our Company—Corporate Governance—By-Laws" 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 by-laws 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 Rite Aid's by-laws. To be eligible for consideration at the 2008 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 28, 2008 and March 29, 2008. 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 our 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 Rite Aid under those statutes, the information included under the caption "Compensation Committee Report" 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 to be "soliciting material" or "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 Rite Aid under those statutes, except to the extent we specifically incorporate 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 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 Rite Aid's independent registered public accounting firm for fiscal year 2007 and Rite Aid's Audit Committee is in the process of negotiating with Deloitte & Touche LLP the terms of an arrangement to audit the consolidated financial statements of the Company and its subsidiaries for fiscal year 2008. A representative of Deloitte & Touche LLP 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.

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 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 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 would like to receive separate proxy statements and annual reports of Rite Aid 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 2007 is being mailed together with this proxy statement to all stockholders entitled to notice of and to vote at the Annual Meeting.

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Appendix A

RITE AID CORPORATION
POLICY ON MAJORITY VOTING

(To become effective upon the completion of the Brooks/Eckerd Transaction)

A Director who fails to receive the required number of votes for re-election in accordance with the Amended and Restated By-Laws 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 ("Committee").

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 voted against such Director's re-election, 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 such Director failing to receive the required number of votes for re-election.

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 fail to receive the required number of votes for re-election, then the independent Directors then serving on the Board who were elected at the stockholders' meeting at which the election occurred, and the independent Directors, if any, who were not standing for election at such stockholders' meeting, 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 individual 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 "Corporate Governance" section of the Company's website and 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 3, 2007

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

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

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

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 September 1, 2006 was approximately $2,293,456,926. For purposes of this calculation, executive officers, directors and 5% shareholders are deemed to be affiliates of the registrant.

As of April 20, 2007 the registrant had outstanding 538,408,486 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 27, 2007 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;
- our ability to consummate the pending acquisition of Jean Coutu, USA and realize the benefits of the pending acquisition; and
- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission ("the SEC").

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Such factors 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 3, 2007, we operated 3,333 stores.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2007, prescription drug sales accounted for 63.7% 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 federally funded prescription drug benefit program ("Medicare Part D"), the discovery of new and better drug therapies and our on-going program of purchasing prescription files from independent pharmacies. We offer approximately 26,000 front-end products, which accounted for the remaining 36.3% of our total sales in fiscal 2007. 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 3,000 products under the Rite Aid private brand, which contributed approximately 12.6% of our front-end sales in the categories where private brand products were offered in fiscal 2007.

The overall average size of each store in our chain is approximately 12,800 square feet. The average size of our stores is larger in the western United States. As of March 3, 2007, approximately 56% of our stores are freestanding; approximately 43% of our stores include a drive-thru pharmacy; approximately 67% include one-hour photo shops; and approximately 38% 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 under the trading symbol of "RAD". We were incorporated in 1968 and are a Delaware corporation.

Acquisition of Jean Coutu, USA

On August 23, 2006, we entered into a Stock Purchase Agreement (the "Agreement") with the Jean Coutu Group (PJC), Inc. ("Jean Coutu Group") to acquire all of the membership interests of JCG (PJC) USA, LLC ("Jean Coutu USA"), a wholly-owned subsidiary of Jean Coutu Group and the holding company for the Brooks and Eckerd drugstore chains. As consideration for the pending acquisition of Jean Coutu USA, we will issue 250 million shares of our common stock to Jean Coutu Group in accordance with the terms of the stock purchase agreement and pay Jean Coutu Group $2.3 billion in cash (subject to a working capital adjustment) which will be funded by the issuance of new debt. We had previously considered assuming 8.5% senior secured notes due 2014 held by Jean Coutu Group as a component of the consideration for the acquisition. Jean Coutu Group has initiated a tender offer for these notes and therefore we will not assume them. This has increased the amount of consideration that we intend to fund by the issuance of new debt from $1.45 billion to $2.3 billion.

Following the completion of the pending acquisition, Jean Coutu Group will be our largest shareholder, owning approximately 32.0% of our common stock, which will represent approximately 30.2% of the voting power of our voting securities then outstanding. Upon the completion of the pending acquisition, we will expand our Board of Directors to 14 members, with four of the seats being held by members designated by Jean Coutu Group. In connection with entering into the stock purchase agreement, on August 23, 2006, we entered into a stockholder agreement with Jean Coutu Group and certain Coutu family members that will become effective upon consummation of the acquisition and will govern, among other matters, Jean Coutu Group's ownership interest in Rite Aid. The stockholder agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. We also entered into a registration rights agreement with Jean Coutu Group giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of our common stock to be issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market purchase rights under the stockholder agreement.

Jean Coutu, USA, as of March 3, 2007, employed approximately 46,000 people and, operated six distribution centers and 1,856 stores located in 18 states of the Northeastern, mid-Atlantic and Southeastern United States. The overall average size of each store is approximately 11,000 square feet. Approximately 1,720 of the stores are leased.

We believe that our pending acquisition of Jean Coutu USA provides several strategic benefits, including the following:

- a significant increase in the footprint and operating scale of our business, with increased presence in key strategic markets;
- the creation of the leading drugstore retailer in the Eastern United States, which we believe will allow us to achieve the scale necessary to remain competitive with our major competitors;
- long-term value creation through net reductions in costs and expenses, achievement of meaningful synergies, including additional operational efficiencies, greater economies of scale and revenue enhancements resulting in higher operating cash flow and a decrease in our leverage ratio;
- better positioning to capture additional growth in a sector where growth is projected over the next 5 years and;
- an opportunity to apply our scaleable infrastructure, including our programs, best practices and management capabilities, across a larger store network, which we believe will improve profitability through cost savings and sales growth.

Industry Trends

We believe pharmacy sales in the United States will grow between 5% and 8% 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 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. The gross profit from a generic drug prescription in the retail drugstore industry is greater than the gross profit from a brand drug prescription.

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, increased competition from internet based providers, drug importation and mergers of retail drugstores and pharmaceutical services companies 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 some drugs.

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 as well as integrating the stores we acquire from Jean Coutu Group under the Rite Aid banner. We believe that improving the sales of existing stores and growing our existing markets is critical to improving our profitability and cash flow. We believe the consummation of the pending acquisition will broaden and accelerate the implementation of our strategy.

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

Integrate Brooks and Eckerd Stores Under Rite Aid Banner and Develop Stores in Existing Markets. We intend to convert all Brooks and Eckerd stores to the Rite Aid systems and banner within 16 months following the completion of the pending acquisition. We have assigned senior managers focused exclusively on and fully dedicated to ensuring the successful integration of the Brooks and Eckerd stores, with oversight by our senior executives including our Chief Executive Officer and Chief Operating Officer. Initially, as part of the integration and conversion process, the banners and signs of the Brooks and Eckerd stores will be changed to Rite Aid and all Brooks and Eckerd store systems will be converted to the Rite Aid store systems, including our pharmacy management and dispensing system, Nexgen. Following the store system conversion, the stores will be re-set, re-merchandised and upgraded to the Rite Aid décor package. To ensure successful integration and conversion with minimal disruption to our customers, we intend to launch and complete a pilot store conversion program to test our integration and conversion process over a 4 month period, and then convert all the remaining Brooks and Eckerd stores gradually over a 12 month period. We also expect to continue our new and relocated store and store remodeling program and intend to incorporate the Brooks and Eckerd stores into the program. We expect that some of the Brooks and Eckerd stores will also be remodeled within the first 12 months following the completion of the pending acquisition. We expect that almost all Brooks and Eckerd stores will be remodeled over the next several years. As part of the new and relocated store and store remodeling program, some of the Brooks or Eckerd and Rite Aid stores that are in close proximity to one another may be combined to improve overall productivity.

Our new and relocated store program is focused on our strongest existing markets. Our goal currently and after the pending acquisition, is to open or relocate approximately 800 to 1,000 stores over the next five years, of which we expect that at least 50% will be relocated stores. As part of this program, we also plan to continue remodeling stores. An integral part of the program is a new prototype store. Approximately 150 new or relocated stores have 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 and customer satisfaction.

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 developed and implemented a new pharmacy management and dispensing system and expect to implement this system in the Brooks and Eckerd stores that we acquire in the pending acquisition. This system, which we call “Nexgen,” provides our pharmacists with better tools and information to meet our customers’ needs. In addition, Nexgen 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.

The Medicare Part D program provides prescription drug coverage to senior citizens, including those who previously were not covered by any drug benefit program. We communicate information on the Medicare Part D program 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. Other initiatives that we expect to grow our pharmacy sales include the opening of in-store health clinics such as those in the Los Angeles, California and Sacramento, California areas, and the continuing pilot of a medication therapy management program, a fee for service arrangement, in conjunction with physicians and the University of Pittsburgh. We believe these initiatives have been effective at growing sales in their target markets and have scalable, replicable potential for future expansion.

We also have 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 believe that providing PBM services will create opportunities to direct customers to our stores.

Grow Front-End Sales. We intend to grow front-end sales through continued emphasis on core drugstore categories, a commitment 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 pain 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.

The average front-end sales per store for the Rite Aid stores are approximately 35% more than the average front-end sales per store for the Brooks and Eckerd stores located in the same markets, even though the average square footage of such Rite Aid stores is slightly less than the average square footage of such Brooks and Eckerd stores. Our goal is to increase the average Brooks and Eckerd front-end sales per store to the level of the average Rite-Aid front-end sales per store. We believe that following the consummation of the pending acquisition, the implementation of the Rite Aid "best practices" described in the previous paragraph will increase the average Brooks and Eckerd front-end sales per store to a level similar to the average Rite Aid front-end sales per store.

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 programs in place that are designed to enhance customer satisfaction, an example of which is the maintenance of a customer support center that centrally receives and processes all customer calls. We continue to develop and implement associate training programs such as our "Take 10" program 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 and Cost Savings Through Synergies. In our existing stores, and in the combined company upon completion of the pending acquisition, our goal is to either reduce costs, lower expense or contain expense in order to leverage the pharmacy and front end sales growth strategies described earlier, which will allow for more investment in the strategies important for our future. We budget and monitor all areas of expense and have also targeted areas of spending for continuous improvement. Our targeted expense areas are subject to analysis of the processes involved, with an emphasis on collaboration between areas in the company and vendors, utilization of competition between vendors and consolidation of spending volumes to achieve economies of scale. Examples of expense areas that are targeted for continuous improvement include: (i) inventory returns, (ii) utility expense and (iii) temporary labor. We have begun to implement strategies to reduce the volume of merchandise returns and thereby reduce the labor expense and inventory valuation losses related to returns. We also have taken steps to better control utility expense by focusing on improving the energy management practices, replacing certain equipment to lower consumption and accessing alternative energy sources for a lower cost. We have begun the process of consolidating the various temporary labor arrangements throughout our business to achieve economies of scale.

In addition to the focus and activities described in the previous paragraph, following consummation of the pending acquisition which we expect to happen at the end of our first quarter of fiscal 2008, we estimate that net reductions in costs and expenses of approximately $155 million (which is net of assumed loss of store level EBITDA due to store disposals as mandated by regulatory authorities and additional labor and benefit expense), will be realized in the area of merchandise purchasing, advertising, distribution and administration. Beginning in fiscal 2009, we estimate that annual net reductions in costs and expenses of approximately $225 million (which is net of an assumed loss of $15 million of store-level EBITDA and $50 million of additional labor and benefit expense) will be realized. The general categories of anticipated cost and expense reduction opportunities are cost of product, corporate administrative expenses, advertising expenses and other expense reduction opportunities. We estimate cost of product reductions of approximately $155 million, primarily from purchasing certain products for all stores at lower costs and increases in vendor support. We also estimate corporate administrative expense reductions of approximately $55 million, related to the consolidation of the Brooks and Eckerd headquarter functions into the Rite Aid headquarter functions. We estimate advertising expense reductions of approximately $45 million, from eliminating advertising expense that is duplicated in common markets. We also expect other expense reduction opportunities of approximately $35 million in areas such as energy management, physical inventory processes and supply procurement processes. We also expect other benefits and synergies to result from additional operational efficiencies, greater economies of scale and revenue enhancement opportunities. However, the timing and size of these other benefits and synergies cannot be currently determined. We can provide no assurance that the anticipated benefits and synergies from the pending acquisition described herein will be realized upon consummation of the pending acquisition.

Products and Services

Sales of prescription drugs represented approximately 63.7%, 63.2%, and 63.6% of our total sales fiscal years 2007, 2006 and 2005, respectively. In fiscal years 2007, 2006 and 2005, prescription drug sales were $11.1 billion, $10.9 billion, and $10.7 billion, respectively. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

We sell approximately 26,000 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 2007, although certain front-end product classes contributed in excess of 10% to our sales. Our principal classes of products in fiscal 2007 were the following:

Product Class	Percentage of Sales
Prescription drugs	63.7%
Over-the-counter medications and personal care	21.5%
Health and beauty aids	4.7%
General merchandise and other	10.1%

We offer approximately 3,000 products under the Rite Aid private brand, which contributed approximately 12.6% of our front-end sales in the categories where private brand products were offered in fiscal 2007. During fiscal 2007, we added approximately 244 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 1,270 GNC "stores-within-Rite Aid-stores." We have incorporated the GNC store-within-Rite Aid store into our new and relocated stores and intend to incorporate the GNC store-within-RiteAid-store concept into the Brooks Eckerd stores that we acquire where appropriate.

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. We expect to integrate all of the Brooks Eckerd stores that we acquire into our information system following the consummation of the pending acquisition. 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, which we also expect to be made available at all of the Brooks and Eckerd stores that we acquire. As of March 3, 2007 we had installed ScriptPro automated pharmacy dispensing units, which are linked to our pharmacists' computers and fill and label prescription drug orders, in 966 stores, and we expect to extend this technology to the Brooks and Eckerd stores where appropriate. 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 expect to integrate all of the Brooks and Eckerd stores that we acquire into our next generation pharmacy dispensing system and to extend e-prescribing services to all of the Brooks and Eckerd stores that we acquire. We believe our next generation pharmacy system 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

We purchase almost all of our generic (non-brand name) pharmaceuticals directly from manufacturers. During fiscal 2007, we purchased brand pharmaceuticals and some generic pharmaceuticals, which amounted to approximately 94% of the dollar volume of our prescription drugs, from a single wholesaler, McKesson Corp ("McKesson"), under a contract, which runs through March 2009. We expect to continue to purchase a significant volume of our prescription drugs from McKesson subsequent to the pending acquisition. 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 brand drug prescriptions until we executed a replacement strategy, which could negatively affect our business.

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 2007, 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 2007, 95.4% 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 2007, the top five third party payors accounted for approximately 31.2% of our total sales, the largest of which represented 9.4% of our total sales. During fiscal 2007, Medicaid related sales were approximately 6.8% of our total sales, of which the largest single Medicaid payor was less than 2% of our total sales.

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 2007, marketing and advertising expense was $295.2 million, which was spent primarily on 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 3, 2007, we had approximately 69,700 associates, 13% of which were pharmacists, 46% of which were part-time and 37% 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 a 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 an international recruiting program.

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 quarters 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 federal, state, and local government laws, regulations and administrative practices. We must comply with numerous provisions regulating health and safety, equal employment opportunity, minimum wage and licensing for the sale of drugs, alcoholic beverages, tobacco and other products. In addition we must comply with regulations pertaining to product labeling, dating and pricing.

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, our Code of Ethics and Business Conduct and our Related Person Transaction Policy 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. Security holders 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 3, 2007, $3.1 billion of outstanding indebtedness and stockholders' equity of approximately $1.66 billion. We also had additional borrowing capacity under our existing $1.75 billion senior secured revolving credit facility of approximately $1.33 billion at that time, net of outstanding letters of credit of $117.1 million. At the time of closing for the pending acquisition, we will fund the $2.3 billion cash portion of the purchase price with the issuance of additional debt.

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 2008, 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 2007, 2006, 2004, and 2003 by $50.8 million, $23.1 million, $2.6 million, and $204.3 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 meet our cash requirements, including our debt service obligations, both now and after the consummation of the pending acquisition, will be dependent upon our ability to substantially improve our operating performance, which will be 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 generate sufficient operating cash flow to pay our debts or to successfully undertake any of these actions could have a material adverse effect on us.

Borrowings under our existing and new credit facilities 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 $445 million of our outstanding indebtedness as of March 3, 2007 and approximately $1.1 billion of debt to be issued at the time of closing for the pending acquisition bears or will bear an interest rate that varies depending upon the Londan Interbank Offered Rate ("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 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 current indebtedness and the indebtedness to be incurred to finance the acquisition impose restrictions that may limit our operating and financial flexibility.

The covenants in the instruments that govern our current indebtedness and the indebtedness to be incurred in connection with the pending acquisition 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 acquisitions, 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 of revolver availability under our senior secured credit facility, we will be subject to a fixed charge coverage ratio maintenance test. 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 wholesaler of branded 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 purchase all of our brand prescription drugs from a single wholesaler, McKesson, pursuant to a contract that runs through March 2009. Pharmacy sales represented approximately 63.7% of our total sales during fiscal 2007, 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, as well as from large-scale retailers that offer generic drugs at a substantial discount. Some of our competitors have or may merge with or acquire pharmaceutical services companies, which may further increase competition. 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.

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 2007, sales of prescription drugs represented 63.7% of our sales and 95.4% of all of the prescription drugs that we sold were with third party payors. During fiscal 2007, the top five third-party payors accounted for approximately 31.2% of our total sales, the largest of which represented 9.4% of our total sales. Third party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Any significant loss of third-party payor business or any significant reduction in reimbursement levels could have a material adverse effect on our business and results of operations.

In fiscal 2007, approximately 6.8% of our revenues were from state sponsored Medicaid agencies, the largest of which was 2% of our total sales. In fiscal 2007, approximately 13% of our prescription sales were to customers covered by Medicare Part D, and we expect these sales to continue. 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 Part D 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 business is subject to federal, state and local government laws, regulations and administrative practices. We must comply with numerous provisions regulating health and safety, equal employment opportunity, minimum wage and licensing for the sale of drugs, alcoholic beverages, tobacco and other products. In addition, we must comply with regulations pertaining to product labeling, dating and pricing. Our pharmacy business is subject to local registrations 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;
- 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.

Risks Related to The Pending Acquisition

Although we expect that the pending acquisition of the Brooks and Eckerd drugstore chains will result in benefits to us, we may not realize those benefits because of integration difficulties.

Integrating the operations of the Brooks and Eckerd drugstore chains successfully or otherwise realizing any of the anticipated benefits of the acquisition including anticipated cost savings and additional revenue opportunities, involve a number of potential challenges. The failure to meet these integration challenges could seriously harm our results of operations .

Realizing the benefits of the acquisition will depend in part on the integration of information technology, operations and personnel. These integration activities are complex and time-consuming and we may encounter unexpected difficulties or incur unexpected costs, including:

- diversion of management attention from ongoing business concerns to integration matters;
- difficulties in consolidating and rationalizing information technology platforms and administrative infrastructures;
- difficulties in integrating the Brooks and Eckerd store operations to serve the combined customer base of Rite Aid and the Brooks and Eckerd drugstore chains;
- difficulties in converting the distribution centers;
- difficulties in combining corporate cultures, maintaining associate morale and retaining key associates; and
- challenges in demonstrating to our customers and to customers of the Brooks and Eckerd drugstore chains that the acquisition will not result in adverse changes in customer service standards or business focus.

We expect to spend approximately $475 million of integration-related capital expenditures and to incur $205 million of integration-related non-recurring expenses during the 16-month integration period. If the anticipated benefits and synergies are not realized, or if the integration-related expenses and capital requirements are greater than anticipated, the anticipated accretive effect of the acquisition could be decreased or delayed, which could cause a decline in the price of our common stock.

Moreover, the Brooks and Eckerd chains are not fully integrated with one another and in many instances operate using different systems. As a result, following the pending acquisition, we will be undertaking to integrate not one but two drugstore chains into our operations. Complications in integrating these two drugstore chains could increase our integration costs and make it more difficult to achieve a successful integration following the acquisition.

We may not successfully integrate the operations of the Brooks and Eckerd drugstore chains in a timely manner and we may not realize the anticipated net reductions in costs and expenses and other benefits and synergies of the pending acquisition of the Brooks and Eckerd drugstore chains to the extent, or in the timeframe, anticipated. In addition to the integration risks discussed above, our ability to realize these net reductions in costs and expenses and other benefits and synergies could be adversely impacted by practical or legal constraints on our ability to combine operations.

Following the pending acquisition, for so long as Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) maintain certain levels of Rite Aid stock ownership, Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) will exercise significant influence over us.

When the pending acquisition is completed, Jean Coutu Group will own approximately 30.2% of the voting power of Rite Aid. As a result, Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) generally will have the ability to significantly influence the outcome of any matter submitted for the vote of Rite Aid stockholders. The stockholder agreement provides that Jean Coutu Group (and, subject to certain conditions, certain members of the Coutu family) will designate four of the fourteen members of the Rite Aid board of directors, subject to adjustment based on its ownership position in Rite Aid. Accordingly, Jean Coutu Group generally will be able to significantly influence the outcome of all matters that come before the Rite Aid board of directors. As a result of its significant interest in Rite Aid, Jean Coutu Group may have the power, subject to applicable law (including the fiduciary duties of the directors designated by Jean Coutu Group), to significantly influence actions that might be favorable to Jean Coutu Group, but not necessarily favorable to Rite Aid's financial condition and results of operations. In addition, the ownership position and governance rights of Jean Coutu Group could discourage a third party from proposing a change of control or other strategic transaction concerning Rite Aid. As a result, the common stock of Rite Aid could trade at a price that does not reflect a "takeover premium" to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as that of Jean Coutu Group.

We will incur significant indebtedness in connection with the acquisition of the Brooks and Eckerd drugstore chains and the resulting debt service obligations may significantly limit our ability to execute our business strategy and increase the risk of default under our debt obligations.

We intend to borrow approximately $2.4 billion in connection with our financing for the acquisition of the Brooks and Eckerd drugstore chains. It is a condition to the completion of the acquisition that we shall have received the proceeds of the financing in an amount sufficient to consummate the acquisition. Although we currently expect that such financing will be available on commercially reasonable terms, there can be no assurance of this. If we are unable to consummate a permanent debt financing, we may enter into a bridge facility of up to $1.72 billion that is likely to be on terms substantially more restrictive and is likely to be more costly than the terms of the contemplated financing.

Following the completion of the acquisition, our ability to meet our cash requirements, including our debt service obligations, will be dependent upon our ability to substantially improve our operating performance, which will be subject to general economic and competitive conditions and to financial, business and other factors affecting our operations, many of which are or may be beyond our control. In addition, some of these debt service obligations have interest payments that are subject to variable interest rates and are therefore dependent upon future interest rates which are beyond our control. We cannot provide assurance that our business will generate sufficient cash flows from operations to fund these cash requirements and debt service obligations. If our operating results, cash flow or capital resources prove inadequate, or if interest rates increase significantly, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt and other obligations. If we are unable to service our debt, we could be forced to reduce or delay planned expansions and capital expenditures, sell assets, restructure or refinance our debt or seek additional equity capital, and 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 generate sufficient operating cash flow to pay our debts or to successfully undertake any of these actions could have a material adverse effects on us.

In addition, the degree to which we may be leveraged as a result of the indebtedness incurred in connection with the acquisition or otherwise could materially and adversely affect our ability to obtain financing for working capital, capital expenditures, acquisitions, debt service requirements or other purposes, could make us more vulnerable to general adverse economic, regulatory and industry conditions, could limit our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, could place us at a competitive disadvantage compared to our competitors that have less debt or could require us to dedicate a substantial portion of our cash flow to service our debt.

The announcement and pendency of the pending acquisition may cause disruptions in the business of the Brooks and Eckerd drugstore chains, which could have an adverse effect on their business, financial condition or results of operations and, post-closing, our business, financial condition or results of operations.

The announcement and pendency of the pending acquisition could cause disruptions of the business of the Brooks and Eckerd drugstore chains. Specifically:

- certain vendors may change their programs or processes which might adversely affect the supply or cost of the products, which then might adversely affect Brooks and Eckerds' stores sales or gross profit;
- current and prospective associates of the Brooks and Eckerd drugstore chains may experience uncertainty about their future roles with Rite Aid, which might adversely affect the ability of the Brooks and Eckerd drugstore chains to attract and retain key personnel; and
- current and prospective customers of the Brooks and Eckerd drugstore chains may experience uncertainty about the ability of the Brooks and Eckerd stores to meet their needs, which might cause customers to make purchases or fill their prescriptions elsewhere.

These disruptions could be exacerbated by a delay in the completion of the pending acquisition and could have an adverse effect on the business, financial condition or results of operations of the Brooks and Eckerd drugstore chains prior to the completion of the pending acquisition and on Rite Aid following the completion of the pending acquisition.

The pending acquisition is subject to the approvals from government entities that may not be received as well as certain closing conditions that may not be satisfied or waived. Failure to consummate the pending acquisition could have a material adverse effect on us.

We cannot complete the pending acquisition unless we receive various consents, approvals and clearances from antitrust and other authorities in the United States. While we believe that we will receive the requisite approvals from these authorities, there can be no assurance of this.

The stock purchase agreement we entered into with Jean Coutu Group contains numerous conditions to closing, the satisfaction or waiver of which are required to complete the pending acquisition. The conditions include, among others, the accuracy of our and Jean Coutu Group's respective representations and warranties in the stock purchase agreement, as well as the performance in all material respects by us and the Jean Coutu Group of our and its respective obligations under the stock purchase agreement. There can be no assurance that the conditions required to consummate the pending acquisition will be satisfied or waived.

If the pending acquisition is not consummated for any reason, we will have incurred substantial expenses without realizing the anticipated benefits of the pending acquisition, including anticipated net reductions in costs and expenses. We have incurred substantial legal, accounting and financial advisory fees and our management has devoted considerable time and effort in connection with the pending acquisition.

Conflicts of interest may arise between us and Jean Coutu Group, which may be resolved in a manner that adversely affects our business, financial condition or results of operations.

After the pending acquisition, Jean Coutu Group will continue its Canadian operations but will no longer have any operations in the United States; we currently have no operations in Canada. Despite the lack of geographic overlap after the transaction, conflicts of interest may arise between us and Jean Coutu Group in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by Jean Coutu Group of its interests in us and the exercise by Jean Coutu Group of its influence over our management and affairs.

After the completion of the pending acquisition, a number of the directors on the Rite Aid board of directors will be persons who are also officers or directors of Jean Coutu Group or its subsidiaries. Service as a director or officer of both Rite Aid and Jean Coutu Group or its other subsidiaries could create conflicts of interest if such directors or officers are faced with decisions that could have materially different implications for Rite Aid and for Jean Coutu Group. Apart from the conflicts of interest policy contained in Rite Aid's Code of Ethics and Business Conduct and applicable to Rite Aid directors, the parties have not established any formal procedures for Rite Aid and Jean Coutu Group to resolve potential or actual conflicts of interest between them. There can be no assurance that any of the foregoing conflicts will be resolved in a manner that does not adversely affect our business, financial condition or results of operations.

Following the completion of the pending acquisition, we will be dependent on Jean Coutu Group for certain transitional services pursuant to a transition services agreement. The failure of Jean Coutu Group to perform its obligations under the transition services agreement could adversely affect our business, financial condition or results of operations.

Our ability to effectively monitor and control the operations of the Brooks and Eckerd drugstore chains we are acquiring depends to a large extent on the proper functioning of our information technology and business support systems. Following the completion of the acquisition, we will be initially dependent upon Jean Coutu Group to continue to provide certain information technology, network and support services to the Brooks and Eckerd stores for a period of time after the completion of the acquisition to facilitate the transition of the Brooks and Eckerd drugstore chains. The terms of these arrangements will be governed by a transition services agreement to be entered into as of the closing of the acquisition. Rite Aid and Jean Coutu Group are obligated to negotiate in good faith the transition services agreement. If, however, we fail to reach a satisfactory agreement with respect to certain services or Jean Coutu Group falls to perform its obligations under the transition services agreement, we may not be able to perform such services ourselves or obtain such services from third parties at all or on terms favorable to us. In addition, upon termination of the transition services agreement, if we are unable to develop the necessary systems, resources and controls necessary to allow us to provide the services currently being provided by Jean Coutu Group or to obtain such services from third parties, it could adversely affect our business, financial condition or results of operations.

Subject to certain limitations, Jean Coutu Group may sell Rite Aid common stock at any time following the completion of the acquisition of the Brooks and Eckerd drugstore chains, which could cause our stock price to decrease.

The shares of Rite Aid common stock that Jean Coutu Group will receive following the completion of the acquisition of the Brooks and Eckerd drugstore chains are restricted, but Jean Coutu Group may sell these shares following the acquisition under certain circumstances, including pursuant to a registered underwritten public offering under the Securities Act or in accordance with Rule 144 under the Securities Act. We have entered into a registration rights agreement with Jean Coutu Group, which will give Jean Coutu Group the right to require us to register all or a portion of its shares at any time. The sale of a substantial number of our shares by Jean Coutu Group or our other stockholders within a short period of time could cause our stock price to decrease, make it more difficult for us to raise funds through future offerings of Rite Aid common stock or acquire other businesses using Rite Aid common stock as consideration.

Upon successful completion of the pending acquisition, we will be able to issue more shares of our common stock than currently authorized. As a result, such future issuances of our common stock could have a dilutive effect on the earnings per share and voting power of current stockholders.

The amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock has been approved by our stockholders. Therefore, upon completion of the acquisition, we will be able to issue more shares of our common stock than currently authorized. Current Rite Aid stockholders do not have preemptive rights with respect to our common stock. If the Rite Aid board of directors elects to issue additional shares of common stock in the future, whether in public offerings, in connection with mergers and acquisitions, or otherwise, such additional issuances could dilute the earnings per share and voting power of current stockholders. Additionally, the amendment to our restated certificate of incorporation to increase the number of authorized shares of Rite Aid common stock, which will become effective upon completion of the pending acquisition, could have an anti-takeover effect under some circumstances.

Item 1B. Unresolved SEC Staff Comments

None

Item 2. Properties

As of March 3, 2007, we operated 3,333 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 8,900 selling square feet per store (10,100 average total square feet per store). The stores in the southern part of the U.S. average 9,300 selling square feet per store (10,300 average total square feet per store). The stores in the central part of the U.S. average 9,200 selling square feet per store (10,100 average total square feet per store). The stores in the western part of the U.S. average 16,300 selling square feet per store (20,100 average total square feet per store).

Our new world 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 world 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 world 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 3, 2007:

State	Store Count
Alabama	107
California	594
Colorado	23
Connecticut	35
Delaware	24
District of Columbia	7
Georgia	45
Idaho	19
Indiana	9
Kentucky	120
Louisiana	70
Maine	79
Maryland	133
Michigan	312
Mississippi	28
Nevada	35
New Hampshire	38
New Jersey	159
New York	386
Ohio	238
Oregon	70
Pennsylvania	351
Tennessee	46
Utah	24
Vermont	11
Virginia	136
Washington	132
West Virginia	102
Total	3,333

Our stores have the following attributes at March 3, 2007:

Attribute	Number	Percentage
Freestanding	1,855	56%
Drive through pharmacy	1,449	43%
One-hour photo development department	2,233	67%
GNC stores-within a Rite Aid-store	1,270	38%

We lease 3,116 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 own our corporate headquarters, which is located in a 205,000 square foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease 125,000 square feet of space in various buildings near Harrisburg, Pennsylvania for use by additional administrative personnel.

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 5 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.

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 3, 2007, we have 5,983,175 square feet of excess space, of which 3,940,295 square feet was subleased.

Item 3. Legal Proceedings

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

On January 18, 2007, our stockholders voted to approve the issuance of 250 million shares of our common stock to Jean Coutu Group in connection with the pending acquisition. Our stockholders also approved an amendment to our Restated Certificate of Incorporation to increase the authorized number of shares of common stock to 1.5 billion and approved a new equity compensation plan. The increase in authorized shares and the new equity plan are contingent upon and effective on the closing of the pending acquisition.

The table below summarizes the voting results from the January 18, 2007 stockholder meeting.

Proposal	Votes For	Votes Against	Votes Abstain	Broker Non-Vote
Issuance of 250 million shares of common stock	354,270,933	8,996,383	999,891	0
Increase authorized number of common shares to 1.5 billion	349,210,055	13,574,918	1,482,236	0
Approval of new equity compensation plan	280,934,566	78,707,446	4,625,191	11

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 Stock Exchange under the symbol "RAD." On April 20, 2007, we had approximately 24,377 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
2008 (through April 20, 2007)	First	$6.59	$5.53
2007	First	4.85	3.79
	Second	4.74	4.07
	Third	4.87	4.28
	Fourth	6.36	4.75
2006	First	4.24	3.49
	Second	4.82	3.96
	Third	4.28	3.28
	Fourth	4.10	3.45

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."

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.

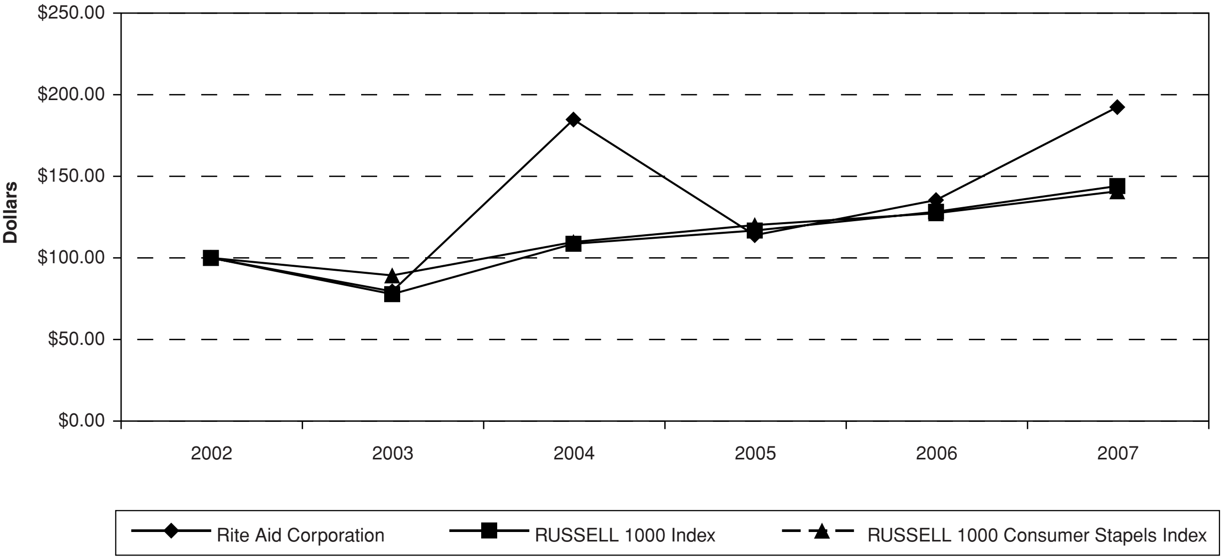
The Chief Executive Officer of the Company certified to the NYSE on June 23, 2006 that she was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

STOCK PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on our 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 our common stock and such indexes on March 3, 2002 and reinvestment of dividends).

For comparison of cumulative total return, we have 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 Years Cumulative Total Return
Assumes Initial Investment of $100
February 2007



	2002	2003	2004	2005	2006	2007
Rite Aid Corporation	$100.00	$79.47	$184.77	$113.91	$133.43	$192.38
Russell 1000 Index.....................	$100.00	$77.78	$108.65	$116.77	$128.28	$144.02
Russell Consumer Staples Index........	$100.00	$89.27	$109.73	$120.10	$127.37	$140.81

* Our fiscal year ends on the Saturday closest to February 29 or March 1. Fiscal year 2007 included 52 weeks and ended on March 3, 2007.

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 58-99.

	Fiscal Year Ended				
	March 3, 2007 (52 weeks)	March 4, 2006 (53 weeks)	February 26, 2005 (52 weeks)	February, 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)
	(Dollars in thousands, except per share amounts)				
Summary of Operations:					
Revenues	$ 17,507,719	$ 17,270,968	$ 16,816,439	$ 16,600,449	$ 15,791,278
Costs and expense:					
Cost of goods sold	12,791,597	12,571,860	12,202,894	12,163,735	11,611,829
Selling, general and administrative expenses(1)	4,370,481	4,307,421	4,127,536	4,029,220	3,900,553
Store closing and impairment charges	49,317	68,692	35,655	22,074	135,328
Interest expense	275,219	277,017	294,871	313,498	330,020
Interest rate swap contracts	—	—	—	—	278
Loss (gain) on debt modifications and retirements, net	18,662	9,186	19,229	35,315	(13,628)
(Gain) loss on sale of assets and investments, net	(11,139)	(6,462)	2,247	2,023	(18,620)
Total costs and expenses	17,494,137	17,227,714	16,682,432	16,565,865	15,945,760
Income (loss) before income taxes	13,582	43,254	134,007	34,584	(154,482)
Income tax benefit	(13,244)	(1,229,752)	(168,471)	(48,795)	(41,940)
Net income (loss)	$ 26,826	$ 1,273,006	$ 302,478	$ 83,379	$ (112,542)
Basic and diluted (loss) income per share:					
Basic (loss) income per share	$ (0.01)	$ 2.36	$ 0.50	$ 0.11	$ (0.28)
Diluted (loss) income per share	$ (0.01)	$ 1.89	$ 0.47	$ 0.11	$ (0.28)
Year-End Financial Position:					
Working capital	$ 1,363,063	$ 741,488	$ 1,335,017	$ 1,894,247	$ 1,676,889
Property, plant and equipment, net	1,743,104	1,717,022	1,733,694	1,882,763	1,867,830
Total assets	7,091,024	6,988,371	5,932,583	6,245,634	6,132,766
Total debt(2)	3,100,288	3,051,446	3,311,336	3,891,666	3,862,628
Redeemable preferred stock(3)	20,072	19,970	19,868	19,766	19,663
Stockholders' equity (deficit)	1,662,846	1,606,921	322,934	(8,277)	(129,938)
Other Data:					
Cash flows provided by (used in):					
Operating activities	309,145	417,165	518,446	227,515	305,383
Investing activities	(312,780)	(231,084)	(118,985)	(242,150)	(72,214)
Financing activities	33,716	(272,835)	(571,395)	(15,931)	(211,903)
Capital expenditures	363,728	341,349	222,417	267,373	116,154
Basic weighted average shares	524,460,000	523,938,000	518,716,000	515,822,000	515,129,000
Diluted weighted average shares(4)	524,460,000	676,666,000	634,062,000	525,831,000	515,129,000
Number of retail drugstores	3,333	3,323	3,356	3,382	3,404
Number of associates	69,700	70,200	71,200	72,500	72,000

(1) Includes stock-based compensation expense. Stock based compensation expense for the fiscal year ended March 3, 2007, was determined using the fair value method set forth in SFAS No. 123(R), "Share Based Payment". Stock-based compensation expense for the fiscal years end March 4, 2006, February 26, 2005 and February 28, 2004 was determined using the fair value method set forth in SFAS No. 123 "Accounting for Stock-Based Compensation". Stock-based compensation expense for the fiscal year ended March 1, 2003 was determined using the intrinsic method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

(2) Total debt included capital lease obligations of $189.7 million, $178.2 million, $168.3 million, $183.2 million and $176.2 million, as of March 3, 2007, March 4, 2006, February 26, 2005, February 28, 2004 and March 1, 2003, respectively.

(3) Redeemable preferred stock was included in "Other Non-current liabilities" as of March 3, 2007, March 4, 2006, February 26, 2005 and February 28, 2004, respectively.

(4) 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 2007 was $26.8 million, with a net loss of $0.01 per diluted share, compared to $1,273.0 million, or $1.89 per diluted share in fiscal 2006, and $302.5 million, or $0.47 per diluted share in fiscal 2005. Our operating results are described in detail in the Results of Operations section of this Item 7. However, some of the key factors that impacted our results in fiscal 2007, 2006, and 2005 are summarized as follows:

Income Tax Valuation Allowance Adjustment. We maintained a valuation allowance of $239.8 million against net deferred tax assets as of March 3, 2007. Net income for fiscal 2007 included state tax expense of $9.1 million for an increase in the valuation allowance associated with our state net operating loss carryforwards. Decreases during the current year to the valuation allowance related primarily to the expiration of capital loss and state net operating loss carryforwards which had been fully reserved as of the beginning of the fiscal year. The net decrease in the valuation allowance was $19.8 million. Net income included benefits of $1,231.1 million and $179.5 million, during fiscal 2006 and 2005, respectively, 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.

Debt Refinancing and Receivables Securitization. In fiscal years 2007, 2006 and 2005, we took several steps to extend the terms of our debt, lower our interest rates and obtain more flexibility. In fiscal 2007, we issued our 7.5% senior secured notes due January 2015, the proceeds of which were used to redeem our 9.5% senior secured notes due February 2011. We incurred a charge to call these notes prior to maturity and recorded a write-off of unamortized debt issue costs. These items totaled $18.7 million, which was recorded as a loss on debt modification in fiscal 2007. 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 modification of $9.2 million. In fiscal 2005, we replaced our senior secured credit facility with a new credit facility, entered into receivables 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 modification of $20.0 million, offset by net gains of $0.8 million related to the note repurchases described above. These transactions are discussed in more detail in the Liquidity and Capital Resources section below.

Hurricane Katrina. On August 27, 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 a result of this disaster, we had to close 14 stores, which resulted in lost inventory and fixed assets. We also incurred repair and maintenance charges related to our clean-up efforts. We received advance payments from our insurance carriers of $30.9 million in fiscal 2006. These payments, less the amounts of inventory and fixed assets written off and other Katrina related costs incurred, were deferred at the end of fiscal 2006.

In February 2007, we entered into a final binding settlement of our claims under Hurricane Katrina with our insurance carriers. As a result of this settlement, we recorded a gain in fiscal 2007 of $17.6 million. The portion of this gain related to reimbursement for lost and damaged fixed assets was $9.4 million and was recorded as a gain on sale of assets and investments. The portion relating to reimbursement for lost or damaged inventory was $2.2 million and was recorded as a reduction of costs of goods sold. The portion of this gain related to repair and maintenance and other clean-up charges was $6.0 million and was recorded as a reduction of selling, general and administrative expenses ("SG&A").

Dilutive Equity Issuances. At March 3, 2007, 536.7 million shares of common stock were outstanding and an additional 154.9 million shares of common stock were issuable related to outstanding stock options and preferred stock.

Our 154.9 million shares of potentially issuable common stock consist of the following:

(Shares in thousands)

Strike price	Outstanding Stock Options(a)	Preferred Stock	Total
	(Shares in thousands)		
$5.50 and under	54,466	94,290	148,756
$5.51 to $7.50	1,988	—	1,988
$7.51 and over	4,142	—	4,142
Total issuable shares	60,596	94,290	154,886

(a) The exercise of these options would provide cash of $278.8 million

Pending Acquisition

On August 23, 2006, we entered into a stock purchase agreement with Jean Coutu Group. Under the terms of the Agreement, we will acquire (the "Acquisition") from Jean Coutu Group all of the membership interests of The Jean Coutu Group (PJC) USA, Inc. ("Jean Coutu USA"), a wholly owned subsidiary of Jean Coutu Group, which is engaged in the business of owning and operating retail pharmacy stores conducting business under the Eckerd and Brooks banners. As consideration for the Acquisition, we will issue 250 million shares of Rite Aid common stock and will pay $2.3 billion in cash, subject to a working capital adjustment. We intend to finance the Acquisition through the issuance of new debt.

The shares of Rite Aid common stock issuable to Jean Coutu Group in the Acquisition will represent approximately 30.2% of our total voting power after giving effect to the Acquisition. Upon the closing of the Acquisition, we will expand our Board of Directors to 14 members, with four of the seats being held by members designated by Jean Coutu Group. In connection with entering into the stock purchase agreement, on August 23, 2006, we entered into a Stockholder Agreement (the "Stockholder Agreement") with Jean Coutu Group and certain Coutu family members that will become effective upon consummation of the Acquisition and will govern, among other matters, Jean Coutu Group's ownership interest in Rite Aid. The Stockholder Agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. We also entered into a Registration Rights Agreement with Jean Coutu Group giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of our common stock to be issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market purchase rights under the Stockholder Agreement.

Rite Aid and Jean Coutu Group have each made customary representations, warranties and covenants in the Stock Purchase Agreement, including, among others, Jean Coutu Group's covenant to cause Jean Coutu USA and its subsidiaries to conduct their business in the ordinary course between the execution of the Agreement and the closing of the Acquisition and to refrain from certain types of transactions during that period. Consummation of the Acquisition is subject to customary conditions, including, among others: (i) expiration or termination of the applicable anti-trust waiting period, (ii) receipt of NYSE listing approval with respect to the shares of our common stock to be issued to Jean Coutu Group, (iii) absence of any law or order prohibiting the consummation of the Acquisition, (iv) no threatened or pending litigation seeking to limit our ownership or operation of Rite Aid's or Jean Coutu USA's assets and (v) subject to certain exceptions, the accuracy of the representations and warranties of the parties. We have completed the majority of these items including obtaining the approval of the Acquisition by our shareholders and reaching an agreement with the Federal Trade Commission ("FTC") staff to divest 24 stores. The agreement with the FTC staff is subject to approval by the Commissioner of the FTC, which we expect to obtain. We expect to complete the Acquisition by the end of May 2007.

Results of Operations

Revenue and Other Operating Data

	Year Ended		
	March 3, 2007 (52 Weeks)	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)
	(Dollars in thousands)		
Revenues	$17,507,719	$17,270,968	$16,816,439
Revenue growth	1.4%	2.7%	1.3%
Same store sales growth(1)	3.4%	1.1%	1.6%
Pharmacy sales growth	2.2%	2.0%	1.3%
Same store pharmacy sales growth(1)	4.4%	0.3%	1.6%
Pharmacy sales as a % of total sales	63.7%	63.2%	63.6%
Third-party sales as a % of total pharmacy sales	95.4%	93.9%	93.5%
Front-end sales growth	0.1%	3.8%	1.1%
Same store front-end sales growth(1)	1.9%	2.6%	1.6%
Front-end sales as a % of total sales	36.3%	36.8%	36.4%
Store data:			
Total stores (beginning of period)	3,323	3,356	3,382
New stores	40	17	7
Closed stores	(32)	(56)	(38)
Store acquisitions, net	2	6	5
Total stores (end of period)	3,333	3,323	3,356
Remodeled stores	19	173	169
Relocated stores	66	53	13

(1) Same store sales for fiscal 2007 are calculated by comparing the 52 week period ended March 3, 2007 with the 52 week period ended March 4, 2006. 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 2007 compared to Fiscal 2006: The 1.4% growth in revenues for fiscal 2007 was driven by front-end sales growth of 0.1% and pharmacy sales growth of 2.2%. 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, offset somewhat by the additional week in fiscal 2006. We include in same store sales all stores that have been opened at least one year. Stores in liquidation are considered closed. Relocation stores are not included in same store sales until one year has lapsed.

Fiscal 2007 pharmacy same store sales increased 4.4% due to an increase in same store prescription growth of 2.0% and an increase in price per prescription. In addition to favorable demographic trends, our script growth was positively impacted by Medicare Part D and by initiatives such as our focus on customer satisfaction, prescription file buys, our senior loyalty program, our health condition programs and the new and relocated store program. These items were partially offset primarily by an increase in generic sales, a milder cough, cold and flu season and lower reimbursement rates, including lower reimbursement rates from the Medicare Part D program.

Fiscal 2007 front-end same store sales increased 1.9%, primarily as a result of strong performance in core categories, such as over-the-counter and health and beauty and an increase in sales driven by promotional activities. These items were partially offset primarily by a decrease in photo and film sales and a milder cough, cold and flu season.

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.

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 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.

Costs and Expenses

	Year Ended		
	March 3, 2007 (52 Weeks)	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)
		(Dollars in thousands)	
Costs of goods sold	$12,791,597	$12,571,860	$12,202,894
Gross profit	4,716,122	$ 4,699,108	$ 4,613,545
Gross margin	26.9%	27.2%	27.4%
Selling, general and administrative expenses	$ 4,370,481	$ 4,307,421	$ 4,127,536
Selling, general and administrative expenses as a percentage of revenues	25.0%	24.9%	24.5%
Store closing and impairment charges	49,317	68,692	35,655
Interest expense	275,219	277,017	294,871
Loss on debt modifications and retirements, net	18,662	9,186	19,229
(Gain) loss on sale of assets and investments, net	(11,139)	(6,462)	2,247

Cost of Goods Sold

Gross margin rate was 26.9% for fiscal 2007 compared to 27.2% in fiscal 2006. Gross margin rate was primarily negatively impacted by a decline in front-end gross margin rate, which was caused by a higher mix of promotional sales and a reduction in photo and film gross profit. Gross margin rate was also negatively impacted by the recording of a LIFO charge of $43.0 million in fiscal 2007 compared to a $32.2 milion charge in fiscal 2006. Our pharmacy gross profit had a slight positive contribution to consolidated gross margin rate due to the increase in sales. However, our pharmacy gross margin rate was down slightly. Although there was an increase in generic prescriptions and a reduction in pharmacy shrink, these positive factors were offset by a reduction in reimbursement rates, particularly from Medicare Part D prescriptions.

Gross margin was 27.2% for fiscal 2006 compared to 27.4% in fiscal 2005. Gross margin rate 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.

We use the last-in, first-out (LIFO) method of inventory valuation. The LIFO charge (credit) was $43.0 million in fiscal 2007, $32.2 million in fiscal 2006 and ($18.9) million in fiscal 2005.

Selling, General and Administrative Expenses

SG&A for fiscal 2007 was 25.0% as a percentage of revenues, compared to 24.9% in fiscal 2006. SG&A was positively impacted primarily by effective labor and expense control, offset by an increase in rent and occupancy expense from new and relocated stores and the sale-leaseback of owned stores and an increase in depreciation and amortization expense resulting from capital expenditures related to prescription file buys and new and relocated stores. Also negatively impacting the comparison to fiscal 2006 was a $20.0 million accrual reversal recorded in fiscal 2006 resulting from the United States Attorney closing its investigation involving matters related to prior management's business practices.

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.

Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	March 3, 2007 (52 Weeks)	March 4, 2006 (53 Weeks)	February 26, 2005 (52 Weeks)
		(Dollars in thousands)	
Impairment charges	$31,425	$46,114	$30,014
Store and equipment lease exit charges	17,892	22,578	5,641
	$49,317	$68,692	$35,655

Impairment Charges. In fiscal 2007, 2006, and 2005, store closing and impairment charges include non-cash charges of $31.4 million, $46.1 million and $30.0 million, respectively, for the impairment of long-lived assets at 342, 414, and 291 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. In fiscal 2007, 2006, and 2005, we recorded charges for 49, 43, and 13 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.

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 2007, 2006, and 2005, interest expense was $275.2 million, $277.0 million and $294.9 million, respectively. Interest expense for 2007 decreased from 2006 due to an extra week in fiscal 2006 which was partially offset by slightly higher borrowings and slightly higher interest rates. Interest expense for fiscal 2006 decreased from fiscal 2005 due to decreases in outstanding borrowings and a lower interest rate partially offset by an extra week in fiscal 2006.

The annual weighted average interest rates on our indebtedness in fiscal 2007, fiscal 2006 and fiscal 2005 were 7.6%, 7.4% and 7.0%, respectively.

Income Taxes

Income tax benefits of $13.2 million, $1,229.8 million and $168.5 million have been recorded for fiscal 2007, fiscal 2006 and fiscal 2005, respectively. The fiscal 2007 benefit includes a state tax benefit of $24.1 million which primarily related to an increase in the our state tax rate applied to the net deferred tax assets partially offset by state tax expense of $9.1 million related to an increase in the valuation allowance. The fiscal 2006 benefit was primarily comprised of a federal and state tax benefit of $1,231.1 million for the release of valuation allowances 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 for the release of valuation allowance offset by tax expense of $11.0 million consisting primarily of state income taxes.

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. We maintained a valuation allowance of $239.8 million and $259.6 million against remaining net deferred tax assets at fiscal year end 2007 and 2006, respectively. 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.

2007 Transactions

Credit Facility

In November 2006, we entered into an amendment of our senior secured credit facility to permit the financing of the Acquisition. Pursuant to the terms of the senior secured facility amendment, we established a senior secured term loan facility in the aggregate principal amount of $145.0 million and borrowed the full amount thereunder. Proceeds from the borrowings under the new senior secured term loan facility (the "Tranche 1 Term Loans") were used to pay amounts outstanding under the revolving credit facility, which had been used to repay, at maturity, the outstanding principal and accrued interest payable under our 12.5% senior secured notes due September 2006.

The Tranche 1 Term Loans 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 availability under our revolving credit facility, as specified in the senior secured credit facility. The amounts outstanding under the Tranche 1 Term Loans become due and payable in September 2010, or earlier, if there is a shortfall in our borrowing base under the revolving credit facility.

In addition to the issuance of the Tranche 1 Term Loans, the lenders to the senior secured credit facility agreed to establish, in connection with the Acquisition, an additional senior secured term loan facility in an aggregate principal amount of $1.105 billion (the "Tranche 2 Term Loans"). We expect to draw the full amount of the Tranche 2 Term Loans upon closing of the Acquisition and to use the proceeds to pay a portion of the consideration for the Acquisition.

In addition to the Tranche 1 Term Loans described above, our senior credit facility consists of a $1.75 billion revolving credit facility. Borrowings under the revolving 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 senior secured credit facility. We are required to pay fees of 0.25% per annum on the daily unused amount of the revolving credit facility. The amounts drawn on the revolving credit facility become due and payable in September 2010.

The senior secured credit facility allows us to have outstanding, at any time, up to $1.8 billion in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 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 second priority debt and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1.8 billion. At March 3, 2007, remaining additional permitted secured second priority debt under the senior secured credit facility was $740.0 million in addition to what is available under the revolver; however, other debentures do not permit additional secured debt if the revolving credit facility is fully drawn. The amendment of our senior secured credit facility that will occur at the closing of the Acquisition will permit the issuance of the Tranche 1 and Tranche 2 Term Loans discussed above without reducing our ability to incur additional secured or unsecured debt under the senior secured credit facility. The 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 interest coverage levels are not met at the time of incurrence of said debt. The senior secured facility also allows for the repurchase of any debt with a maturity on or before December 2010, and for the repurchase of debt with a maturity after December 2010, if we maintain availability on the revolving credit facility of at least $100.0 million.

The 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 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 senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if we fail to make any required payment on debt having a principal amount in excess of $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 revolving credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At March 3, 2007, we had $300.0 million of borrowings outstanding under the revolving credit facility. At December 2, 2006, we also had letters of credit outstanding against the revolving credit facility of $117.1 million, which gave us additional borrowing capacity of $1,332.9 million.

Other Transactions

In February 2007, we issued $500 million aggregate principal amount of 7.5% senior secured notes due 2017. These notes are unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other 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 8.125% senior secured notes due 2010 and our 7.5% senior secured notes due 2015, 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 7.5% senior secured notes due 2017 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. Proceeds from this offering were used to repay outstanding borrowings on our revolving credit facility and to fund the redemption of our 9.5% senior secured notes due 2011, by deposit into an escrow fund with an independent trustee. Per the terms of the indenture that governed the 9.5% senior secured notes due 2011, we paid a premium to the noteholders of 104.75% of par. We recorded a loss on debt modification of $18.7 million related to the early redemption of the 9.5% senior secured notes due 2011, which included the call premium and unamortized debt issue costs on the notes.

In February 2007, we issued $500 million aggregate principal amount of 8.625% senior notes due 2015. These notes are unsecured. The indenture governing the 8.625% senior notes due 2015 contains 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 8.625% senior notes due 2015 do not have the benefit of subsidiary guarantees. Proceeds from the issuance of the notes were used to repay borrowings under our revolving credit facility.

In January 2007, we paid at maturity the remaining outstanding principal amount of $184.1 million of our 7.125% notes due January 2007. We funded this payment with borrowings under the revolving credit facility.

In December 2006, we paid at maturity the remaining outstanding principal amount of $250.0 million of our 4.75% convertible notes due December 2006. We funded this payment with borrowings under the revolving credit facility.

In September 2006, we completed the early redemption of all of our outstanding $142.0 million of our 12.5% senior secured notes due September 2006. We funded this payment with borrowing under our revolving credit facility, which were subsequently repaid with borrowings of the Tranche 1 term loans.

Sale-Leaseback Transactions

During fiscal 2007, we sold the land and building on a total of 29 owned properties to independent third parties. Net proceeds from these sales were approximately $82.1 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 24 of these leases as operating leases and the remaining five 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.

Financing for the Pending Acquisition

On the closing date of the Acquisition, we intend to (i) issue and sell one or more tranches of notes in an aggregate amount of $1.220 billion and (ii) borrow $1.105 billion of Tranche 2 Term Loans available to us under our senior secured credit facility. Depending on the timing of the transaction as well as the actual fees and expenses, we may also borrow additional amounts under our revolving credit facility. Under the terms of a commitment letter, Citicorp has also agreed to provide us up to a $1.720 billion senior secured bridge facility if we are unable to sell the full amount of notes required by the commitment letter.

We had previously considered assuming 8.5% senior secured notes due 2014 held by Jean Coutu Group as a component of the consideration for the acquisition. The Jean Coutu Group has initiated a tender offer for these notes and therefore we will not assume them. This has increased the amount of consideration that we intend to fund by the issuance of new debt from $1.45 billion to $2.3 billion.

2006 Transactions

Credit Facility

On September 30, 2005, we amended our senior secured credit facility. The amended senior credit facility consisted solely of a $1.75 billion revolving credit facility and had a maturity date of September, 2010.

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.

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.

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.

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 3, 2007 and March 4, 2006, the total of outstanding receivables that had been transferred to the CPVs were $350.0 million and $330.0 million, respectively. The average amount of outstanding receivables transferred during fiscal 2007, 2006 and 2005 was $334.6 million, $243.6 million, and 263.3 million respectively. Total receivable transfers for fiscal 2007, 2006 and 2005 totaled $4.7 billion, $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 2007, 2006 and 2005 totaled $4.7 billion, $3.5 billion and $1.7 billion, respectively. At March 3, 2007 and March 4, 2006, we retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $255.1 million and $248.3 million, respectively, inclusive 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 2007, 2006 and 2005 were $21.9 million, $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 2007 with the option to annually extend the commitment to purchase. Should any of the CPVs fail to renew their commitment under these securitization agreements, we have 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 our corporate concentration account. At March 3, 2007 and March 4, 2006, we had $3.0 million and $2.2 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 Extinguishment 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 3, 2007, 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 Commitments

The following table details the maturities of our indebtedness and lease financing obligations as of March 3, 2007, 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)	$ 223,198	$ 586,291	$1,142,833	$2,848,571	$ 4,800,893
Capital lease obligations(2)	31,282	47,636	46,925	176,720	302,563
Operating leases(3)	600,243	1,181,277	1,056,937	4,155,633	6,994,090
Open purchase orders	269,730	—	—	—	269,730
Redeemable preferred stock(4)	—	—	—	21,300	21,300
Other, primarily self insurance and retirement plan obligations(5)	100,391	118,026	28,595	65,443	312,455
Total contractual cash obligations	$1,224,844	$1,933,230	$2,275,290	$7,267,667	$12,701,031
Commitments					
Lease guarantees	$ 17,346	$ 34,114	$ 32,952	$ 96,763	$ 181,175
Outstanding letters of credit	117,138	—	—	—	117,138
Total commitments	$ 134,484	$ 34,114	$ 32,952	$ 96,763	$ 298,313

(1) Includes principal and interest payments for all outstanding debt instruments. Interest was calculated on variable rate instruments using rates as of March 3, 2007.

(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) Represents value of redeemable preferred stock at its redemption date.

(5) Includes the 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 and nonqualified executive retirement plans.

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

Cash flow provided by operating activities was $309.1 million in fiscal 2007. Cash flow from operating activities was positively impacted by income from operations, net proceeds of $20.0 million for the sale of certain of our third party receivables and a decrease in accounts payable. These items were partially offset by increases in accounts receivable and inventory.

Cash provided by operating activities was $417.2 million in fiscal 2006. Cash flow from operating activities 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. Cash flow from operating activities 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 used in investing activities was $312.8 million in fiscal 2007. Cash was used for: the purchase of property, plant and equipment—$334.5 million, the purchase of prescription files—$29.2 million and capitalizable direct acquisition costs related to our pending acquisition of Jean Coutu, USA—$18.4 million. Cash of $55.6 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 $231.1 million in fiscal 2006. Cash was used for: the purchase of property, plant and equipment—$287.8 million and the purchase of prescription files—$53.6 million. 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 was used for: the purchase of property, plant and equipment—$190.8 million and the purchase of prescription files—$31.6 million. 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 provided by financing activities was $33.7 million in fiscal 2007. Cash provided from issuance of two bonds and the term loan portion of our senior secured credit facility was used to fund the redemption and payment at maturity of several bonds and to pay down a portion of the outstanding borrowings under our revolving credit facility.

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.

Capital Expenditures

We plan to make total capital expenditures of approximately $825 million to $875 million during fiscal 2008, consisting of approximately 40% related to new store construction, store relocation, store remodel and store improvement projects, 40% related to the integration of Brooks Eckerd, 10% related to the purchase of prescription files from independent pharmacies and 10% related to technology enhancements, improvements to distribution centers, and other corporate requirements. Management expects that these capital expenditures will be financed primarily with cash flow from operating activities, proceeds from sale leaseback transactions and use of the revolving credit facility.

In fiscal 2009, we intend to make capital expenditures of approximately $700 million to $730 million, including capital expenditures related to the integration of Brooks Eckerd. In years after fiscal 2009, capital expenditures are planned to be approximately $575 million to $600 million.

In fiscal 2005, we resumed our new store and store relocation program. In fiscal 2008, our goal is to open or relocate approximately 125 stores, whether or not the acquisition is consumated. At least 50% of the stores will be relocated or expanded stores and the remaining will be new stores. The program is focused on our strongest existing markets. We also expect to continue remodeling stores.

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. In addition, the acquisition of Jean Coutu, USA will require us to incur approximately $2.3 billion in additional debt. Based upon our current levels of operations, planned improvements in our operating performance and the opportunities that we believe the acquisition of Jean Coutu USA provides, we believe that cash flow from operating activities together with available borrowings under the senior secured credit facility, sales of accounts receivable under our securitization agreements, borrowings that have been committed to by our lenders related to the Acquisition and other sources of liquidity will be adequate to fund the Acquisition and to meet our requirements for working capital, debt service and capital expenditures including capital expenditures related to the Acquisition, 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, funding requirements related to the Acquisition 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 July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes”, an interpretation of FASB Statement No. 109. The Interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company’s tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination, based on the technical merits of the position, and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation is effective for our 2008 fiscal year and will be applicable to all tax positions upon initial adoption. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may continue to be recognized upon adoption. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements. The cumulative effect of adopting this interpretation will be recorded as a charge to retained earnings. We do not expect that the adoption of FIN 48 will have a material impact on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, “Accounting for the 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 we do not expect the adoption to have a material impact on our financial statements or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have not yet assessed the impact, if any, of adopting SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, “Employers Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R).” This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal period ending after December 15, 2006. We have adopted this requirement and the effects are reflected in our financial position as of March 3, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. We have not yet adopted this requirement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not yet assessed the impact, if any, of adopting SFAS No. 159.

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 3, 2007 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. 158 "Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans—An Amendment of Financial Accounting Standards Board Statements No. 87, 88, 106 and 132(R)". 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 3, 2007.

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value at March 3, 2007
Long-term debt, Including current portion								
Fixed rate	$ 643	$150,322	$ 122	$357,930	$115	$1,956,495	$2,465,627	$2,358,634
Average Interest Rate	8.00%	6.13%	8.00%	8.17%	8.00%	7.86%	7.80%	
Variable Rate	—	—	—	$445,000	—	—	$ 445,000	$ 445,000
Average Interest Rate	—	—	—	6.81%	—	—	6.81%	

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 53 basis points) as compared to the LIBOR rate of 5.32% as of March 3, 2007 our annual interest expense would change by approximately $2.4 million based upon our variable-rate debt outstanding of approximately $445.0 million on March 3, 2007.

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 3, 2007, 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 Independent 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 after the next paragraph.

(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 3, 2007 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 Annual 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 3, 2007, 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 3, 2007, 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 3, 2007, 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 3, 2007, of the Company and our report dated April 27, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte & Touche LLP

Philadelphia, Pennsylvania
April 27, 2007

Item 9B. Other Information

None

PART III

We intend to file with the SEC a definitive proxy statement for our 2007 Annual Meeting of Stockholders, to be held on June 27, 2007, pursuant to Regulation 14A not later than 120 days after March 3, 2007. 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 58
Consolidated Balance Sheets as of March 3, 2007 and March 4, 2006 59
Consolidated Statements of Operations for the fiscal years ended March 3, 2007, March 4, 2006 and February 26, 2005 60
Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended March 3, 2007, March 4, 2006 and February 26, 2005 61
Consolidated Statements of Cash Flows for the fiscal years ended March 3, 2007, March 4, 2006 and February 26, 2005 62
Notes to Consolidated Financial Statements 63

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
2.1	Stock Purchase Agreement, dated August 23, 2006, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 2 to Form 8-K, filed on August 24, 2006
2.2	Stockholder Agreement, dated August 23, 2006, by and between Rite Aid Corporation, The Jean Coutu Group (PJC) Inc., Jean Coutu, Marcelle Coutu, Francois J. Coutu, Michel Coutu, Louis Coutu, Sylvie Coutu and Marie-Josee Coutu	Exhibit 10.1 to Form 8-K, filed on August 24, 2006
2.3	Registration Rights Agreement, dated August 23, 2006, by and between Rite Aid Corporation and The Jean Coutu Group (PJC) Inc.	Exhibit 10.2 to Form 8-K, filed on August 24, 2006
3.1	Restated Certificate of Incorporation dated December 12, 1996	Exhibit 3(i) to Form 8-K, filed on November 2, 1999

Exhibit Numbers	Description	Incorporation By Reference To
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	Form of Proposed Amendment to the Restated Certificate of Incorporation	Included in Preliminary Proxy Statement on Schedule 14A, filed on October 2, 2006
3.5	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
3.6	7% Series G Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.2 to Form 8-K, filed on February 2, 2005
3.7	6% Series H Cumulative Convertible Pay-in-Kind Preferred Stock Certificate of Designation dated January 28, 2005	Exhibit 3.3 to Form 8-K, filed on February 2, 2005
3.8	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
3.9	By-laws, as amended and restated	Exhibit 3.1 to Form 8-K, filed on December 14, 2005
3.10	Form of Amended and Restated By-Laws	Exhibit 3.1 to Form 8-K, filed on April 13, 2007
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
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

Exhibit Numbers	Description	Incorporation By Reference To
4.5	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
4.6	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
4.7	Indenture, dated as of February 15, 2007, between Rite Aid Corporation, as issuer, the subsidiary guarantors named therein and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 7.5% Senior Secured Notes due 2017	Exhibit 99.1 to Form 8-K, filed on February 26, 2007
4.8	Indenture, dated as of February 15, 2007, between Rite Aid Corporation, as issuer, and The Bank of New York Trust Company, N.A., as trustee, related to the Company's 8.625% Senior Notes due 2015	Exhibit 99.2 to Form 8-K, filed on February 26, 2007
4.9	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
4.10	Amendment and Restatement Agreement, dated as of November 8, 2006, relating to the Credit Agreement dated as of June 27, 2001, as amended and restated as of September 30, 2005, among Rite Aid Corporation, the lenders from time to time party thereto, Citicorp North America, Inc., as administrative agent and collateral processing agent and Bank of America, N.A., as syndication agent	Exhibit 10.1 to Form 8-K, filed on November 15, 2006
4.11	Amendment No. 4 to Receivables Financing Agreement and Consent, dated as of November 9, 2006, by and among Rite Aid Funding II, CAFCO, LLC, Jupiter Securitization Corporation, Variable Funding Capital Company LLC, Citibank, N.A., JPMorgan Chase Bank, N.A., as investor agent, Wachovia Bank, National Association, as investor agent, Citicorp North America, Inc., as investor agent and program agent, Rite Aid Hdqtrs. Funding, Inc., as collection agent, and certian other parties thereto as originators	Exhibit 10.2 to Form 8-K filed on November 15, 2006

Exhibit Numbers	Description	Incorporation By Reference To
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
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
4.14	First Amendment, dated as of September 22, 2004, to the Amended and Restated Collateral Trust and Intercreditor Agreement, dated as of June 27, 2001, among Rite Aid Corporation, the Subsidiary Guarantors (named therein), Wilmington Trust Company, as collateral trustee; the senior collateral processing co-agents (named therein) and the senior collateral agents (named therein)	Exhibit 10.2 to Form 10-Q filed on September 25, 2004
4.15	Amended and Restated Collateral Trust and Intercreditor Agreement dated as of May 28, 2003, among Rite Aid Corporation, each Subsidiary of Rite Aid named therein or which becomes a party hereto, Wilmington Trust Company, as collateral trustee for the holders from time to time of the Second Priority Debt Obligations, Citicorp North America, Inc., as senior collateral processing co-agent, JPMorgan Chase Bank, as senior collateral processing co-agent for the Senior Secured Parties under the Senior Loan Documents, U.S. Bank and Trust, as trustee under the 12.5% Note Indenture, BNY Midwest Trust Company, as trustee under the 9.5% Note Indenture and as trustee under the 8.125% Note Indenture, and each other Second Priority Representative which becomes a party thereto	Exhibit 10.2 to Registration Statement of Form 8-K, filed on May 30, 2003
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	2006 Omnibus Equity Plan	Exhibit 10 to Form 8-K, filed on January 22, 2007
10.6	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
10.7	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

Exhibit Numbers	Description	Incorporation By Reference To
10.8	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
10.9	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
10.10	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
10.11	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
10.12	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
10.13	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
10.14	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
10.15	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
10.16	Employment Agreement by and between Rite Aid Corporation and James Mastrian, dated as of September 27, 1999*	Exhibit 10.20 to Form 10-K, filed on May 21, 2001
10.17	Rite Aid Corporation Special Executive Retirement Plan*	Exhibit 10.15 to Form 10-K, filed on April 26, 2004
10.18	Employment Agreement by and between Rite Aid Corporation and Robert B. Sari, dated as of February 28, 2001*	Exhibit 10.49 to Form 10-K filed on May 21, 2001
10.19	Employment Agreement by and between Rite Aid Corporation and Kevin Twomey, dated as of September 30, 2003*	Exhibit 10.4 to Form 10-Q, Filed on October 7, 2003
10.20	Employment Agreement by and between Rite Aid Corporation and Pierre Legault, dated as of February 2, 2007	Filed herewith
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
21	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	Filed herewith

Exhibit Numbers	Description	Incorporation By Reference To
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 3, 2007 and March 4, 2006, and the related consolidated statements of operations, stockholders’ equity (deficit), and cash flows for each of the three years in the period ended March 3, 2007. 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 3, 2007 and March 4, 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 3, 2007, 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.

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 3, 2007, 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 27, 2007 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 27, 2007

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	March 3, 2007	March 4, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 106,148	$ 76,067
Accounts receivable, net	374,493	354,949
Inventories, net	2,335,679	2,341,410
Prepaid expenses and other current assets	136,668	112,386
Total current assets	2,952,988	2,884,812
Property, plant and equipment, net	1,743,104	1,717,022
Goodwill	656,037	656,037
Other intangibles, net	178,220	193,228
Deferred tax assets	1,380,942	1,392,889
Other assets	179,733	144,383
Total assets	$ 7,091,024	$ 6,988,371
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of convertible notes, long-term debt and lease financing obligations	$ 16,184	$ 584,196
Accounts payable	902,807	862,192
Accrued salaries, wages and other current liabilities	670,934	696,936
Total current liabilities	1,589,925	2,143,324
Long-term debt, less current maturities	2,909,983	2,298,706
Lease financing obligations, less current maturities	174,121	168,544
Other noncurrent liabilities	754,149	770,876
Total liabilities	5,428,178	5,381,450
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 G, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,299 and 1,212	129,917	121,207
Preferred stock—series H, par value $1 per share; liquidation value $100 per share; 2,000 shares authorized; shares issued 1,274 and 1,200	127,385	120,020
Preferred stock—series I, par value $1 per share; liquidation value $25 per share; 5,200 shares authorized; shares issued 4,820	116,415	116,074
Common stock, par value $1 per share; 1,000,000 shares authorized; shares issued and outstanding 536,686 and 527,667	536,686	527,667
Additional paid-in capital	3,118,299	3,114,997
Accumulated deficit	(2,462,197)	(2,489,023)
Accumulated other comprehensive loss	(23,659)	(24,021)
Total stockholders' equity	1,662,846	1,606,921
Total liabilities and stockholders' equity	$ 7,091,024	$ 6,988,371

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 3, 2007	**March 4, 2006**	**February 26, 2005**
Revenues	$17,507,719	$17,270,968	$16,816,439
Costs and expenses:			
Cost of goods sold	12,791,597	12,571,860	12,202,894
Selling, general and administrative expenses	4,370,481	4,307,421	4,127,536
Store closing and impairment charges	49,317	68,692	35,655
Interest expense	275,219	277,017	294,871
Loss on debt modifications and retirements, net	18,662	9,186	19,229
(Gain) loss on sale of assets, net	(11,139)	(6,462)	2,247
	17,494,137	17,227,714	16,682,432
Income before income taxes	13,582	43,254	134,007
Income tax benefit	(13,244)	(1,229,752)	(168,471)
Net income	$ 26,826	$ 1,273,006	$ 302,478
Computation of (loss) income applicable to common stockholders:			
Net income	$ 26,826	$ 1,273,006	$ 302,478
Accretion of redeemable preferred stock	(102)	(102)	(102)
Cumulative preferred stock dividends	(31,455)	(32,723)	(35,226)
Premium to redeem preferred stock	—	(5,883)	(5,650)
(Loss) income applicable to common stockholders	$ (4,731)	$ 1,234,298	$ 261,500
Basic and diluted (loss) income per share:			
Basic (loss) income per share	$ (0.01)	$ 2.36	$ 0.50
Diluted (loss) income per share	$ (0.01)	$ 1.89	$ 0.47

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 3, 2007, March 4, 2006 and February 26, 2005
(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	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Amount			
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
Net income																26,826		26,826
Other comprehensive income:																		
Minimum pension liability																	6,802	6,802
Tax provision from minimum pension liability adjustment																	(2,813)	(2,813)
Comprehensive income																		30,815
Adjustment to initially apply FAS No. 158, net of tax benefit of $2,560 (see Note 15)																	(3,627)	(3,627)
Exchange of restricted shares for taxes													(723)	(723)	(2,421)			(3,144)
Issuance of restricted stock													4,790	4,790	(4,790)			—
Cancellation of restricted stock													(972)	(972)	972			—
Amortization of restricted stock balance															10,702			10,702
Stock-based compensation expense															11,630			11,630
Stock options exercised													5,924	5,924	14,462			20,386
Tax benefit from exercise of stock options															4,202			4,202
Dividends on preferred stock							87	8,710	74	7,365					(16,075)			—
Adjustment to issuance costs of Series I preferred stock												341						341
Cash dividends paid on preferred shares															(15,380)			(15,380)
BALANCE MARCH 3, 2007	—	$ —	2,500	$120,000	—	$ —	1,299	$129,917	1,274	$127,385	4,820	$116,415	536,686	$536,686	$3,118,299	$(2,462,197)	$ (23,659)	$1,662,846

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 3, 2007	**March 4, 2006**	**February 26, 2005**
OPERATING ACTIVITIES:			
Net income	$ 26,826	$ 1,273,006	$ 302,478
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	270,307	249,755	246,742
Store closings and impairment charges	49,317	68,692	35,655
LIFO charges (credits)	43,006	32,188	(18,919)
(Gain) loss on sale of assets and investments, net	(11,139)	(6,462)	2,247
Stock-based compensation expense	22,331	20,261	19,020
Loss on debt modifications and retirements, net	18,662	9,186	19,229
Changes in deferred taxes	(13,362)	(1,211,646)	(179,538)
Tax benefit from the exercise of stock options	—	2,976	5,293
Proceeds from insured loss	593	24,319	—
Changes in operating assets and liabilities:			
Net proceeds from accounts receivable securitization	20,000	180,000	150,000
Accounts receivable	(39,543)	(51,494)	36,549
Inventories	(37,275)	(63,445)	(68,063)
Prepaid expenses and other current assets	1,028	(62,061)	60,301
Other assets	13,427	(13,961)	(11,806)
Income taxes receivable/payable	1,454	(21,263)	30,832
Accounts payable	14,219	71,641	(26,511)
Other liabilities	(70,706)	(84,527)	(85,063)
Net cash provided by operating activities	309,145	417,165	518,446
INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(334,485)	(287,785)	(190,792)
Intangible assets acquired	(29,243)	(53,564)	(31,625)
Expenditures for business acquisition	(18,369)	—	—
Proceeds from sale-leaseback transactions	55,563	77,307	94,151
Proceeds from dispositions of assets and investments	9,348	26,355	9,281
Proceeds from insured loss	4,406	6,603	—
Net cash used in investing activities	(312,780)	(231,084)	(118,985)
FINANCING ACTIVITIES:			
Proceeds from issuance of new bank credit facilities	145,000	—	438,015
Net (payments to) proceeds from revolver	(234,000)	534,000	—
Principal payments on bank credit facilities	—	(448,875)	(1,151,125)
Proceeds from financing secured by owned property	26,527	8,001	—
Proceeds from the issuance of bonds	1,000,000	—	200,000
Principal payments on long-term debt	(901,297)	(377,023)	(82,116)
Change in zero balance cash accounts	15,662	26,393	25,792
Net proceeds from the issuance of common stock	20,386	11,562	3,042
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	(15,380)	(13,089)	(785)
Excess tax deduction on stock options	1,587	—	—
Deferred financing costs paid	(24,769)	(7,156)	(6,542)
Net cash provided by (used in) financing activities	33,716	(272,835)	(571,395)
Increase (decrease) in cash and cash equivalents	30,081	(86,754)	(171,934)
Cash and cash equivalents, beginning of year	76,067	162,821	334,755
Cash and cash equivalents, end of year	$ 106,148	$ 76,067	$ 162,821

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 3, 2007, March 4, 2006 and February 26, 2005

(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 3,333 stores in operation as of March 3, 2007. 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 3, 2007	March 4, 2006	February 26, 2005
Pharmacy sales	$11,102,188	$10,868,291	$10,654,496
Front-end sales	6,320,157	6,317,165	6,087,999
Other revenue	85,374	85,512	73,944
	$17,507,719	$17,270,968	$16,816,439

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 29 or March 1. The fiscal year ended March 3, 2007 included 52 weeks, the fiscal year ended March 4, 2006 included 53 weeks and the fiscal year ended February 26, 2005 included 52 weeks.

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

Approximately 95% of prescription sales are made to customers that are covered by third-party payors, such as insurance companies, government agencies and employers. The Company recognizes 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 3, 2007 and March 4, 2006, inventories were $546,614 and $503,608, 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 $43,006, $32,188 and $(18,919) for fiscal years 2007, 2006, and 2005, 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 2007, 2006 and 2005, the Company capitalized costs of approximately $4,956, $3,563 and $2,991, 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 Statements of Financial Accounting Standards ("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 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 cash discounts from timely payment of invoices, purchase discounts or rebates, 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 2007, 2006 and 2005 were $295,232, $293,545 and $278,949, 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 14. The Company accounts for stock-based compensation under SFAS No. 123(R), "Share-Based Payment", which 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. 123(R) requires companies to recognize option expense over the requisite service period of the award, net of an estimate for the impact of award forfeitures.

The Company adopted SFAS No. 123(R) effective March 5, 2006 using the modified prospective transition method. The Company 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. The adoption of SFAS No. 123(R) did not have a material impact on its financial position and results of operations.

SFAS No. 123(R) also requires the company to reclassify tax benefits realized upon the exercise of stock options in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts are presented as a financing cash inflow rather than as a reduction of income taxes paid in the consolidated statement of cash flows.

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.

Sales Tax Collected

Sales taxes collected from customers and remitted to various governmental agencies are presented on a net basis (excluded from revenues) in the Company's statement of operations.

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 2007, the top five third party payors accounted for approximately 31.2% of the Company's total sales, the largest of which represented 9.4% of total sales. Third party payors are entities such as an insurance company, governmental agency, health maintenance organization or other managed care provider, and typically represent several health care contracts and customers. During fiscal 2007, state sponsored Medicaid agencies accounted for approximately 6.8% of the Company's total sales, the largest of which was less than 2% 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 2007, the Company purchased brand pharmaceuticals and some generic pharmaceuticals which amounted to approximately 94% of the dollar volume of its prescription drugs from a single wholesaler, 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 3, 2007 and March 4, 2006, the Company had no interest rate swap arrangements or other derivatives.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109. The Interpretation establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company's tax returns. A two-step process is prescribed whereby the threshold for recognition is a more-likely-than-not test that the tax position will be sustained upon examination, based on the technical merits of the position, and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation is effective for the 2008 fiscal year and will be applicable to all tax positions upon initial adoption. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may continue to be recognized upon adoptions. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements. The cumulative effect of adopting this interpretation will be recorded as a charge to retained earnings. The Company does not expect that the adoption of FIN 48 will have a material impact on its financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for the 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 statements or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This standard establishes a standard definition for fair value, establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet assessed the impact, if any of adopting SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

The requirement to recognize the funded status of a defined benefit postretirement plan is effective as of the end of the fiscal year ending after December 15, 2006. The Company adopted this requirement and the effects are reflected in its financial position as of March 3, 2007. Further disclosure of the impact of the adoption is contained in Note 15. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for the fiscal years ending after December 15, 2008. The Company has not yet adopted this requirement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 does not effect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not yet assessed the impact, if any of adopting SFAS No. 159.

2. Pending Acquisition

On August 23, 2006, the Company entered into a Stock Purchase Agreement (the "Agreement") with The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group"). Under the terms of the Agreement, the Company will acquire ("the Acquisition") from Jean Coutu Group all of the membership interests of JCG (PJC) USA, LLC ("Jean Coutu USA"), a wholly owned subsidiary of Jean Coutu Group, which is engaged in the business of owning and operating retail pharmacy stores conducting business under the Eckerd and Brooks banners. As consideration for the Acquisition, the Company will issue 250,000 shares of Rite Aid common stock and will pay $2,300,000 in cash, subject to a working capital adjustment. The Company intends to finance the Acquisition through the issuance of new debt.

The shares of Rite Aid common stock issuable to Jean Coutu Group in the Acquisition will represent approximately 30.2% of the total Rite Aid voting power after giving effect to the Acquisition. Upon the closing of the Acquisition, the Company will expand its Board of Directors to 14 members, with four of the seats being held by members designated by Jean Coutu Group. In connection with entering into the Stock Purchase Agreement, on August 23, 2006, the Company entered into a Stockholder Agreement (the "Stockholder Agreement") with Jean Coutu Group and certain Coutu family members that will become effective upon consummation of the Acquisition and will govern, among other matters, Jean Coutu Group's ownership interest in the Company. The Stockholder Agreement contains provisions relating to board and board committee composition, corporate governance, stock ownership, stock purchase rights, transfer restrictions, voting arrangements and other matters. The Company and Jean Coutu Group also entered into a Registration Rights Agreement giving Jean Coutu Group certain rights with respect to the registration under the Securities Act of 1933, as amended, of the shares of Rite Aid common stock to be issued to Jean Coutu Group or acquired by Jean Coutu Group pursuant to certain stock purchase rights or open market purchase rights under the Stockholder Agreement.

The Company and Jean Coutu Group have each made customary representations, warranties and covenants in the Stock Purchase Agreement, including, among others, Jean Coutu Group's covenant to cause Jean Coutu USA and its subsidiaries to conduct their business in the ordinary course between the execution of the Agreement and the closing of the Acquisition and to refrain from certain types of transactions during that period. Consummation of the Acquisition is subject to customary conditions, including, among others: (i) expiration or termination of the applicable antitrust waiting period, (ii) receipt of NYSE listing approval with respect to the shares of Rite Aid common stock to be issued to Jean Coutu

Group, (iii) absence of any law or order prohibiting the consummation of the Acquisition, (iv) no threatened or pending litigation seeking to limit Rite Aid's ownership or operation of Rite Aid's or Jean Coutu USA's assets and (v) subject to certain exceptions, the accuracy of the representations and warranties of the parties. The Company had completed the majority of these items, including obtaining the approval of the acquisition by its shareholders and reaching an agreement with the Federal Trade Commission ("FTC") staff to divest the stores. The agreement with the FTC staff is subject to approval by the Commissioners of the FTC, which the Company expects to obtain. The Company expects to complete the Acquisition by the end of May 2007. As of March 3, 2007, the Company has incurred and capitalized costs of $23,628 directly related to the Acquisition.

3. (Loss) Income Per Share

Basic (loss) income per share is computed by dividing (loss) income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted (loss) 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 3, 2007	March 4, 2006	February 26, 2005
Numerator for (loss) income per share:			
Net income	$ 26,826	$1,273,006	$302,478
Accretion of redeemable preferred stock	(102)	(102)	(102)
Cumulative preferred stock dividends	(31,455)	(32,723)	(35,226)
Premium to redeem preferred stock	—	(5,883)	(5,650)
(Loss) income attributable to common stockholders	$ (4,731)	$1,234,298	$261,500
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	—
(Loss) income attributable to common stockholders—diluted	$ (4,731)	$1,278,840	$299,792
Denominator:			
Basic weighted average shares	524,460	523,938	518,716
Outstanding options, net	—	7,749	12,293
Convertible preferred stock	—	106,517	64,591
Convertible debt	—	38,462	38,462
Diluted weighted average shares	524,460	676,666	634,062
Basic and diluted (loss) income per share:			
Basic (loss) income per share	$ (0.01)	$ 2.36	$ 0.50
Diluted (loss) income per share	$ (0.01)	$ 1.89	$ 0.47

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

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Stock options	54,460	38,427	18,461
Convertible preferred stock	94,291	—	18,883
Convertible notes(1)	38,462	—	—
	187,213	38,427	37,344

(1) Although the 4.75% convertible notes were paid at maturity in December 2006, they are included on this table because the weighted average shares outstanding would have been included in the income per share calculation if the security had been dilutive.

4. Store Closing and Impairment Charges

Store closing and impairment charges consisted of:

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Impairment charges	$31,425	$46,114	$30,014
Store and equipment lease exit charges	17,892	22,578	5,641
	$49,317	$68,692	$35,655

Impairment Charges

In fiscal 2007, 2006, and 2005, store closing and impairment charges included non-cash charges of $31,425, $46,114 and $30,014, respectively, for the impairment of long-lived assets at 342, 414 and 291 stores, respectively. These amounts included 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 Charges

During fiscal 2007, 2006, and 2005, the Company recorded charges for 49, 43 and 13 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 4.40%, 4.70% and 3.90% at March 3, 2007, March 4, 2006, and February 26, 2005, respectively.

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

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Balance—beginning of year	$208,455	$220,903	$254,361
Provision for present value of noncancellable lease payments of stores designated to be closed, net of sub-lease income	14,288	18,482	14,515
Changes in assumptions about future sublease income, terminations and change of interest rate	(4,283)	(4,201)	(14,291)
Reversals of reserves for stores that management has determined will remain open	(812)	(271)	(2,137)
Interest accretion	9,274	8,814	8,188
Cash payments, net of sublease income	(31,717)	(35,272)	(39,733)
Balance—end of year	$195,205	$208,455	$220,903

The Company's revenues and income before income taxes for fiscal 2007, 2006, and 2005 included results from stores that have been closed or are approved for closure as of March 3, 2007. The revenue and operating losses of these stores for the periods are presented as follows:

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Revenues	$70,760	$151,977	$157,860
(Loss) income from operations	(8,374)	(3,386)	156

Included in loss from operations for fiscal 2007, 2006, and 2005 are depreciation and amortization charges of $470, $1,134 and $1,431, respectively, and closed store inventory liquidation charges of $5,415, $2,396 and $0 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.

5. 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 3, 2007 and March 4, 2006 was $30,246 and $32,336, 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 3, 2007 and March 4, 2006, the total of outstanding receivables that have been transferred to the CPVs were $350,000 and $330,000, respectively. The average amount of outstanding receivables transferred during fiscal 2007, 2006 and 2005 was $334,588, $243,639 and $263,312, respectively. Total receivable transfers for fiscal 2007, 2006 and 2005 totaled approximately $4,674,000, $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 2007, 2006 and 2005 totaled approximately $4,654,000, $3,536,000 and $1,747,000, respectively. At March 3, 2007 and March 4, 2006, the Company retained an interest in the third party pharmaceutical receivables not transferred to the CPVs of $255,057 and $248,274, respectively, inclusive 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 2007, 2006 and 2005 were $21,885, $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 2007 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 3, 2007 and March 4, 2006, the Company had $3,000 and $2,219 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 Extinguishment 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.

6. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at March 3, 2007 and March 4, 2006:

	2007	2006
Land	$ 190,859	$ 186,665
Buildings	616,907	604,201
Leasehold improvements	1,199,043	1,174,883
Equipment	1,611,947	1,488,184
Construction in progress	100,762	70,046
	3,719,518	3,523,979
Accumulated depreciation	(1,976,414)	(1,806,957)
Property, plant and equipment, net	$ 1,743,104	$ 1,717,022

Depreciation expense, which included the depreciation of assets recorded under capital leases, was $230,168 in fiscal 2007, $217,160 in fiscal 2006 and $219,641 in fiscal 2005.

Included in property, plant and equipment was the carrying amount of assets to be disposed of totaling $19,269 and $15,638 at March 3, 2007 and March 4, 2006.

7. Goodwill and Other Intangibles

The Company accounts for goodwill under the guidance set forth in SFAS No. 142, which specifies that all goodwill and indefinite life intangibles shall not be amortized. Goodwill must be allocated to reporting units and evaluated for impairment on an annual basis. The Company has completed its annual impairment evaluation for the year ended March 3, 2007, and concluded that there is no goodwill impairment loss to be recognized. As of March 3, 2007 and March 4, 2006 the Company had goodwill of $656,037 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 3, 2007 and March 4, 2006.

	2007			2006		
	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Remaining Weighted Average Amortization Period
Favorable leases and other	$297,679	$(199,414)	10 years	$306,665	$(195,669)	11 years
Prescription files	428,282	(348,326)	3 years	408,519	(326,287)	4 years
Total	$725,961	$(547,740)		$715,184	$(521,956)	

Amortization expense for these intangible assets was $40,139, $32,595 and $27,101 for fiscal 2007, 2006 and 2005, respectively. The anticipated annual amortization expense for these intangible assets is 2008—$37,713; 2009—$33,619; 2010—$27,445; 2011—$18,515 and 2012—$8,487.

8. Accrued Salaries, Wages and Other Current Liabilities

Accrued salaries, wages and other current liabilities consisted of the following at March 3, 2007 and March 4, 2006:

	2007	2006
Accrued wages, benefits and other personnel costs	$270,539	$285,233
Accrued self insurance liability, current portion	68,395	74,684
Accrued sales and other taxes payable	50,904	41,107
Accrued interest	25,054	38,503
Accrued lease exit costs, current portion	28,645	28,883
Deferred vendor income, current portion	19,113	25,062
Accrued store expense	21,833	28,529
Accrued rent and other occupancy costs	24,771	23,937
Accrued real estate and personal property taxes	20,728	21,440
Accrued legal and other professional fees	14,576	10,442
Other	126,376	119,116
	$670,934	$696,936

9. Income Taxes

The provision for income taxes was as follows:

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Current tax expense (benefit)			
Federal	$ 3,771	$ (6,621)	$ 1,405
State	(3,585)	(17,424)	14,092
	186	(24,045)	15,497
Deferred tax expense (benefit):			
Federal	14,421	(1,088,507)	(176,031)
State	(27,851)	(117,200)	(7,937)
	(13,430)	(1,205,707)	(183,968)
Total income tax benefit	$(13,244)	$(1,229,752)	$(168,471)

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

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Expected federal statutory expense at 35%	$ 4,753	$ 15,139	$ 46,903
Nondeductible expenses	3,460	2,568	3,073
State income taxes, net	(24,140)	3,155	4,001
Recoverable tax and reduction of previously recorded liabilities	(5,376)	(19,527)	—
Credits generated	(1,022)	—	—
Valuation allowance	9,081	(1,231,087)	(222,448)
Total income tax benefit	$(13,244)	$(1,229,752)	$(168,471)

The income tax benefit for fiscal 2007 included a state tax benefit of $24,140 which primarily related to an increase in the Company's state tax rate applied to the net deferred tax assets.

The income tax benefit for fiscal 2006 included $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 tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at March 3, 2007 and March 4, 2006:

	2007	2006
Deferred tax assets:		
Accounts receivable	$ 17,469	$ 17,483
Accrued expenses	170,293	169,952
Liability for lease exit costs	92,136	92,215
Pension, retirement and other benefits	111,126	106,168
Investment	13,927	18,892
Long-lived assets	255,326	224,638
Credits	71,727	68,564
Net operating losses	1,022,015	1,083,522
Total gross deferred tax assets	1,754,019	1,781,434
Valuation allowance	(239,836)	(259,602)
Total deferred tax assets	1,514,183	1,521,832
Deferred tax liabilities:		
Inventory	97,657	119,251
Other	3,558	3,229
Total gross deferred tax liabilities	101,215	122,480
Net deferred tax assets	$1,412,968	$1,399,352

Prior year's classifications in the above table were reclassed during fiscal 2007 to conform to current year presentation. The Company continues to be examined by taxing authorities and management believes there are adequate reserves for remaining federal and state income taxes.

Net Operating Losses, Capital Losses and Tax Credits

At March 3, 2007, the Company had federal net operating loss (NOL) carryforwards of approximately $2,239,000, the majority of which will expire, if not utilized, 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 3, 2007, the Company had state NOL carryforwards of approximately $3,093,000, the majority of which will expire between fiscal 2015 and 2022.

At March 3, 2007, the Company had a capital loss carryforward of $237,576 which will expire, if not offset by future capital gains, by fiscal 2008.

At March 3, 2007, the Company had federal business tax credit carryforwards of $52,662, the majority of which will expire between 2013 and 2020. In addition to these credits, the Company has alternative minimum tax credit carryforwards of $10,078.

Valuation Allowances

The valuation allowances as of March 3, 2007 and March 4, 2006 apply to the net deferred tax assets of the Company. The fiscal 2007 net decrease in the valuation allowance resulted primarily from the expiration of capital loss and state net operating loss carryforwards which had been fully reserved as of the beginning of the fiscal year. 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 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. An additional reduction in the valuation allowance of $1,847 was recorded as additional paid-in capital in fiscal 2006 to reflect the tax benefit associated with previously recorded stock based compensation. The Company maintained a valuation allowance of $239,836 and $259,602 against net deferred tax assets at fiscal year end 2007 and 2006, respectively, which related primarily to state net operating loss carryforwards and capital loss carryforwards.

10. Indebtedness and Credit Agreement

Following is a summary of indebtedness and lease financing obligations at March 3, 2007 and March 4, 2006:

	March 3, 2007	March 4, 2006
Secured Debt:		
Senior secured revolving credit facility due September 2010	$ 300,000	$ 534,000
Senior secured credit facility term loan due September 2010	145,000	—
12.5% senior secured notes due September 2006	—	140,985
8.125% senior secured notes due May 2010 ($360,000 face value less unamortized discount of $2,167 and $2,834)	357,833	357,166
9.5% senior secured notes due February 2011	—	300,000
7.5% senior secured notes due January 2015	200,000	200,000
7.5% senior secured notes due March 2017	500,000	—
Other	1,521	1,962
	1,504,354	1,534,113
Lease Financing Obligations	189,662	178,227
Unsecured Debt:		
4.75% convertible notes due December 2006	—	249,000
7.125% notes due January 2007	—	184,074
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 $1,501 and $1,741)	148,499	148,259
6.875% senior debentures due August 2013	184,773	184,773
8.625% senior notes due March 2015	500,000	—
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	1,406,272	1,339,106
Total debt	3,100,288	3,051,446
Current maturities of convertible notes, long-term debt and lease financing obligations	(16,184)	(584,196)
Long-term debt and lease financing obligations, less current maturities	$3,084,104	$2,467,250

2007 Transactions:

In November 2006, the Company entered into an amendment of its senior secured credit facility to permit the financing of the Acquisition. Pursuant to the terms of the senior secured credit facility amendment, the Company established a senior secured term loan facility in the aggregate principal amount of $145,000 and borrowed the full amount thereunder. Proceeds from the borrowings under the new senior secured term loan facility (the “Tranche 1 Term Loans”) were used to pay amounts outstanding under the revolving credit facility, which had been used to repay, at maturity, the outstanding principal and accrued interest payable under the Company’s 12.5% senior secured notes due September 2006.

The Tranche 1 Term Loans 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 availability under the Company's revolving credit facility, as specified in the senior secured credit facility. The amounts outstanding under the Tranche 1 Term Loans become due and payable in September 2010, or earlier, if there is a shortfall in the Company's borrowing base under its revolving credit facility.

In addition to the issuance of the Tranche 1 Term Loans, the lenders to the senior secured credit facility agreed to establish, in connection with the Acquisition, an additional senior secured term loan facility in an aggregate principal amount of $1,105,000 (the "Tranche 2 Term Loans"). The Company expects to draw the full amount of the Tranche 2 Term Loans upon the closing of the Acquisition and to use the proceeds to pay a portion of the consideration for the Acquisition.

In addition to the Tranche 1 Term Loans described above, the senior secured credit facility consists of a $1,750,000 revolving credit facility. Borrowings under the revolving 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 upon the amount of the revolver availability, as specified in the senior secured credit facility. The Company is required to pay fees of 0.25% per annum on the daily unused amount of the revolving credit facility. The amounts drawn on the revolving credit facility become due and payable in September 2010.

The senior secured credit facility allows the Company to have outstanding, at any time, up to $1,800,000 in secured subordinated debt in addition to the senior secured credit facility (which amount is reduced by any additional unsecured debt that matures prior to December 31, 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 second priority debt and unsecured debt with a maturity prior to December 31, 2010 that can be incurred is $1,800,000. At March 3, 2007, remaining additional permitted secured second priority debt under the senior secured credit facility was $740,000 in addition to what is available under the revolving credit facility; however, other debentures do not permit additional secured debt if the revolver is fully drawn. The amendment of the senior secured credit facility that will occur at the closing of the Acquisition will permit the incurrence of the Tranche 1 and Tranche 2 Term Loans discussed above without reducing the Company's ability to incur additional secured or unsecured debt under the senior secured credit facility. The 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 senior secured facility also allows for the repurchase of any debt with a maturity on or before December 2010, and for the repurchase of debt with a maturity after December 2010, if the Company maintains availability on the revolving credit facility of at least $100,000.

The senior secured credit facility contains covenants, which place restrictions on the incurrence of debt beyond the restrictions described above, the payments of dividends, mergers and acquisitions and the granting of liens. The 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 senior secured credit facility provides for events of default including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if the Company fails to make any required payment on debt having a principal amount in excess of $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 revolving credit facility is based upon a specified borrowing base consisting of inventory and prescription files. At March 3, 2007, the Company had $300,000 of borrowings outstanding under the revolving credit facility. The Company also had letters of credit outstanding against the revolving credit facility of $117,138, which gave the Company additional borrowing capacity of $1,332,862.

Other Transactions

In February 2007, the Company issued $500,000 aggregate principal amount of 7.5% senior secured notes due 2017. These notes are unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. The Company's obligations under the notes are guaranteed, subject to certain limitations, by subsidiaries that guarantee the obligations under its senior secured credit facility. The guarantees are secured, subject to the permitted liens, by shared second priority liens, with holders of our 8.125% senior secured notes due 2010 and our 7.5% senior secured notes due 2015, 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 7.5% senior secured notes due 2017 contains 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. Proceeds from this offering were used to repay outstanding borrowings on the Company's revolving credit facility and to fund the redemption of the Company's 9.5% senior secured notes due 2011, by deposit into an escrow fund with an independent trustee. Per the terms of the indenture that governed the 9.5% senior secured notes due 2011, the Company paid a premium to the noteholders of 104.75% of par. The Company recorded a loss on debt modification of $18,662 related to the early redemption of the 9.5% senior secured notes due 2011, which included the call premium and unamortized debt issue costs on the notes.

In February 2007, the Company issued $500,000 aggregate principal amount of 8.625% senior notes due 2015. These notes are unsecured. The indenture governing the 8.625% senior notes due 2015 contains 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. The 8.625% senior notes due 2015 do not have the benefit of subsidiary guarantees. Proceeds from the issuance of the notes were used to repay borrowings under the Company's revolving credit facility.

In January 2007, the Company paid at maturity the remaining outstanding principal amount of $184,074 of the Company's 7.125% notes due January 2007. This payment was funded with borrowings under the revolving credit facility.

In December 2006, the Company paid at maturity the remaining outstanding principal amount of $250,000 of its 4.75% convertible notes due December 2006. This payment was funded with borrowings under the revolving credit facility.

In September 2006, the Company completed the early redemption of all of its outstanding $142,025 of its 12.5% senior secured notes due September 2006. This payment was funded with borrowing under the revolving credit facility, which were subsequently repaid with borrowings of the Tranche 1 term loans.

2006 Transactions:

Credit Facility

On September 30, 2005, the Company amended its senior secured credit facility. The amended senior credit facility consisted solely of a $1,750,000 revolving credit facility and had a maturity date of September 2010.

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 other 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.

Other:

The Company has outstanding letters of credit of $117,138 at March 3, 2007 and $115,703 at March 4, 2006.

The annual weighted average interest rate on the Company's indebtedness was 7.6%, 7.4%, and 7.0% for fiscal 2007, 2006, and 2005, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2008—$643; 2009—$150,322; 2010—$122; 2011—$802,930 and $1,956,610 in 2012 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 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 senior credit facility. Rite Aid Corporation's direct obligations under the senior credit facility are unsecured. The 8.125% senior secured notes due 2010, the 7.5% senior secured notes due 2015 and the 7.5% senior secured notes due 2017 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 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.

11. Leases

The Company leases most of its retail stores and certain distribution facilities under noncancellable operating and capital leases, most of which have initial lease terms ranging from five to 22 years. The Company also leases certain of its equipment and other assets under noncancellable operating leases with initial terms ranging from 3 to 10 years. In addition to minimum rental payments, certain store leases require additional payments based on sales volume, as well as reimbursements for taxes, maintenance and insurance. Most leases contain renewal options, certain of which involve rent increases. Total rental expense, net of sublease income of $7,725, $7,534, and $7,499, was $586,776, $569,269 and $555,940 in fiscal 2007, 2006, and 2005, respectively. These amounts include contingent rentals of $30,786, $31,345 and $33,051 in fiscal 2007, 2006, and 2005, respectively.

During fiscal 2007, the Company sold 29 properties to several independent third parties. Proceeds from these sales totaled $82,090. The Company entered into agreements to lease these stores back from the purchasers over minimum lease terms of 20 years. Twenty-four leases are being accounted for as operating leases and five are being accounted for under the financing method as of March 3, 2007, as these lease agreements contain a clause that allows the buyer to force the Company to repurchase the property under certain conditions. Gains on these transactions of $4,562 have been deferred and are being recorded over the related minimum lease terms. Losses of $477, which relate to certain stores in these transactions, were recorded as losses on the sale of assets and investments for the year ended March 3, 2007.

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 were accounted for as operating leases. Gains on these transactions of $14,500 were deferred and were recorded over the related minimum lease terms. Losses of $3,151, which related to certain stores ini these transactions, were recorded as losses on the sale of assets and investments for the year ended February 26, 2005.

The net book values of assets under capital leases and sale-leasebacks accounted for under the financing method at March 3, 2007 and March 4, 2006 are summarized as follows:

	2007	2006
Land	$ 7,670	$ 6,617
Buildings	181,433	175,027
Leasehold improvements	6,238	1,748
Equipment	17,263	11,353
Accumulated depreciation	(79,316)	(68,373)
	$133,288	$126,372

Following is a summary of lease finance obligations at March 3, 2007 and March 4, 2006:

	2007	2006
Obligations under capital leases	$169,375	$170,838
Sale-leaseback obligations	20,286	7,388
Less current obligation	(15,540)	(9,682)
Long-term lease finance obligations	$174,121	$168,544

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 3, 2007:

Fiscal year	Lease Financing Obligations	Operating Leases
2008	31,281	600,243
2009	24,100	603,842
2010	23,536	577,435
2011	23,511	545,386
2012	23,415	511,551
Later years	176,720	4,155,633
Total minimum lease payments	302,563	6,994,090
Amount representing interest	(112,901)	
Present value of minimum lease payments	189,662	

12. Redeemable Preferred Stock

In March 1999 and February 1999, Rite Aid Lease Management Company, a wholly owned subsidiary of the Company, issued 63,000 and 150,000 shares of Cumulative Preferred Stock, Class A, par value $100 per share, respectively. The Class A Cumulative Preferred Stock is mandatorily redeemable on April 1, 2019 at a redemption price of $100 per share plus accumulated and unpaid dividends. The Class A Cumulative Preferred Stock pays dividends quarterly at a rate of 7.0% per annum of the par value of $100 per share when, as and if declared by the Board of Directors of Rite Aid Lease Management Company in its sole discretion. The amount of dividends payable in respect of the Class A Cumulative Preferred Stock may be adjusted under certain events. The outstanding shares of the Class A Preferred Stock were recorded at their estimated fair value of $19,253 for the fiscal 2000 issuances, which equaled the sale price on the date of issuance. Because the fair value of the Class A Preferred Stock was less than the mandatory redemption amount at issuance, periodic accretions to stockholders' equity using the interest method are made so that the carrying amount equals the redemption amount on the mandatory redemption date. Accretion was $102 in fiscal 2007, 2006 and 2005. The amount of this instrument is $20,072 and $19,970 and is recorded in Other Non-Current Liabilities as of March 3, 2007 and March 4, 2006, respectively.

13. Capital Stock

As of March 3, 2007, 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.

On January 18, 2007, the Company's Stockholders approved an amendment to the Restated Certificate of Incorporation to increase the authorized shares of common stock to 1,500,000. This increase in authorized shares is contingent upon and effective on the closing date of the acquisition of Jean Coutu USA, as discussed in Note 2.

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 closing price per share of the Company's common stock exceeds $8.04 for at least 20 trading days within a period of 40 consecutive trading days.

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 was redeemed in the year ended March 4, 2006, in connection with the issuance of Series I preferred stock previously described. 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 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.

14. Stock Option and Stock Award Plans

As disclosed in Note 1, effective March 5, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment" using the modified prospective transition method. Expense is recognized over the requisite service period of the award, net of an estimate for the impact of forfeitures. Operating results for fiscal 2007, 2006 and 2005 include $22,331, $20,261, and $19,020 of compensation costs related to the Company's stock-based compensation arrangements.

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.

In January 2007, the stockholders of Rite Aid Corporation approved the adoption of the Rite Aid Corporation 2006 Omnibus Equity Plan. Under the plan, 50,000 shares of Rite Aid common stock are available for granting of restricted stock, stock options, phantom stock, stock bonus awards and other equity based awards at the discretion of the Board of Directors. The adoption of the 2006 Omnibus Equity Plan will become effective upon the closing of the pending acquisition.

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 113,591 as of March 3, 2007.

The Company has issued 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. As of March 3, 2007, 6,563 of these options remain outstanding.

Stock Options

The Company determines the fair value of stock options issued on the date of grant using the Black-Scholes-Merton option-pricing model. The following assumptions were used for options granted in fiscal 2007, 2006 and 2005:

	2007	2006	2005
Expected stock price volatility	56%	59%	72%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	4.99%	4.04%	3.27%
Expected option life	5.5 years	4.0 years	4.0 years

The weighted average fair value of options granted during fiscal 2007, 2006, and 2005 was $2.47, $1.99, and $2.92, respectively.

Following is a summary of stock option transactions for the fiscal years ended March 3, 2007, March 4, 2006, and February 26, 2005:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at February 28, 2004	61,995	$4.72		
Granted	6,220	5.22		
Exercised	(1,105)	2.78		
Cancelled	(2,179)	5.50		
Outstanding at February 26, 2005	64,931	4.78		
Granted	7,678	4.05		
Exercised	(4,206)	2.75		
Cancelled	(5,685)	5.93		
Outstanding at March 4, 2006	62,718	4.72		
Granted	6,793	4.43		
Exercised	(5,916)	3.44		
Cancelled	(2,999)	9.05		
Outstanding at March 3, 2007	60,596	4.60	5.32	$112,696
Vested or expected to vest at March 3, 2007	56,293	4.60	5.11	$107,389
Exercisable at March 3, 2007	46,268	4.65	4.34	$ 93,150

As of March 3, 2007, there was $22,728 of total unrecognized pre-tax compensation costs related to unvested stock options, net of forfeitures. These costs are expected to be recognized over a weighted average period of 2.47 years.

Cash received from stock option exercises for fiscal 2007, 2006, and 2005 was $20,386, $11,562, and $3,042, respectively. The income tax benefits from stock option exercises totaled $4,202, $2,976, and $5,293 for fiscal 2007, 2006 and 2005, respectively. The total intrinsic value of stock options exercised for fiscal 2007, 2006, and 2005 was $12,346, $5,229, and $2,718, 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 647 shares awarded to certain senior executives is conditional upon the Company meeting specified performance targets. Following is a summary of restricted stock transactions for the fiscal years ended March 3, 2007, March 4, 2006, and February 26, 2005:

	Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2004	206	$5.77
Granted	6,232	4.65
Vested	(83)	6.25
Cancelled	(1,884)	5.37
Balance at February 26, 2005	4,471	4.37
Granted	4,546	4.05
Vested	(905)	3.92
Cancelled	(2,377)	4.83
Balance at March 4, 2006	5,735	4.00
Granted	5,139	4.37
Vested	(1,899)	4.02
Cancelled	(973)	4.18
Balance at March 3, 2007	8,002	$4.21

Compensation expense related to all restricted stock grants is being recorded over a three year vesting period of these grants. At March 3, 2007, there was $21,027 of total unrecognized pre-tax compensation costs related to unvested restricted stock grants, net of forfeitures. These costs are expected to be recognized over a weighted average period of 1.88 years.

The total fair value of restricted stock vested during fiscal years 2007, 2006, and 2005 was $7,632, $3,548, and $521, respectively.

15. Retirement Plans

Defined Contribution Plans

The Company and its subsidiaries sponsor several retirement plans that are primarily 401(k) defined contribution plans covering 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. Going forward, the Company's contribution to the principal 401(k) plan will continue to be based on the plan's provisions. Per those provisions, the Company matches 100% of a participant's pretax payroll contributions, up to a maximum of 3% of such participant's pretax annual compensation. Thereafter, the Company will match 50% of the participant's additional pretax payroll contributions, up to a maximum of 2% of such participant's additional pretax annual compensation. Total expenses recognized for the above plans was $34,524 in fiscal 2007, $32,633 in fiscal 2006 and $30,358 in fiscal 2005.

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 immediately. The Company makes investments to fund these 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 expense recognized for these plans was $7,294 in fiscal 2007, $4,862 in fiscal 2006, and $5,170 in fiscal 2005.

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 $10,700 in fiscal 2007, $8,100 in fiscal 2006, and $0 in fiscal 2005.

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 average of the three highest annual base salaries 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.

On March 3, 2007, the last day of the fiscal year, the Company adopted certain provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88. 106 and 132(R)". This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on the balance sheet and to recognize changes in the funded status in the year in which the changes occur through other comprehensive income.

The initial incremental recognition of the funded status under SFAS No. 158 is recognized as an adjustment to accumulated other comprehensive loss as of March 3, 2007. The cumulative effect of adopting the provisions of SFAS No. 158 as of March 3, 2007 was not material to the consolidated financial statements. Subsequent changes in the funded status that are not included in net periodic benefit cost will be reflected as a component of other comprehensive loss.

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

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2007	2006	2005	2007	2006	2005
Service cost	$ 3,231	$ 3,142	$ 2,843	$ 83	$ 77	$ 71
Interest cost	5,208	5,075	4,844	1,094	1,163	1,241
Expected return on plan assets	(4,193)	(3,788)	(2,687)	—	—	—
Amortization of unrecognized net transition obligation	—	—	—	87	87	87
Amortization of unrecognized prior service cost	728	831	669	—	—	—
Amortization of unrecognized net loss	1,681	1,732	1,862	776	238	387
Net pension expense	$ 6,655	$ 6,992	$ 7,531	$2,040	$1,565	$1,786

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 3, 2007 and March 4, 2006:

	Defined Benefit Pension Plan		Nonqualified Executive Retirement Plan	
	2007	2006	2007	2006
Change in benefit obligations:				
Benefit obligation at end of prior year	$ 96,402	$ 89,173	$ 21,018	$ 21,456
Service cost	3,231	3,142	83	77
Interest cost	5,207	5,075	1,094	1,163
Distributions	(5,906)	(5,867)	(1,651)	(1,934)
Change due to change in assumptions	(3,523)	3,994	(156)	254
Change due to plan amendment	2,618	85	—	—
Actuarial loss	651	800	765	2
Benefit obligation at end of year	$ 98,680	$ 96,402	$ 21,153	$ 21,018
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 72,647	$ 63,650	$ —	$ —
Employer contributions	10,700	11,490	1,651	1,934
Actual return on plan assets	7,791	5,022	—	—
Distributions (including expenses paid by the plan)	(7,255)	(7,515)	(1,651)	(1,934)
Fair value of plan assets at end of year	$ 83,883	$ 72,647	$ —	$ —
Funded status	$(14,797)	$(23,755)	$(21,153)	$(21,018)
Unrecognized net actuarial loss	—	24,451	—	1,830
Unrecognized prior service cost	—	3,525	—	—
Unrecognized net transition obligation	—	—	—	173
Net amount recognized	$(14,797)	$ 4,221	$(21,153)	$(19,015)
Amounts recognized in consolidated balance sheets consisted of:				
Prepaid pension cost	$ —	$ 4,221	$ —	$ —
Accrued pension liability	(14,797)	(27,343)	(21,153)	(20,800)
Pension intangible asset	—	3,525	—	173
Minimum pension liability included in accumulated other comprehensive income	—	23,818	—	1,612
Net amount recognized	$(14,797)	$ 4,221	$(21,153)	$(19,015)
Amounts recognized in accumulated other comprehensive loss consist of:				
Net actuarial loss	$(17,648)	$ —	$ (1,663)	$ —
Prior service cost	(5,415)	—	—	—
Net transition obligation	—	—	(87)	—
Amount recognized	$(23,063)	$ —	$ (1,750)	$ —

The estimated net actuarial loss, prior service cost and net transition obligation amounts that will be amortized from accumulated other comprehensive loss into net periodic pension expense in fiscal 2008 are $1,036, $997, and $87, respectively.

The accumulated benefit obligation for the defined benefit pension plan was $98,083 and $95,769 as of March 3, 2007 and March 4, 2006, respectively. The accumulated benefit obligation for the nonqualified executive retirement plan was $21,066 and $20,799 as of March 3, 2007 and March 4, 2006, respectively.

The significant actuarial assumptions used for all defined benefit plans to determine the benefit obligation as of March 3, 2007, March 4, 2006, and February 26, 2005 were as follows:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2007	2006	2005	2007	2006	2005
Discount rate	5.75%	5.50%	5.75%	5.75%	5.50%	5.75%
Rate of increase in future compensation levels	5.00	5.00	4.50	3.00	3.00	3.00

Weighted average assumptions used to determine net cost for the fiscal years ended March 3, 2007, March 4, 2006 and February 26, 2005 were:

	Defined Benefit Pension Plan			Nonqualified Executive Retirement Plan		
	2007	2006	2005	2007	2006	2005
Discount rate	5.50%	5.75%	6.00%	5.50%	5.75%	6.00%
Rate of increase in future compensation levels	5.00	5.00	4.50	3.00	3.00	3.00
Expected long-term rate of return on plan assets	7.75	7.75	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 2007 and 2006 and the 8.00% long-term rate of return on plan assets assumption for fiscal 2005.

The Company's pension plan asset allocations at March 3, 2007 and March 4, 2006 by asset category were as follows:

	March 3, 2007	March 4, 2006
Equity securities	60%	62%
Fixed income securities	40%	38%
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 $10,100 to the Defined Benefit Pension Plan and $2,412 to the nonqualified executive retirement plan during fiscal 2008.

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
2008	$ 4,841	$ 2,412
2009	5,082	2,396
2010	5,337	2,087
2011	5,623	1,738
2012	5,725	1,777
2013-2017	32,750	8,775
Total	$59,358	$19,185

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 $13,326 in fiscal 2007, $11,642 in fiscal 2006 and $11,750 in fiscal 2005.

16. Commitments, Contingencies and Guarantees

Legal Proceedings

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 90 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 $181,175 as of March 3, 2007. The obligations are for varying terms dependent upon the respective lease, the longest of which lasts through January 1, 2021.

In the opinion of management, the ultimate disposition of these guarantees will not have a material effect on the Company's results of operations, financial position or cash flows.

17. Supplementary Cash Flow Data

	Year Ended		
	March 3, 2007	March 4, 2006	February 26, 2005
Cash paid for interest (net of capitalized amounts of $1,474, $934 and $250	$267,807	$260,224	$274,964
Cash refunds from income taxes	$ (2,676)	$ (2,829)	$ (24,557)
Equipment financed under capital leases	$ 9,387	$ 12,173	$ 12,349
Equipment received for noncash consideration	$ 3,471	$ 1,506	$ 1,439
Preferred stock dividends paid in additional shares	$ 16,075	$ 19,634	$ 34,441
Exchange of preferred shares	$ —	$ —	$348,243
Reduction in lease financing obligation	$ 13,629	$ 3,028	$ —

18. Related Party Transactions

There were receivables from related parties of $428 and $1,439 at March 3, 2007 and March 4, 2006, respectively.

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 13.

During fiscal 2005, the Company redeemed 1,040 shares of the Company's Series D preferred stock, which is held by Green Equity Investors, III, L.P. The remaining 3,483 shares of Series D preferred stock were exchanged for Series F, G, and H preferred stock, which are also held by Green Equity Investors, III, L.P. The Series F, G, and H preferred stock have substantially the same terms as the Series D preferred stock, except for differences in dividend rates and redemption features, as discussed further in Note 13.

During fiscal 2007, 2006 and 2005, the Company paid Leonard Green & Partners, L.P., fees of $275, $300 and $875 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 month-to-month agreement with Leonard Green & Partners, L.P., as amended whereby the Company has agreed to pay Leonard Green & Partners, L.P., a monthly fee of $25, paid in arrears, for its consulting services. The consulting agreement also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green & Partners, L.P.

19. Interim Financial Results (Unaudited)

	Fiscal Year 2007				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	$4,337,086	$ 4,288,356	$4,320,208	$4,562,069	$17,507,719
Cost of goods sold	3,153,086	3,137,321	3,166,165	3,335,025	12,791,597
Selling, general and administrative expenses	1,085,597	1,082,102	1,079,509	1,123,273	4,370,481
Store closing and impairment charges	12,588	6,446	5,119	25,164	49,317
Interest expense	69,334	68,185	68,184	69,516	275,219
Loss on debt modifications and retirements, net	—	—	—	18,662	18,662
Loss (gain) on sale of assets and investments, net	791	(2,146)	(48)	(9,736)	(11,139)
	4,321,396	4,291,908	4,318,929	4,561,904	17,494,137
Income (loss) before income taxes	15,690	(3,552)	1,279	165	13,582
Income tax expense (benefit)	4,735	(3,222)	175	(14,932)	(13,244)
Net income (loss)	$ 10,955	$ (330)	$ 1,104	$ 15,097	$ 26,826
Basic income (loss) per share(1)	$ 0.01	$ (0.02)	$ (0.01)	$ 0.01	$ (0.01)
Diluted income (loss) per share(1)	$ 0.01	$ (0.02)	$ (0.01)	$ 0.01	$ (0.01)

	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

(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.

During the fourth quarter of fiscal 2007, the Company recorded a loss on debt modification of $18,662 related to the early redemption of its 9.5% notes due 2011. The Company recorded $25,164 in store closing and impairment charges. The Company recorded a total gain of $17,589 related to the settlement of its claim for Hurricane Katrina with various insurance carriers.

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.

20. Financial Instruments

The carrying amounts and fair values of financial instruments at March 3, 2007 and March 4, 2006 are listed as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate indebtedness	$ 445,000	$ 445,000	$ 534,000	$ 534,000
Fixed rate indebtedness	$2,465,627	$2,353,634	$2,339,219	$2,233,048

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.

21. 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 a result of this disaster, the Company had to close 14 stores, which resulted in lost inventory and fixed assets. The Company also incurred repair and maintenance charges related to its clean-up efforts. The Company received advance payments from its insurance carriers of $30,922 in fiscal 2006. These payments, less the amounts of inventory and fixed assets written off and other Katrina related costs incurred, were deferred at the end of fiscal 2006.

In February 2007, the Company entered into a final binding settlement of its claims under Hurricane Katrina with its insurance carriers. As a result of this settlement, the Company recorded a gain in fiscal 2007 of $17,589. The portion of this gain related to reimbursement for lost and damaged fixed assets was $9,442 and was recorded as a gain on sale of assets and investments. The portion relating to reimbursement for lost or damaged inventory was $2,169 and was recorded as a reduction of costs of goods sold. The portion of this gain related to repair and maintenance and other clean-up charges was $5,977 and was recorded as a reduction of SG&A.

RITE AID CORPORATION AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended March 3, 2007, March 4, 2006 and February 26, 2005

(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 3, 2007	$32,336	$26,603	$28,693	$30,246
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

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 27, 2007

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 27, 2007.

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
/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

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Exhibit 31.1

CERTIFICATIONS

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 27, 2007

By: /s/ MARY F. SAMMONS
Mary F. Sammons
President and Chief Executive Officer

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Exhibit 31.2

CERTIFICATIONS

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 27, 2007

By: /s/ KEVIN TWOMEY
Kevin Twomey
Executive Vice President and Chief Financial Officer

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Exhibit 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

In connection with the Annual Report on Form 10-K of Rite Aid Corporation (the "Company") for the annual period ended March 3, 2007 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 27, 2007

/s/ KEVIN TWOMEY

Name: Kevin Twomey
Title: Executive Vice President and Chief Financial Officer
Date: April 27, 2007

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