

RITE AID CORP  
Form 424B2  
January 27, 2005  
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Prospectus Supplement  
(To the prospectus dated January 14, 2005)

2,300,000 HiMEDS<sup>SM</sup>

7.0% Series E Mandatory Convertible Preferred Stock

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We are offering 2,300,000 shares of our HiMEDS<sup>SM</sup> by this prospectus supplement and the accompanying prospectus. We will receive all of the net proceeds from the sale of these shares of our HiMEDS<sup>SM</sup>.

We will pay annual dividends on each share of our HiMEDS<sup>SM</sup> in the amount of \$3.50. Dividends will be cumulative from the date of issuance and payable to the extent that assets are legally available to pay dividends and our board of directors or an authorized committee of our board declares a dividend payable. We may pay dividends in cash, shares of our common stock, or any combination of cash and common stock, in our sole discretion, after every quarter. Shares of our common stock used to pay dividends will be delivered to the transfer agent to be sold, resulting in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. The first dividend payment, if declared, will be made on May 2, 2005.

On February 1, 2008, each share of our HiMEDS<sup>SM</sup> will automatically convert, subject to the adjustments described in this prospectus supplement, into no fewer than 9.3284 shares of our common stock, depending on the then-prevailing market price of our common stock. At any time prior to February 1, 2008, holders may elect to convert each share of their HiMEDS<sup>SM</sup>, subject to the adjustments described in this prospectus supplement, into 9.3284 shares of our common stock. If the closing price per share of our common stock exceeds \$8.04 for at least 20 trading days within a period of 40 consecutive trading days, we may elect, subject to certain limitations described in the prospectus supplement, to cause the conversion, subject to the adjustments described in this prospectus supplement, of all, but not less than all, of the shares of HiMEDS<sup>SM</sup> into shares of our common stock, depending on the the then-prevailing market price of our common stock, plus an amount equal to all accumulated and unpaid dividends and a "make-whole" payment.

"HiMEDS" is a service mark of JPMorgan.

Our common stock is listed on the New York Stock Exchange and Pacific Exchange under the symbol "RAD." On January 25, 2005, the last reported sale price of our common stock was \$3.57 per share. The HiMEDS<sup>SM</sup> will not be listed or traded on any securities exchange or trading market.

Investing in our Series E mandatory convertible preferred stock involves risks. See "Risk factors" beginning on page S-11 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$ 49.00	\$ 112,700,000
Underwriting discounts and commissions	\$ 0.50	\$ 1,150,000
Proceeds, before expenses, to us	\$ 48.50	\$ 111,550,000

The underwriters may also purchase up to 200,000 shares of our HiMEDS<sup>SM</sup> from us at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus supplement. The underwriters may exercise this option only to cover over-allotments, if any.

The underwriters are offering the shares of our HiMEDS<sup>SM</sup> as set forth in "Underwriting." Delivery of the shares of HiMEDS<sup>SM</sup> will be made on or about January 31, 2005.

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Sole Book-Running Manager

JPMorgan

Citigroup

January 25, 2005

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**We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus supplement and the accompanying prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. When we deliver this prospectus supplement and the accompanying prospectus or make a sale pursuant to this prospectus supplement and the accompanying prospectus, we are not implying that the information is current as of the date of the delivery or sale.**

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document contains two parts. The first part consists of this prospectus supplement, which describes the specific terms of this offering and the securities offered. The second part, the accompanying prospectus, provides more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Before purchasing any securities, you should carefully read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading "Where You Can Find More Information."

You should rely only on the information we provide or incorporate by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different or additional information. We are offering to sell the securities offered by this prospectus supplement, and seeking offers to buy these securities, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement is accurate only as of the date of this prospectus supplement, regardless of the time of delivery of this prospectus

supplement or any sales of the securities.

References to "Rite Aid", the "Company", "we", "our" and "us" and similar terms mean Rite Aid Corporation and its subsidiaries, unless the context otherwise requires.

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## SUMMARY

The following information summarizes the more detailed information and financial statements included elsewhere or incorporated by reference in this prospectus supplement or the accompanying prospectus. We encourage you to read this entire prospectus supplement, the accompanying prospectus and those documents incorporated by reference into this document carefully. Unless otherwise indicated or the context otherwise requires, dates in this prospectus supplement that refer to a particular fiscal year (e.g., fiscal 2004) refer to the fiscal year ended on the Saturday closest to February 29 or March 1 of that year. The fiscal years ended February 28, 2004, March 1, 2003, March 2, 2002 and February 26, 2000 included 52 weeks. The fiscal year ended March 3, 2001 included 53 weeks.

### Rite Aid Corporation

#### Our Business

We are the third largest retail drugstore chain in the United States based on revenues and number of stores. As of November 27, 2004, we operated 3,363 drugstores in 28 states across the country and in the District of Columbia. During fiscal 2004 and the thirty-nine week period ended November 27, 2004, we generated \$16.6 billion and \$12.5 billion in revenues, respectively. We believe we have the first or second market position in approximately 56% of the 151 major U.S. metropolitan markets in which we operate.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2004, our pharmacists filled more than 200 million prescriptions, which accounted for approximately 63.6% 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 and the discovery of new and better drug therapies. We offer approximately 24,000 front-end products, including 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, which accounted for the remaining 36.4% of our total sales in fiscal 2004. We distinguish our stores from other national chain drugstores, in part, through our private brands and our strategic alliance with General Nutrition Companies, Inc. ("GNC"), a leading retailer of vitamin and mineral supplements. We offer approximately 2,100 front-end products under the Rite Aid private brand, which contributed approximately 11.4% of our front-end sales in the categories where private brands were offered in fiscal 2004.

#### Our Business Strategy

Our strategy is to continue to focus on improving the productivity of our existing store base. We believe that improving the sales of our existing stores is important to achieving profitability and improving cash flow. To achieve this objective, we are implementing the following strategies:

**Grow Our Pharmacy Sales and Attract More Customers.** We recently completed the implementation of our next generation pharmacy system in all of our stores and have implemented e-prescription applications in all of our stores, which will further enable our pharmacists to work directly with customers and doctors and adjudicate and fill prescriptions in a more efficient manner. We also drive pharmacy sales growth via our automatic refill program, prescription file buys, in-store immunization programs, fully integrated diabetes program, a specialty pharmacy program, a workers compensation program and several initiatives aimed at managed care providers and doctors. We believe these activities and our focus on generic prescription drugs and direct marketing efforts will attract new customers to our stores and increase profitability. We also continue to develop and implement programs designed to improve customer satisfaction. We believe that by executing our "With us, it's personal" program that is aimed at delivering more personalized service along with faster prescription delivery to our customers, our growth will continue. Although we are already an

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industry leader in dispensing generic drugs, which generally have a higher gross margin compared to branded drugs, we continue to take additional steps to further improve our generic efficiency, including adding functionality to our proprietary pharmacy information system to aid our pharmacists in dispensing generic prescriptions whenever possible. We are working to increase customer loyalty by establishing a strong community presence through health expositions and not-for-profit activities, focusing on the attraction and retention of managed care customers, partnering with several Medicare endorsed card programs to provide discounts to senior citizens and participating in almost all Medicare endorsed prescription cards for senior citizens.

We have resumed our new store relocation and store remodeling program. We intend for the program to start out slowly and believe it will not have a significant impact on operating results or the profile of our store base. Our goal is to open or relocate between 25 and 30 stores by the end of fiscal 2005 and an additional 80 to 85 stores by the end of fiscal 2006, of which we expect that approximately 50% will be relocated stores and the remaining 50% will be new stores. The program is focused on our strongest existing markets and also includes a significant number of remodels. An integral part of the program is the development of a new prototype store and two pilot stores that we have recently constructed and opened. One of the pilot stores is a new 14,500 square foot prototype that is about 30% larger than our current prototype. The other pilot store utilizes the features of the new design to remodel a smaller store. We believe that this program over the longer term, along with the execution of the near term strategy of improving store productivity, will continue to increase our pharmacy sales.

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

**Contain Expenses.** We continue to execute our cost management programs. Our emphasis is on targeted expense areas that are subject to specific work plans for improvement that are continuously monitored. Some examples of targeted expense areas, include (i) workers compensation expense; (ii) utility expense and (iii) repair and maintenance expense. We plan to contain worker's compensation expense through improving workplace safety at our stores and distribution centers and actively managing open claims. We plan to contain utility expense through development and implementation of energy management procedures and systems and through analysis of energy data to facilitate

lowest cost bidding for services. We plan to contain repair and maintenance expense by consolidating contracts where applicable, and consistently seeking out lowest cost bidders for preventive maintenance services.

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, frequent customer surveys by an independent third party, and mystery shoppers. We also have several programs in place that enhance customer satisfaction, examples of which are the maintenance of a customer support center that centrally receives and processes all customer calls and our "never out of stock" program. We continue to develop and implement associate training programs to improve customer satisfaction and educate our associates about the products we offer. We have implemented programs that create compensatory and other incentives for associates who provide customers with excellent service and who improve our corporate culture. We believe that these steps further enable and motivate our associates to deliver superior customer service.

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#### Related Transactions

As of December 31, 2004, there were 4,522,437 shares of 8% Series D preferred stock outstanding with an aggregate liquidation preference of \$452.2 million. There were no accumulated and unpaid dividends on the 8% Series D preferred stock as of such date. All of our 8% Series D preferred stock is owned by Green Equity Investors, III, L.P. We will use a portion of the net proceeds of the offering of HiMEDS<sup>SM</sup> to redeem, at a purchase price of 105% plus any accrued dividends, \$103.0 million liquidation preference (1,030,000 shares) of our 8% Series D preferred stock. We may redeem additional shares of Series D preferred stock with any remaining net cash proceeds from this offering at our discretion. Immediately following the redemption, we will issue a nearly identical amount of preferred stock in the form of 8% Series F preferred stock, 7% Series G preferred stock and 6% Series H preferred stock in exchange for all shares of 8% Series D preferred stock that remain outstanding. The aggregate liquidation preference of the Series F, G and H preferred stock will equal the aggregate liquidation preference of the shares of 8% Series D preferred stock being exchanged. Each of the Series F, G and H preferred stock will rank on parity with the HiMEDS<sup>SM</sup> offered hereby and will have substantially the same terms as the 8% Series D Preferred Stock, except for its dividend rate (other than the Series F preferred stock) and terms relating to optional redemption. The Series F preferred stock will be redeemable from time to time following its original issuance, the Series G preferred stock will be redeemable from time to time after the fourth anniversary of its original issuance and the Series H preferred stock will be redeemable from time to time after the fifth anniversary of its original issuance. Upon the completion of the transactions described above, no shares of 8% Series D preferred stock will remain outstanding. Similar to the 8% Series D preferred stock, holders of the Series F, G and H preferred stock will vote with the holders of our common stock on an as-if-converted basis. Holders of the Series F, G and H preferred stock have the right to elect, voting as a separate single class, one director to our board of directors.

#### Recent Development

On January 24, 2005, we issued a press release confirming our previously announced guidance for sales, same store sales and net income for fiscal 2005, which ends on February 26, 2005. We also confirmed our previously announced guidance for fiscal 2005 net income per diluted share after giving effect to this offering of HiMEDS<sup>SM</sup>. On December 16, 2004, we announced that we expect fiscal 2005 sales to be between \$16.7 billion and \$16.8 billion, same store sales to improve 1.2% to 2.1%, net income to be between \$49 million and \$99 million, or between \$0.03 and \$0.12 per share, and capital expenditures to be between \$225 million and \$250 million.

Our guidance for fiscal 2005 results are forward-looking statements. Actual results for fiscal 2005 may differ materially from expected results. Factors that may cause our actual results to differ from expected results are set forth under "Risk Factors", beginning on page S-11 of this prospectus supplement, and "Cautionary Note Regarding Forward-Looking Statements" on page S-20 of this prospectus supplement.

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The Offering

Issuer	Rite Aid Corporation, a Delaware corporation.
Securities offered	2,300,000 shares of 7.0% Series E mandatory convertible preferred stock, which we refer to in this prospectus supplement as the "HiMEDS <sup>SM</sup> ." To the extent that the underwriters sell more than 2,300,000 shares of HiMEDS <sup>SM</sup> , they have the option to purchase an additional 200,000 shares of HiMEDS <sup>SM</sup> from us at the initial offering price less the underwriting discounts and commissions.
Initial price	\$49.00 for each share of Series E preferred stock.
Dividends	\$3.50 for each share of HiMEDS <sup>SM</sup> per year. Dividends will be cumulative from the date of issuance and to the extent that assets are legally available to pay dividends and our board of directors or an authorized committee of our board declares a dividend payable, we will pay dividends in cash, shares of our common stock, or any combination thereof, in our sole discretion, every quarter. Shares of our common stock used to pay dividends will be delivered to the transfer agent to be sold, resulting in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. See "Risk Factors— Delaware law and the terms of our senior credit facility and debt indentures may restrict us from paying cash dividends on our HiMEDS <sup>SM</sup> " and "—We cannot assure you that we will file or will be able to file, cause to be declared effective or keep effective, as the case may be, the registration statement required to permit us to pay dividends on our HiMEDS <sup>SM</sup> in shares of our common stock."
Dividend payment dates	The 1st calendar day (or the following business day if the 1st is not a business day) of each February, May, August and November, commencing on May 2, 2005.
Mandatory conversion date	February 1, 2008, which we call the "automatic conversion date."
Mandatory conversion	On the automatic conversion date, each share of HiMEDS <sup>SM</sup> will automatically convert into shares of our common stock, based on the conversion rate then in effect.

The holders of our HiMEDS<sup>SM</sup> on the automatic conversion date will have the right to receive a dividend of cash, shares of our common stock, or any combination of cash and common stock, as we determine in our sole discretion, in an amount equal to the accumulated and unpaid dividends on our HiMEDS<sup>SM</sup> as of the automatic conversion date, whether or not declared, out of legally available assets.

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Conversion rate

The conversion rate for each share of HiMEDS<sup>SM</sup> will not be fewer than 9.3284 shares of our common stock, and will depend on the adjusted applicable market value of our common stock, as described below. The conversion rate is subject to certain adjustments, including those described under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments."

The adjusted applicable market value means the product of the applicable market value multiplied by the anti-dilution factor in effect on the automatic conversion date. To the extent that an adjustment to the anti-dilution factor is required to be made pursuant to the occurrence of certain events described under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments" during the period taken into consideration for determining the adjusted applicable market value, appropriate and customary adjustments shall be made to the anti-dilution factor.

The applicable market value is the average of the closing prices per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the automatic conversion date. To the extent that we enter into a reorganization event (as defined under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments"), applicable market value shall mean the value of an exchange property unit value (as defined under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments—Reorganization Events"). It will be calculated as described under "Description of HiMEDS<sup>SM</sup>—Automatic Conversion of Our HiMEDS<sup>SM</sup>."

The anti-dilution factor shall initially be equal to one and shall be subject to adjustment as described under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments."

The following table illustrates the conversion rate per share of HiMEDS<sup>SM</sup> and the value of our common stock issuable upon conversion on the automatic conversion date, at the adjusted applicable market value shown, subject to certain adjustments described under



"Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments."

Adjusted applicable market value on automatic conversion date	Conversion rate
equal to or greater than \$5.36	9.3284 or higher
greater than \$3.57 and less than \$5.36	less than 14.0056 and greater than 9.3284
less than or equal to \$3.57	14.0056

Provisional conversion at the option of Rite Aid

If the closing price per share of our common stock exceeds \$8.04 for at least 20 trading days within a period of 40 consecutive trading days, we may elect to cause the

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conversion of all, but not less than all, of the shares of HiMEDS<sup>SM</sup> then outstanding for shares of our common stock at a conversion rate determined in accordance with the provisions described under "Description of HiMEDS<sup>SM</sup>—Automatic Conversion of our HiMEDS<sup>SM</sup>," subject to certain adjustments as described under "Description of HiMEDS<sup>SM</sup>—Anti-dilution Adjustments," only if, in addition to issuing you the shares of common stock, we either:

- pay you in cash (1) an amount equal to any accumulated and unpaid dividend payments on our HiMEDS<sup>SM</sup>, whether or not declared, and (2) the present value of all the remaining dividend payments through and including February 1, 2008, on our HiMEDS<sup>SM</sup>, computed using a discount rate equal to the Treasury Yield as defined in this prospectus supplement under "Description of HiMEDS<sup>SM</sup>—Provisional Conversion at the Option of Rite Aid," in each case, out of legally available assets, or
- increase the number of shares of our common stock to be issued on conversion by an amount equal to the sum of the accrued and unpaid dividends and that present value of all remaining dividend payments, divided by the applicable market value per share of our common stock used for purposes of determining the conversion rate.

See "Description of HiMEDS<sup>SM</sup>—Provisional Conversion at the Option of Rite Aid."

Optional conversion

At any time prior to February 1, 2008, you may elect to convert each of your shares of HiMEDS<sup>SM</sup> into 9.3284 shares of our common stock. This conversion rate is subject to certain adjustments as described under

Early settlement upon cash merger	"Description of HiMEDS <sup>SM</sup> —Anti-dilution Adjustments." Prior to the conversion date, if we are involved in a merger in which at least 30% of the consideration for our common stock consists of cash or cash equivalents, which we refer to as the "cash merger," then on or after the date of the cash merger, each holder of HiMEDS <sup>SM</sup> will have the right to accelerate and convert its HiMEDS <sup>SM</sup> at the conversion rate determined immediately before the cash merger in accordance with the provisions described under "Description of HiMEDS <sup>SM</sup> —Automatic Conversion of Our HiMEDS <sup>SM</sup> ". See "Description of HiMEDS <sup>SM</sup> —Early Settlement Upon Cash Merger."
Anti-dilution adjustments	The formula for determining the conversion rate on the conversion date and the number of shares of our common stock to be delivered upon an early conversion event may be adjusted if certain events occur. See "Description of HiMEDS <sup>SM</sup> —Anti-dilution Adjustments."

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Liquidation preference	\$50.00 per HiMEDS <sup>SM</sup> , plus an amount equal to the sum of all accumulated and unpaid dividends.
Voting rights	Holders of the HiMEDS <sup>SM</sup> will not be entitled to any voting rights, except as required by applicable state law and as described under "Description of HiMEDS <sup>SM</sup> —Voting Rights."
Ranking	The HiMEDS <sup>SM</sup> will rank senior in right of payment to all of our common stock now outstanding or to be issued in the future and on parity with our Series D, F, G and H preferred stock now outstanding or to be issued in the future. The terms of the HiMEDS <sup>SM</sup> restrict our ability to issue capital stock that ranks senior to the HiMEDS <sup>SM</sup> with an aggregate liquidation preference in excess of \$50.0 million.
Use of proceeds	We intend to use the net proceeds from the sale of the HiMEDS <sup>SM</sup> of \$110.3 million, or \$120.0 million if the underwriters exercise their over-allotment option in full, to redeem, at a purchase price of 105% plus any accrued dividends, \$103.0 million liquidation preference (1,030,000 shares) of our Series D preferred stock. We may redeem additional shares of Series D preferred stock with remaining proceeds from this offering at our discretion. Any remaining net proceeds not used to purchase additional shares of Series D preferred stock will be used for working capital and general corporate purposes.

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**Risk Factors**

Prospective purchasers of the HiMEDS<sup>SM</sup> should carefully consider the information set forth under the heading "Risk Factors," together with all other information included or incorporated by reference in this prospectus supplement, before making an investment in the HiMEDS<sup>SM</sup> offered by this prospectus supplement.

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

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**Summary Consolidated Financial Data**

The following summary consolidated 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 and the interim condensed consolidated financial statements and related notes incorporated by reference into this prospectus supplement. The summary consolidated financial data for the thirty-nine week periods ended November 27, 2004 and November 29, 2003 are unaudited and not necessarily indicative of the results to be expected for the full year. The following summary financial data does not give pro forma effect to this offering, our January 2005 offering of \$200.0 million aggregate principal amount of 7½% Senior Secured Notes due 2015, which we refer to as the 7½% Senior Secured Notes, the redemption and exchange transactions described under "Summary—Related Transactions", nor to the \$37.5 million in proceeds from our December 15, 2004 sale and leaseback transaction described in Note 11 to our unaudited financial statements included in our quarterly report on Form 10-Q for the quarter ended November 27, 2004 and incorporated by reference in this prospectus supplement.

	Fiscal Year Ended					Thirty-Nine Week Period Ended	
	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks) <sup>(1)</sup>	February 26, 2000 (52 weeks) <sup>(1)</sup>	November 27, 2004	November 29, 2003
(Dollars in thousands, except per share amounts)							
<b>Operations Data:</b>							
Revenues	\$16,600,449	\$15,791,278	\$15,166,170	\$14,516,865	\$13,338,947	\$12,475,599	\$12,204,103
Costs and expenses:							
Cost of goods sold, including							
Occupancy costs	12,568,405	12,035,537	11,697,912	11,151,490	10,213,428	9,387,335	9,261,010

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Selling, general and administrative expenses	3,624,226	3,476,379	3,406,492	3,458,307	3,607,810	2,748,014	2,694,884
(2)	—	—	21,007	20,670	24,457	—	—
Goodwill amortization	—	—	21,007	20,670	24,457	—	—
Store closing and impairment	—	—	—	—	—	—	—
Charges	22,466	135,328	251,617	388,078	139,448	11,896	436
Interest expense	313,498	330,020	396,064	649,926	542,028	224,973	236,085
Interest rate swap contracts	—	278	41,894	—	—	—	—
Loss (gain) on debt modifications and retirements, net <sup>(3)</sup>	35,315	(13,628)	221,054	100,556	—	19,425	35,315
Share of loss from equity investments	—	—	12,092	36,675	15,181	—	—
Loss (gain) on sale of assets and investments, net	2,023	(18,620)	(42,536)	(6,030)	(80,109)	(1,323)	(283)
Total costs and expenses	16,565,933	15,945,294	16,005,596	15,799,672	14,462,243	12,390,320	12,227,447
Income (loss) from continuing operations before income taxes	—	—	—	—	—	—	—
and cumulative effect of accounting change	34,516	(154,016)	(839,426)	(1,282,807)	(1,123,296)	85,279	(23,344)
Income tax (benefit) expense	(48,795)	(41,940)	(11,745)	148,957	(8,375)	11,139	(47,518)
Income (loss) from continuing operations before cumulative effect of accounting change	83,311	(112,076)	(827,681)	(1,431,764)	(1,114,921)	74,140	24,174
Income (loss) from discontinued operations, net of income tax expense	—	—	—	11,335	9,178	—	—
Loss on disposal of discontinued operations, net of income tax benefit	—	—	—	(168,795)	—	—	—
and cumulative effect of accounting change, net of income tax benefit	—	—	—	—	(27,300)	—	—
Net income (loss)	\$ 83,311	\$ (112,076)	\$ (827,681)	\$ (1,589,224)	\$ (1,133,043)	\$ 74,140	\$ 24,174

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Fiscal Year Ended

Thirty-Nine Week Period E

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	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks) <sup>(1)</sup>	February 26, 2000 (52 weeks) <sup>(1)</sup>	November 27, 2004	November 2003
(Dollars in thousands, except per share amounts)							
<b>and diluted net</b>							
<b>income (loss) per share:</b>							
Income (loss) from continuing operations	\$ 0.11	\$ (0.28)	\$ (1.82)	\$ (5.15)	\$ (4.34)	\$ 0.09	\$ 0.00
Income (loss) from discontinued operations	—	—	—	(0.50)	.04	—	—
Relative effect of accounting change	—	—	—	—	\$ (0.11)	—	—
Income (loss) per share	\$ 0.11	\$ (0.28)	\$ (1.82)	\$ (5.65)	\$ (4.41)	\$ 0.09	\$ 0.00
<b>Balance Sheet</b>							
Balance Sheet Data							
End of period):							
Working capital	\$ 1,894,247	\$ 1,676,889	\$ 1,580,218	\$ 1,955,877	\$ 752,657	\$ 1,183,721	\$ 1,748,000
Property, plant and equipment, net	1,883,808	1,868,579	2,096,030	3,041,008	3,445,828	1,778,211	1,904,000
Intangible assets	6,246,679	6,133,515	6,491,759	7,913,911	9,845,566	5,677,964	6,338,000
Long-term debt <sup>(4)</sup>	3,891,666	3,862,628	4,056,468	5,894,548	6,612,868	3,213,405	3,885,000
Shareholders' equity (deficit)	9,264	(112,329)	9,616	(354,435)	432,509	100,867	(59,000)
<b>Other Data:</b>							
Cash flows from continuing operations provided by (in):							
Operating activities	\$ 227,515	\$ 305,383	\$ 16,343	\$ (704,554)	\$ (623,098)	\$ 523,898	\$ 100,000
Investing activities	(242,150)	(72,214)	342,531	677,653	(504,112)	(81,679)	(192,000)
Financing activities	(15,931)	(211,903)	(107,109)	(64,324)	905,091	(681,206)	1,000,000
Capital expenditures	267,373	116,154	187,383	141,504	641,070	141,657	209,000
Change of earnings to charges <sup>(5)</sup>	—	—	—	—	—	1.11	—
Dividends declared on common share	—	—	—	—	.3450	—	—
Weighted average shares	515,822,000	515,129,000	474,028,000	314,189,000	259,139,000	518,095,000	515,609,000
Adjusted weighted average shares <sup>(6)</sup>	525,831,000	515,129,000	474,028,000	314,189,000	259,139,000	532,058,000	525,503,000
Number of retail stores	3,382	3,404	3,497	3,648	3,802	3,363	3,300
Number of associates	72,500	72,000	75,000	75,500	77,300	73,500	74,000

(1) We acquired PCS Health Systems, Inc. (PCS) on January 22, 1999. On October 2, 2000, we sold PCS. Accordingly, our Pharmacy Benefit Management ("PBM") segment was reported as a discontinued operation in the fiscal years ended March 3, 2001 and February 26, 2000.

(2)

Includes stock based compensation expense (benefit). Stock based compensation expense for the year ended February 28, 2004 was determined using the fair value method set forth in Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation". Stock based compensation expense (benefit) for the fiscal years ended March 1, 2003, March 2, 2002, March 3, 2001 and February 26, 2000 was determined using the intrinsic method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

- (3) Amounts related to the early extinguishment of debt that were previously recognized as an extraordinary item outside of results from continuing operations were reclassified as a gain or loss on debt retirements and modifications, which is a component of income or loss from continuing operations.
- (4) Includes capital lease obligations of \$183.2 million as of February 28, 2004, \$176.2 million as of March 1, 2003, \$182.6 million as of March 2, 2002, \$1.1 billion as of March 3, 2001, \$1.1 billion as of February 26, 2000, \$171.0 million as of November 27, 2004 and \$177.9 million as of November 29, 2003.
- (5) Calculated by dividing earnings by fixed charges. For this purpose, earnings include income (loss) from continuing operations before income taxes and cumulative effect of accounting change plus fixed charges before capitalized interest. Fixed charges include interest, whether expensed or capitalized, amortization of debt incurrence costs, preferred stock dividends and that portion of rental expense which is representative of the interest factors in those rentals. For fiscal 2004, fiscal 2003, fiscal 2002, fiscal 2001 and fiscal 2000 and for the thirty-nine weeks ended November 29, 2003, earnings were insufficient to cover fixed charges by approximately \$2.7 million, \$203.9 million, \$870.5 million, \$1,290.4 million, \$1,129.0 million and \$47.9 million, respectively.
- (6) Diluted weighted average shares for the year ended February 28, 2004 and the thirty-nine week periods ended November 27, 2004 and November 29, 2003 included the impact of stock options, as calculated under the treasury stock method.

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## RISK FACTORS

An investment in the HiMEDS<sup>SM</sup> involves a number of risks. You should consider carefully the following information about these risks, together with the other information included and incorporated by reference in this prospectus supplement, before buying the HiMEDS<sup>SM</sup> offered hereby. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. We cannot assure you that any of the events discussed in the risk factors below will not occur. If they do, our business, financial condition or results of operations could be materially and adversely affected. In such case, the trading price of our securities could decline, and you might lose all or part of your investment.

### 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 November 27, 2004, approximately \$3.2 billion of outstanding indebtedness (after giving effect to the completion of our recent offering of the 7½% Senior Secured Notes, in January , 2005, and the use of proceeds therefrom and including current maturities and capital lease obligations but not including unused commitments, undrawn letters of credit and off balance sheet obligations pursuant to our accounts receivable securitization program) and stockholders' equity of \$100.9 million. As adjusted for the declaration and payment of a regularly scheduled

dividend on our Series D preferred stock in the amount of \$8.9 million, which dividend was paid in additional shares of Series D preferred stock in December 2004, the completion of this offering and the anticipated use of proceeds therefrom, our stockholders' equity at November 27, 2004 would have been \$102.3 million. We also had additional borrowing capacity under our revolving credit facility of \$738.9 million at that time, which is net of outstanding letters of credit of \$112.1 million. Our debt obligations adversely affect our operations in a number of ways and, while we believe we have adequate sources of liquidity to meet our anticipated annual requirements for working capital, debt service and capital expenditures through fiscal year 2006, there can be no assurance that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds for that purpose, restructure or otherwise refinance our debt. Our earnings were insufficient to cover our fixed charges for fiscal 2004, by \$2.7 million and by considerably higher amounts in prior fiscal years.

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

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

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

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Borrowings under our senior credit facility are based upon variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Approximately \$549.0 million of our outstanding indebtedness (without giving effect to any repayment of indebtedness with the net proceeds of our offering of the 7½% Senior Secured Notes) as of November 27, 2004 bears an interest rate that varies depending upon LIBOR. If we borrow additional amounts under our senior credit facility, the interest rate on those borrowings will vary depending upon LIBOR. If LIBOR rises, the interest rates on this outstanding debt will also increase. Therefore an increase in LIBOR would increase our interest payment obligations under these outstanding loans and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest.

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

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

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

In addition, if we have less than \$300 million available under our revolving credit facility, we will be subject to certain financial covenant ratios. If we are unable to meet the terms of the financial covenant ratios or if we breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could result in the acceleration of our outstanding indebtedness and cause our debt to become immediately due and payable. If acceleration occurs, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance such debt. Even if new financing is made available to us, it may not be available on terms acceptable to us.

If we obtain modifications of our agreements or are required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2005, 2004, 2003, 2002 and 2001, we modified certain covenants contained in our then existing senior credit facility and loan agreements. In fiscal 2000, we obtained waivers of compliance contained in our then existing credit facilities and public indentures. In connection with obtaining these modifications and waivers, we paid significant fees and transaction costs.

#### Risks Related to our Operations

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

We have not yet achieved the sales productivity level of our major competitors. We believe that improving the sales of existing stores is important to achieving profitability and continuing to improve

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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 continue to improve our operations. In addition, any adverse change in general economic conditions can adversely affect consumer buying practices and reduce our sales of front-end products, which are our higher margin products, and cause a proportionately greater decrease in our profitability. Failure to continue to improve operations or a decline in general economic conditions would adversely affect our results of operations, financial condition and cash flows and our ability to make principal or interest payments on our debt.

**Our new store development program requires entering into 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 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 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 and cash flows. Additionally, we cannot assure you that we will be able to attract or retain other skilled personnel in the future.

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

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

If we were convicted of any crime, certain licenses and government contracts, such as Medicaid plan reimbursement agreements, that are material to our operations may be revoked, which would have a material adverse effect on our results of operations and financial condition. In addition, substantial penalties, damages, or other monetary remedies assessed against us could also have a material adverse effect on our results of operations, financial condition and cash flows.

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

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

We obtain approximately 90% of our pharmaceutical products from a single supplier, McKesson HBOC, Inc., pursuant to a contract that runs until March 2009. Pharmacy sales, which have been increasing as a percentage of our total sales, represented approximately 63.2%, 63.6% and 64.2% of our total sales during fiscal 2003, fiscal 2004 and the thirty-nine months period ended November 27, 2004, respectively, and, therefore, our relationship with McKesson HBOC is important to us. Any significant disruptions in our relationship with McKesson HBOC would make it difficult for us to continue to operate our business until we found a replacement supplier. 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 demand on similar terms, which would have a material adverse effect on our results of operations, financial condition and cash flows.

#### Risks Related to Our Industry

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

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

Another adverse trend for drugstore retailing has been the rapid growth in mail-order and internet based prescription processors. These prescription distribution methods have grown in market share relative to drugstores as a result of the rapid rise in drug costs experienced in recent years and are predicted to continue to rise. Mail-order prescription distribution methods are perceived by employers and insurers as being less costly than traditional distribution methods and are being encouraged, and, in some cases, required, by third party pharmacy benefit managers, employers and unions that administer benefits. As a result, some labor unions and employers are requiring, and others may encourage or require, that their members or employees obtain medications from mail-order pharmacies which offer drug prescriptions at prices lower than we are able to offer. For example, when we announced our third-quarter earnings, we disclosed that our sales continued to be negatively impacted by mandatory mail prescription programs, including the United Auto Workers' program. In addition to these forms of mail-order distribution, there has also been an increasing number of internet-based prescription distributors that specialize in offering certain high demand lifestyle drugs at deeply discounted prices. A number of these internet-based distributors operate outside the reach of regulations that govern legitimate drug retailers. Competition from Canadian imports has also been increasing significantly recently and also creates volume and pricing pressure. Imports from foreign countries may increase further if recently introduced legislation seeking to legalize the importation of drugs from Canada and other countries is eventually enacted. These alternate distribution channels 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.

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. Sales of prescription drugs represent approximately 64% of our sales and we are reimbursed by third-party payors for approximately 93% of all the prescription drugs that we sell. The top five third-party payors account for approximately 30% of our total sales the largest of which is approximately 10.5% of our total sales. Any significant loss of third-party provider business could have a material adverse effect on our business and results of operations. Also, these third-party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Furthermore, the passing in December 2003 of the Medicare Prescription Drug, Improvement and Modernization Act will grant a prescription drug benefit to participants. As a result of this benefit, we may be reimbursed for some prescription drugs at prices lower than our current reimbursement levels. Approximately 12% of our revenues are from state sponsored Medicaid agencies. There have been a number of recent proposals and enactments by various states to reduce Medicaid reimbursement levels in response to budget problems, some of which propose to reduce reimbursement levels in the applicable states significantly, and we expect other similar proposals in the future. If third-party payors reduce their reimbursement levels or if Medicare or state Medicaid programs cover prescription drugs at lower reimbursement levels, our margins on these sales would be reduced, and the profitability of our business and our results of operations, financial condition or cash flows could be adversely affected.

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

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

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.

Certain risks are inherent in the provision of 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 and adequacy of warnings. 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.

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Although we maintain professional liability and errors and omissions liability insurance, from time to time, claims result in the payment of significant amounts, some portions of which are not funded by insurance. We cannot assure you that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will be able to maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self insure or we suffer reputational harm as a result of an error or omission.

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

There is a nationwide shortage of qualified pharmacists. In response to this challenge, we have implemented improved benefits and training programs in order to attract, hire and retain 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 label products. A product liability judgement 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 Offering

The market price of our HiMEDS<sup>SM</sup> will be directly affected by the market price of our common stock, which may be volatile, and other factors:

To the extent there is a secondary market for our HiMEDS<sup>SM</sup>, we believe that the market price of our HiMEDS<sup>SM</sup> will be directly affected by the market price of our common stock. We cannot predict how our common stock will trade. This may result in greater volatility in the market price of the HiMEDS<sup>SM</sup> than would be expected for nonconvertible preferred stock. From January 1, 2004 to January 1, 2005, the reported high and low closing sales prices for our common stock ranged from a low of \$3.35 per share to a high of \$6.14 per share. The market price of our common stock will likely continue to fluctuate in response to a number of factors including the following, many of which are beyond our control:

- quarterly fluctuations in our operating and financial results;
- changes in financial estimates and recommendations by financial analysts;
- developments related to litigation or the civil and criminal investigations by the United States Attorney;
- our ability to meet our debt service obligations;
- dispositions, acquisitions and financings;
- changes in the ratings of our other securities;
- hedging transactions undertaken by holders of our securities;

- fluctuations in the stock price and operating results of our competitors;
- ability to hire and retain pharmacists and other store personnel;

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- changes to federal, state and local regulations; and
  - changes in third-party payor drug reimbursements and mail-order prescription programs.

In addition, the stock markets in general, including the New York Stock Exchange, experience price and trading fluctuations. These fluctuations may result in volatility in the market prices of securities that could be unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of our HiMEDS<sup>SM</sup> and our common stock.

Purchasers of HiMEDS<sup>SM</sup> who convert their shares into common stock may incur immediate dilution.

Persons purchasing our HiMEDS<sup>SM</sup> who convert their shares into our common stock may incur immediate and substantial net tangible book value dilution.

In addition, the terms of our HiMEDS<sup>SM</sup> do not restrict our ability to offer new series of preferred stock that are on parity with the HiMEDS<sup>SM</sup>, to issue new series of preferred stock that are senior to the HiMEDS<sup>SM</sup> with an aggregate liquidation preference of up to \$50.0 million or to engage in other transactions that could dilute our HiMEDS<sup>SM</sup>. We have no obligation to consider the interests of the holders of our HiMEDS<sup>SM</sup> in engaging in any such offering or transaction.

A holder of our HiMEDS<sup>SM</sup> may realize some or all of a decline in the market value of our common stock.

The number of shares of our common stock that you will receive upon the automatic conversion of your shares of HiMEDS<sup>SM</sup> is not fixed but instead will depend on the average of the closing price per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the automatic conversion date, subject to adjustment, which we refer to as the adjusted applicable market value. The market value of common stock received by you on the automatic conversion date may be less than the effective price per share paid by you for our common stock by buying the shares of HiMEDS<sup>SM</sup>. The adjusted applicable market value of our common stock on February 1, 2008, may be less than \$3.57 per share, which we call the initial price. If that market value is less than the initial price, then holders of our HiMEDS<sup>SM</sup> will receive shares of our common stock on February 1, 2008, with a market per share value that is less than the initial price. Accordingly, a holder of HiMEDS<sup>SM</sup> assumes the entire risk that the market value of our common stock may decline. Any decline in the market value of our common stock may be substantial.

The opportunity for equity appreciation provided by an investment in the shares of our HiMEDS<sup>SM</sup> is less than that provided by a direct investment in our common stock.

The number of shares of our common stock that are issuable upon mandatory conversion on the automatic conversion date of our HiMEDS<sup>SM</sup> will decrease if the adjusted applicable market value equals or exceeds \$3.57. Therefore, the opportunity for equity appreciation provided by an investment in our HiMEDS<sup>SM</sup> is less than that provided by a direct investment in our common stock. The adjusted applicable market value of our common stock on February 1, 2008, must exceed the threshold appreciation price of \$5.36 before a holder of our HiMEDS<sup>SM</sup> will realize any equity appreciation in connection with a mandatory conversion.

Holders of our HiMEDS<sup>SM</sup> will have no rights as holders of common stock until they acquire our common stock.

Until you acquire shares of our common stock upon conversion, you will have no rights with respect to our common stock, including voting rights (except as required by applicable state law and as described under "Description of HiMEDS<sup>SM</sup>—Voting Rights"), rights to respond to tender offers and rights to receive any dividends or other distributions on our common stock. Upon conversion, you will be entitled to exercise the rights of a holder of common stock only as to matters for which the record date occurs after the conversion date.

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Our HiMEDS<sup>SM</sup> have never been publicly traded and may never be publicly traded.

Prior to this offering, there has been no public market for our HiMEDS<sup>SM</sup>. Our HiMEDS<sup>SM</sup> have not been listed on any stock exchange. There can be no assurance that an active trading market will develop, or if developed, that an active trading market will be maintained. The underwriters have advised us that they intend to facilitate secondary market trading by making a market in the shares of HiMEDS<sup>SM</sup>. However, the underwriters are not obligated to make a market in the shares of HiMEDS<sup>SM</sup> and may discontinue market making activities at any time.

The shares of HiMEDS<sup>SM</sup> will rank junior to all of our and our subsidiaries' liabilities and any senior preferred stock that we issue and pari passu with our Series F, G and H preferred stock in the event of a bankruptcy, liquidation or winding up of our assets.

In the event of bankruptcy, liquidation or winding up, our assets will be available to pay obligations on our HiMEDS<sup>SM</sup> only after all of our liabilities have been paid and only on a pari passu basis with our Series F, G and H preferred stock (assuming the completion of the Series D preferred stock redemption and exchange of the remaining shares of Series D preferred stock for shares of Series F, G and H preferred stock) and any other pari passu preferred stock we may issue hereafter. In addition, our HiMEDS<sup>SM</sup> will effectively rank junior to all existing and future liabilities of our subsidiaries and the capital stock of our subsidiaries held by third parties. The rights of holders of our HiMEDS<sup>SM</sup> effectively to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary's creditors and preferred equity holders. As of November 27, 2004, we had total consolidated liabilities of \$5.6 billion. In the event of bankruptcy, liquidation or winding up, there may not be sufficient assets remaining, after paying our and our subsidiaries' liabilities, to pay amounts due on any or all of our HiMEDS<sup>SM</sup>. To the extent we have assets remaining after paying our and our subsidiaries' liabilities, we are obligated to pay amounts due on any senior preferred stock that we issue prior to and any amounts due on any or all of our Series F, G and H preferred stock then outstanding and any other pari passu preferred stock that we may issue in the future on a pari passu basis with amounts due on any or all of our HiMEDS<sup>SM</sup> then outstanding. We are permitted to issue up to \$50.0 million aggregate liquidation preference of senior preferred stock without the consent of the holders of our HiMEDS<sup>SM</sup>.

The value of our HiMEDS<sup>SM</sup> may be adversely affected by modifications to our capital structure for which the conversion rate will not be adjusted.

The number of shares of common stock that you are entitled to receive on the conversion date, or as a result of early conversion of a share of HiMEDS<sup>SM</sup>, is subject to adjustment for certain events arising from stock splits and combinations, stock dividends, cash dividends and certain other actions by us that modify our capital structure. However, we will not adjust the conversion rate for other events, including offerings of common stock for cash by us or in connection with acquisitions. As a result, an event that adversely affects the value of the shares of HiMEDS<sup>SM</sup>, but does not result in an adjustment to the conversion rate, could occur.

Delaware law and the terms of our senior credit facility and debt indentures may restrict us from paying cash dividends on our HiMEDS<sup>SM</sup>.

Delaware law provides that we may pay dividends on the HiMEDS<sup>SM</sup> only to the extent that assets are legally available to pay such dividends. Legally available assets mean the amount of our surplus. Our surplus is the amount by which our total assets exceed the sum of (x) our total liabilities, including our contingent liabilities, and (y) the amount of our capital. If there is no surplus, legally available assets means, in the case of a dividend, the amount of our net profits for the fiscal year in which the payment occurs and/or the preceding fiscal year.

The terms of our senior credit facility and our other long-term debt instruments limit our ability to pay cash dividends on any shares of our preferred stock. Furthermore, if we are in default under our senior credit facility, our ability to pay cash dividends will be limited in the absence of a waiver from that default or an amendment to our senior credit facility. Similar prohibitions may be applicable

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under our debt indentures. In these circumstances, we cannot assure you that we will be able to successfully obtain such waivers or negotiate an amendment.

In addition, because we are a holding company, our ability to pay cash dividends on shares of our HiMEDS<sup>SM</sup> may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries. Accordingly, there is no guarantee that we will be able to pay any cash dividends on shares of our HiMEDS<sup>SM</sup>, including upon mandatory conversion.

We cannot assure you that we will file or will be able to file, cause to be declared effective or keep effective, as the case may be, the registration statement required to permit us to pay dividends on our HiMEDS<sup>SM</sup> in shares of our common stock.

We are permitted to pay dividends on our HiMEDS<sup>SM</sup> by delivering shares of our common stock to the transfer agent to be sold. We may pay dividends in this manner, however, only if there is an effective registrations statement permitting the transfer agent to sell our common stock in the public market. We cannot assure you that we will or will be able to file, cause to be declared effective or keep effective, as the case may be, such registration statement.

You may have to pay taxes with respect to distributions on our common stock that you do not receive.

The number of shares of common stock that you are entitled to receive on the automatic conversion date, or as a result of any early conversion of shares of HiMEDS<sup>SM</sup>, is subject to adjustment for certain events, including from stock splits and combinations, stock dividends, certain cash dividends and certain other actions by us or a third party that modify our capital structure. If the conversion rate is adjusted as a result of a distribution that is taxable to our common stockholders, such as a cash dividend, or under certain other circumstances, you generally would be required to include an amount in income for federal income tax purposes, notwithstanding the fact that you do not actually receive such distribution. The amount that you will generally have to include in income would be the fair market value of the additional shares of common stock to which you would be entitled by reason of the increase in your proportionate equity interests in the company to the extent of our current and accumulated earnings and profits. In addition, non-U.S. holders of the HiMEDS<sup>SM</sup> may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax requirements.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Factors that could cause our 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 credit facility and other debt agreements, including the indenture governing the notes offered hereby;
- 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;
- the outcomes of pending lawsuits and governmental investigations;
- competitive pricing pressures and continued consolidation of the drugstore industry; and
- the efforts of third-party payors to reduce prescription drug reimbursements and encourage mail order, changes in state or federal legislation or regulations, the success of planned advertising and merchandising strategies, general economic conditions and inflation, interest rate movements, access to capital, and our relationships with our suppliers.

We undertake no obligation to revise the forward-looking statements included or incorporated by reference in this document to reflect any future events or circumstances. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled "Risk Factors" included in this prospectus supplement. In addition, you are advised to review any further disclosures we make on related subjects in reports we file with the SEC.

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## USE OF PROCEEDS

We intend to use the net proceeds from the sale of the HiMEDS of \$110.3 million, or \$120.0 million if the underwriters exercise their over-allotment option in full, to redeem, at a purchase price of 105%, plus accrued dividends, \$103.0 million liquidation preference (1,030,000 shares) of Series D preferred stock. We may redeem additional shares of Series D preferred stock with any remaining proceeds from this offering. Any additional remaining net proceeds not used to purchase additional shares of Series D preferred stock will be used for working



capital and general corporate purposes.

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## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and total capitalization as of November 27, 2004: (i) on an actual basis, (ii) as adjusted to give effect to our offering of 7½% Senior Secured Notes, including the anticipated use of proceeds therefrom, together with borrowings under our revolving credit facility, to ultimately pay, at their respective stated maturity dates, our 7.625% senior notes due April 15, 2005 and our 6.0% fixed-rate senior notes due December 15, 2005 and (iii) as further adjusted to give effect to the declaration and payment of a regularly scheduled dividend on the Series D preferred stock in the amount of \$8.9 million, which dividend was paid in additional shares of Series D preferred stock in December, 2004, and to this offering, including the anticipated use of proceeds therefrom. Initially and until the respective stated maturity dates of the 6.0% fixed-rate senior notes and the 7.625% senior notes, the net proceeds from the offering of 7½% Senior Secured Notes will be applied to temporarily repay borrowings outstanding under our revolving credit facility and off balance sheet obligations under our accounts receivable securitization program.

	November 27, 2004		
	Actual	As Adjusted	As Further Adjusted
	(In Thousands, except share amounts)		
Cash and cash equivalents <sup>(1)</sup>	\$ 95,768	\$ 95,768	\$ 97,232
Long-term debt, including current portion:			
Secured Debt: <sup>(2)</sup>			
Senior credit facility:			
Revolving Credit Facility due 2009 <sup>(3)</sup>	\$ 99,000	\$ 110,047	\$ 110,047
Term Loan due 2009	450,000	450,000	450,000
12.5% senior secured notes due 2006 <sup>(4)</sup>	139,036	139,036	139,036
9½% senior secured notes due 2011	300,000	300,000	300,000
8.125% senior secured notes due 2010 <sup>(5)</sup>	356,333	356,333	356,333
7½% senior secured notes due 2015	—	200,000	200,000
Other secured debt	2,533	2,533	2,533
	1,346,902	1,557,949	1,557,949
Lease Financing Obligations	171,025	171,025	171,025
Unsecured Debt:			
7.625% senior notes due 2005 <sup>(6)</sup>	170,500	—	—
6.0% fixed-rate senior notes due 2005 <sup>(6)</sup>	38,047	—	—
4.75% convertible notes due 2006 <sup>(7)</sup>	247,125	247,125	247,125
7.125% senior notes due 2007	184,074	184,074	184,074
11.25% senior notes due 2008	150,000	150,000	150,000
6.125% fixed-rate senior notes due 2008	150,000	150,000	150,000
9.25% senior notes due 2013 <sup>(8)</sup>	147,959	147,959	147,959
6.875% senior debentures due 2013	184,773	184,773	184,773
7.7% notes due 2027	295,000	295,000	295,000

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6.875% fixed-rate senior notes due 2028	128,000	128,000	128,000
	1,695,478	1,486,931	1,486,931
Total debt	3,213,405	3,215,905	3,215,905
Stockholders' equity:			
Preferred stock, par value \$1 per share, 20,000,000 shares authorized, 4,433,760 shares issued and outstanding actual and as adjusted, 3,492,440 shares issued and outstanding as further adjusted			
Series D preferred stock, par value \$1 per share, liquidation preference \$100 per share, 6,000,000 shares authorized, 4,433,760 shares issued and outstanding actual and as adjusted, no shares issued and outstanding as further adjusted <sup>(9)</sup>	443,376	443,376	—
Series F preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, no shares issued and outstanding actual and as adjusted, 1,164,150 shares issued and outstanding as further adjusted <sup>(10)</sup>	—	—	116,415

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	November 27, 2004		
	Actual	As Adjusted	As Further Adjusted
	(In Thousands, except share amounts)		
Series G preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, no shares issued and outstanding actual and as adjusted, 1,164,150 shares issued and outstanding as further adjusted <sup>(10)</sup>	—	—	116,415
Series H preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, no shares issued and outstanding actual and as adjusted, 1,164,140 shares issued and outstanding as further adjusted <sup>10</sup>	—	—	116,414
HiMEDS <sup>SM</sup> offered hereby, par value \$1 per share, liquidation preference \$50 per share, 2,500,000 shares authorized, no shares issued and outstanding actual and as adjusted, 2,300,000 shares issued and outstanding as further adjusted <sup>(11)</sup>	—	—	110,300
Common stock, par value \$1 per share, 1,000,000,000 shares authorized, 520,600,000 shares issued and outstanding actual, as adjusted and as further adjusted	520,600	520,600	520,600
Additional paid-in capital <sup>(12)</sup>	3,121,063	3,121,063	3,111,509
Accumulated deficit <sup>(13)</sup>	(3,961,293)	(3,961,293)	(3,966,443)
Accumulated other comprehensive loss	(22,879)	(22,879)	(22,879)
Total stockholders' equity	100,867	100,867	102,331
Total capitalization	\$ 3,314,272	\$ 3,316,772	\$ 3,318,236

(1) As further adjusted amount reflects the difference between the net proceeds from the sale of the HiMEDS<sup>SM</sup> offered hereby and the redemption of 1,030,000 shares of outstanding Series D preferred stock. As further adjusted cash would be \$106,932 if the underwriters exercise their over-allotment

option in full. See "Summary—Related Transactions."

- (2) Does not include off balance sheet obligations under our accounts receivable securitization program in the amount of \$335,000.
- (3) As adjusted amount reflects the use of additional borrowings under our revolving credit facility to pay the difference between the carrying amount of the 7.625% senior notes due 2005 and the 6.0% fixed-rate senior notes due 2005 together with the proceeds from our offering of 7½% Senior Secured Notes, net of fees and expenses.
- (4) Represents principal amount of \$142,025 less unamortized discount of \$2,989.
- (5) Represents principal amount of \$360,000 less unamortized discount of \$3,667.
- (6) Although the table reflects the use of proceeds from our offering of 7½% Senior Secured Notes to repay at their stated maturity our 6.0% fixed rate senior notes due 2005 and our 7.625% senior notes due 2005, pending such application of proceeds, we will repay borrowings outstanding under our revolving credit facility and our accounts receivable securitization program.
- (7) Represents principal amount of \$250,000 less unamortized discount of \$2,875.
- (8) Represents principal amount of \$150,000 less unamortized discount of \$2,041.
- (9) As further adjusted reflects the redemption of 1,030,000 shares of outstanding Series D preferred stock and the exchange of the remaining shares of Series D preferred stock for shares of Series F, G and H preferred stock. See "Summary—Related Transactions."
- (10) As further adjusted reflects an additional scheduled Series D dividend of \$8,868 (paid in additional shares of Series D preferred stock) prior to the transactions, the redemption of 1,030,000 shares of outstanding Series D preferred stock, and the exchange of the remaining 3,492,437 shares of Series D preferred stock for nearly equal amounts of Series F, G and H preferred stock. See "Summary—Related Transactions."
- (11) Represents net proceeds from the sale of the HiMEDS<sup>SM</sup> offered hereby. The as further adjusted net proceeds from the sale of HiMEDS<sup>SM</sup> would be \$120,000 if the underwriters exercise their over-allotment option in full.
- (12) As further adjusted amount reflects a scheduled Series D dividend of \$8,868 (paid in additional shares of Series D preferred stock) and a dividend on the 1,030,000 shares of Series D redeemed of \$686. See "Summary—Related Transactions."
- (13) As further adjusted amount reflects the redemption of 1,030,000 shares of outstanding Series D preferred stock that is in excess of the liquidation value.

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## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock, par value \$1.00 per share, is listed on the New York and Pacific Stock Exchanges under the symbol "RAD." As of January 21, 2005, we had approximately 24,389 record shareholders and had outstanding 520,605,784 shares of common stock. Quarterly high and low stock prices, based on closing sales prices per share on the New York Stock Exchange, are shown below. The last reported sale price for our common stock on January 25, 2005 was \$3.57 per share.

Fiscal Year 2005	High	Low
First quarter	\$ 5.75	\$ 4.53
Second quarter	\$ 5.38	\$ 4.38

Third quarter	\$	4.58	\$	3.35
Fourth quarter (through January 25, 2005)	\$	3.81	\$	3.41
<b>Fiscal Year 2004</b>				
First quarter	\$	3.90	\$	2.17
Second quarter	\$	5.05	\$	3.67
Third quarter	\$	6.30	\$	4.73
Fourth quarter	\$	6.40	\$	5.25
<b>Fiscal Year 2003</b>				
First quarter	\$	4.22	\$	3.01
Second quarter	\$	3.24	\$	1.75
Third quarter	\$	2.65	\$	1.79
Fourth quarter	\$	3.05	\$	2.02

We have not declared or paid any cash dividends on our common stock since the third quarter of fiscal year 2000 and we do not anticipate paying cash dividends in the foreseeable future. Our senior credit facility does not allow us to pay cash dividends on our common stock. Some of the indentures that govern our other outstanding indebtedness also restrict our ability to pay dividends.

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## DESCRIPTION OF HiMEDS<sup>SM</sup>

The description in this prospectus supplement of the terms of our HiMEDS<sup>SM</sup> is only a summary. The terms of our HiMEDS<sup>SM</sup> are contained in a certificate of designations that amends our restated certificate of incorporation, as amended. We have previously filed with the SEC copies of our restated certificate of incorporation, as amended. See "Where You Can Find More Information." For a complete description of the terms of our HiMEDS<sup>SM</sup>, please see the certificate of designations, which will be filed with the SEC as an exhibit to a current report on Form 8-K after the date of this prospectus supplement.

### General

Our certificate of incorporation authorizes the issuance of 20,000,000 shares of preferred stock, par value \$1.00 per share, in one or more series and on the terms and conditions determined by our board of directors. When issued, our HiMEDS<sup>SM</sup> will constitute a single series of our preferred stock, consisting of 2,300,000 shares (or 2,500,000 shares if the underwriters exercise in full their over-allotment option in accordance with the procedures set forth in "Underwriting"). The liquidation preference of our HiMEDS<sup>SM</sup> will be \$50.00 per share, plus an amount equal to the sum of all accumulated and unpaid dividends. The holders of shares of our HiMEDS<sup>SM</sup> will have no preemptive rights. All of the shares of our HiMEDS<sup>SM</sup>, when issued and paid for, will be fully paid and non-assessable. See "Description of Capital Stock—Preferred Stock" in the accompanying prospectus.

Our HiMEDS<sup>SM</sup> will rank senior to all of our currently outstanding common stock and common stock that we may issue in the future as to payment of dividends and distribution of assets upon our dissolution, our liquidation or the winding up of our affairs. As of January 21, 2005, we had approximately 520,605,784 shares of common stock outstanding. Our HiMEDS<sup>SM</sup> will rank on parity with the Series F, G and H preferred stock that we will issue simultaneously with the closing of this offering and any Series F, G and H preferred stock that we may issue in the future as to payment of dividends and distribution of assets upon our dissolution, our liquidation or the winding up of our affairs. As of December 31, 2004, we had approximately 4,522,437 shares of Series D preferred stock outstanding.

We intend to use the net proceeds from the offering of the HiMEDS<sup>SM</sup> to redeem 1,030,000 shares of the Series D preferred stock. The remaining shares of Series D preferred stock will be exchanged for shares of our Series F, G and H preferred stock as described under "Summary— Related Transactions".

The terms of our HiMEDS<sup>SM</sup> restrict our ability to issue capital stock that ranks senior to our HiMEDS<sup>SM</sup> with an aggregate liquidation preference in excess of \$50.0 million. See "—Voting Rights."

Under Delaware law, we may pay dividends on our HiMEDS<sup>SM</sup>, whether in cash or otherwise, only to the extent that assets are legally available to pay such dividends.

Legally available assets means the amount of our surplus. Our surplus is the amount by which our total assets exceed the sum of:

- our total liabilities, including our contingent liabilities, and
- the amount of our capital.

If there is no surplus, legally available assets means, in the case of a dividend, the amount of our net profits for the fiscal year in which the payment occurs and/or the preceding fiscal year.

When the need to make a determination of legally available assets arises, the amount of our total assets and liabilities and the amount of our capital will be determined by our board of directors in accordance with Delaware law. As of the date of this prospectus supplement, and before giving effect to the consummation of this offering, the anticipated use of proceeds therefrom and the exchange of Series D preferred stock for shares of Series F, G and H preferred stock, we had a surplus of at least \$500 million.

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## Dividends

### General

Dividends on our HiMEDS<sup>SM</sup> will be payable quarterly, if declared, on the 1<sup>st</sup> calendar day (or the following business day if the 1<sup>st</sup> is not a business day) of February, May, August and November of each year (each a "dividend payment date") at the annual rate of \$3.50 per share. The initial dividend on our HiMEDS<sup>SM</sup> assuming our issue date is January 31, 2005, will be \$0.8847 per share, and will be payable, if declared, on May 2, 2005. Each subsequent quarterly dividend on our HiMEDS<sup>SM</sup>, if declared, will be \$0.875 per share.

The amount of dividends payable on each share of our HiMEDS<sup>SM</sup> for each full quarterly period will be computed by dividing the annual dividend rate by four. The amount of dividends payable for any other period that is shorter or longer than a full quarterly dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

A dividend period is the period ending on the day before a dividend payment date and beginning on the preceding dividend payment date or, if none, the date of issue. Dividends payable, if declared, on a dividend payment date will be payable to holders of record as they appear on our stock books on the later of (1) the 15th calendar day (or the following business day if the 15th calendar day is not a business day) of the calendar month before the calendar month in which the applicable dividend payment date falls, and (2) the close of business on the day on which our board of

directors or an authorized committee of our board declares the dividend payable.

We are only obligated to pay a dividend on our HiMEDS<sup>SM</sup> if our board of directors or an authorized committee of our board declares the dividend payable and we have assets that legally can be used to pay the dividend. The terms of our senior credit facility limit our ability to pay cash dividends on any shares of our preferred stock to \$60 million per year, and only permit such payments if no default or event of default has occurred and is continuing under our senior credit facility. The terms of our debt indentures also limit our ability to pay cash dividends on any shares of our preferred stock. Our most restrictive indenture currently limits our ability to pay cash dividends in excess of \$25 million in the aggregate. Furthermore, if we are in default under our credit facilities or indentures, our ability to pay cash dividends will be limited in the absence of a waiver of such default or an amendment to our senior credit facility or indentures.

Dividends on our HiMEDS<sup>SM</sup> will be cumulative, whether or not there are assets legally available for the payment of such dividends. This means that, if our board of directors or an authorized committee of our board fails to declare a dividend, the dividend will accumulate until declared and paid.

We may pay dividends in cash, shares of common stock, or any combination thereof, as we determine in our sole discretion. Shares of our common stock delivered to the transfer agent as dividends on behalf of the holders of our HiMEDS<sup>SM</sup> will be sold for cash. We will serve as the designated agent of the holders of shares of our HiMEDS<sup>SM</sup> in causing the transfer agent to deliver the shares of common stock for sale. If we pay dividends by delivering shares of our common stock to the transfer agent, we must deliver to the transfer agent the number of shares of our common stock, which, when sold, will result in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. To pay dividends in this manner, we must provide the transfer agent with a registration statement permitting the immediate sale of the shares of common stock in the public market. In addition, we may elect to deliver shares of our common stock to the transfer agent to sell on our behalf pursuant to such registration statement in order to finance our payment of a cash dividend. We cannot assure you that we will or will be able to timely file, cause to be declared effective or keep effective such a registration statement. See "Risk Factors—We cannot assure you that we will file or will be able to file, cause to be declared effective or keep effective, as the case may be, the registration statement required to permit us to pay dividends on our HiMEDS<sup>SM</sup> in shares of our common stock."

If we pay dividends in shares of our common stock by delivering them to the transfer agent, those shares will be owned by the holders of shares of our HiMEDS<sup>SM</sup> upon delivery to the transfer agent,

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and the transfer agent will hold those shares and the net cash proceeds from the sale of those shares for the exclusive benefit of the holders. By purchasing our HiMEDS<sup>SM</sup>, you are deemed to appoint us as your agent in causing the transfer agent to deliver the shares of common stock for sale upon payment of dividends on our HiMEDS<sup>SM</sup>.

We are not obligated to pay holders of HiMEDS<sup>SM</sup> any interest or sum of money in lieu of interest on any dividend not paid on a dividend payment date or any other late or penalty payment. We are also not obligated to pay holders of HiMEDS<sup>SM</sup> any dividend in excess of the full dividends on the HiMEDS<sup>SM</sup> that are payable as described above, although our board of directors or an authorized committee of our board may declare and pay a special dividend out of legally available assets.

If our board of directors or an authorized committee of our board does not declare a dividend in respect of any dividend payment date, the board of directors or an authorized committee may declare and pay the dividend on any

other date, whether or not a dividend payment date. The persons entitled to receive the dividend will be holders of our HiMEDS<sup>SM</sup> as they appear on our stock register on a date selected by the board of directors or an authorized committee. That date must (1) not precede the date our board of directors or an authorized committee of our board declares the dividend payable and (2) not be more than 60 days prior to the date the dividend is paid.

#### Payment Restrictions

If we do not pay a dividend on a dividend payment date, then, until all accumulated and unpaid dividends on our HiMEDS<sup>SM</sup> for all prior dividend periods are declared and paid:

- We may not take any of the following actions with respect to any of our capital stock that ranks junior to our HiMEDS<sup>SM</sup> as to payment of dividends or the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs:
  - declare or pay any dividend or make any distribution of assets on such junior capital stock, other than dividends or distributions made in shares of our capital stock that ranks junior to our HiMEDS<sup>SM</sup> or securities that rank junior to our HiMEDS<sup>SM</sup> that are exchangeable for or convertible into our capital stock that ranks junior to our HiMEDS<sup>SM</sup> as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs; or
  - redeem, purchase or otherwise acquire, pay or make available any monies for a sinking fund for such junior capital stock, except upon conversion into or in exchange for our capital stock that ranks junior to our HiMEDS<sup>SM</sup> as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs.
- We may not redeem, purchase or otherwise acquire any of our capital stock that ranks equally with our HiMEDS<sup>SM</sup> as to payment of dividends or the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs, except upon conversion into or in exchange for our capital stock that ranks equally with or junior to our HiMEDS<sup>SM</sup> as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs; provided, however, that:
  - the equally ranking capital stock contains terms and conditions (including, without limitation, with respect to the payment of dividends, dividend rates, liquidation preferences, voting and representation rights, payment restrictions, anti-dilution rights, change of control rights, covenants, remedies and conversion and redemption rights) that are not materially less favorable, taken as a whole, to us or to the holders of our HiMEDS<sup>SM</sup> than those contained in the capital stock that is converted into or exchanged for such equally ranking capital stock, as determined in good faith by our board of directors,

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- the aggregate amount of the liquidation preference of the equally ranking capital stock does not exceed the aggregate amount of the liquidation preference, plus accumulated and unpaid dividends, of the capital stock that is converted or exchanged for such equally ranking capital stock and
  - the aggregate number of shares of our common stock issuable upon conversion, redemption or exchange of the equally ranking capital stock does not exceed the aggregate number of shares of our common stock issuable upon conversion, redemption or exchange of the capital stock that is converted or exchanged for such equally ranking capital stock,

including any such shares of our common stock issuable in respect of accrued and unpaid dividends.

- Notwithstanding the restrictions described in the immediately preceding paragraph, we may redeem, repurchase or otherwise acquire for consideration, parity stock pursuant to a purchase or exchange offer made to all holders of such parity stock and on the same terms to all holders of other parity stock, including the HiMEDS<sup>SM</sup>.

The foregoing restrictions do not restrict our ability to declare and pay dividends on capital stock that ranks equally with our HiMEDS<sup>SM</sup> as to the payment of dividends or the distribution of assets upon our dissolution, our liquidation, or the winding up of our affairs, including our Series F, G and H preferred stock.

## Conversion

### General

Each HiMEDS<sup>SM</sup> will be convertible into a specified number of newly issued shares of our common stock equal to the applicable conversion rate. The applicable conversion rate will vary depending upon whether:

- your HiMEDS<sup>SM</sup> are converted on the automatic conversion date; or
- we cause you to convert your HiMEDS<sup>SM</sup> prior to the automatic conversion date, as described below under "—Automatic Conversion of HiMEDS<sup>SM</sup>", pursuant to our provisional conversion right described below under "—Provisional Conversion at the Option of Rite Aid"; or
- you convert your HiMEDS<sup>SM</sup> prior to the automatic conversion date pursuant to the conversion right described below under "—Conversion at the Option of the Holder"; or
- we are involved in a merger prior to the automatic conversion date in which at least 30% of the consideration for our common stock consists of cash or cash equivalents, and you have converted your HiMEDS<sup>SM</sup> through an exercise of a merger early settlement right as described in "—Early Settlement Upon Cash Merger".

If we enter into specified reorganization events, such as a merger with or into another person, a sale of our property as an entirety or substantially as an entirety or specified reclassifications of our common stock, each HiMEDS<sup>SM</sup> will no longer be convertible into shares of our common stock but will thereafter be convertible into exchange property units (as defined under "—Anti-dilution Adjustments—Reorganization Events." The number of exchange property units to which a converting holder will be entitled will vary depending upon whether conversion occurs (1) on the automatic conversion date, (2) pursuant to our provisional conversion right, (3) pursuant to your optional conversion right or (4) following a qualifying cash merger, pursuant to your merger early settlement right. If an exchange property unit includes property other than common stock, then upon conversion, we may elect to deliver additional shares of common stock in lieu of such other property; the number of such additional shares of common stock will be equal to the applicable market value of such other property divided by the applicable market value per share of such common stock.

Conversion of the HiMEDS<sup>SM</sup> will occur on the automatic conversion date unless you exercise your optional conversion right or, following a qualifying cash merger, your merger early settlement right, or we exercise our provisional conversion right.



On the conversion date or as soon as reasonably practicable thereafter, certificates representing our common stock will be issued and delivered to you or your designee, upon presentation and surrender of the certificate evidencing the shares of our HiMEDS<sup>SM</sup>, if shares of our HiMEDS<sup>SM</sup> are held in certificated form, and payment by you of (1) any transfer or similar taxes payable in connection with the issuance of our common stock to any person other than you and (2), as further described under "—Optional Conversion" below, in connection with an optional conversion after the close of business on a record date for any payment of dividends and before the opening of business on the next dividend payment date, a cash payment of an amount equal to the dividend on that HiMEDS<sup>SM</sup> which is to be paid on that dividend payment date.

Our HiMEDS<sup>SM</sup> will be deemed to have been converted and the shares of our common stock issuable upon such conversion will be deemed to have issued immediately prior to the close of business on the conversion date or, if shares of our HiMEDS<sup>SM</sup> are held in certificated form, on such later date as such certificates are presented and surrendered. Prior to such date, our common stock underlying our HiMEDS<sup>SM</sup> will not be deemed to be outstanding for any purpose and you will have no rights with respect to such common stock, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on such common stock, by virtue of holding our HiMEDS<sup>SM</sup>.

#### Automatic Conversion of Our HiMEDS<sup>SM</sup>

Each share of our HiMEDS<sup>SM</sup>, unless previously converted, will automatically convert, on February 1, 2008, or the "automatic conversion date," into a number of newly issued shares of our common stock equal to the conversion rate described in the next paragraph. The holders of shares of HiMEDS<sup>SM</sup> on the automatic conversion date will have the right to receive a payment of cash, shares of our common stock, or any combination thereof, as we determine in our sole discretion, in an amount equal to the accumulated and unpaid dividends on our HiMEDS<sup>SM</sup> as of the automatic conversion date (taking into account any payment of such dividends on the automatic conversion date), whether or not declared, out of legally available assets. To the extent we have these assets available and we pay some or all of the amount of accumulated and unpaid dividends in shares of our common stock, the number of shares of our common stock issuable to you in respect of such accumulated and unpaid dividends will equal the amount of accumulated and unpaid dividends on our HiMEDS<sup>SM</sup> on the automatic conversion date that we determine to pay in shares of our common stock divided by the "applicable market value" (as defined below) per share of our common stock used for purposes of determining the conversion rate. In the event we pay some or all of the amount of accumulated and unpaid dividends in shares of our common stock, we will notify the holders of shares of our HiMEDS<sup>SM</sup> whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and will specify the combination in the notice, at least 3 business days prior to the first trading day that will be included in the calculation of adjusted applicable market value for purposes of determining the conversion rate applicable to such conversion.

The conversion rate, which is the number of newly issued shares of our common stock issuable upon conversion of each share of our HiMEDS<sup>SM</sup> on the automatic conversion date, will, subject to adjustment under certain circumstances as described under "—Anti-dilution Adjustments" below, be as follows:

- If the "adjusted applicable market value" of our common stock (as defined below) is equal to or greater than \$5.36, which we call the "threshold appreciation price", then the conversion rate per share of HiMEDS<sup>SM</sup> (which we call the "high conversion rate") will be determined based on the following formula:

where:

"SA" refers to the stated amount (\$50.00);

"IP" refers to the initial price (\$3.57);

"AAMV" refers to the adjusted applicable market value;

"TAP" refers to the threshold appreciation price (\$5.36); and

"AF" refers to the anti-dilution factor (as defined below).

Accordingly, if the market price for our common stock increases after the date of this prospectus supplement but that market price is equal to the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each such share of HiMEDS<sup>SM</sup>, assuming that the market price on the automatic conversion date is the same as the adjusted applicable market value of our common stock, will equal \$50.00. If the market price for our common stock increases after the date of this prospectus supplement and that market price is greater than the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each such share of HiMEDS<sup>SM</sup>, assuming that the market price on the automatic conversion date is the same as the adjusted applicable market value of our common stock will be greater than \$50.00.

- If the adjusted applicable market value of our common stock is less than the threshold appreciation price but greater than \$3.57 (which we call the "initial stock price"), the conversion rate (which we call the "middle conversion rate") will be equal to \$50.00 divided by the applicable market value of our common stock per share of our HiMEDS<sup>SM</sup>. Accordingly, if the market price for our common stock increases after the date of this prospectus supplement but that market price is less than the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each share of our HiMEDS<sup>SM</sup>, assuming that the market price on the automatic conversion date is the same as the applicable market value of our common stock, will equal \$50.00.
- If the adjusted applicable market value of our common stock is less than or equal to the initial stock price, the conversion rate (which we call the "low conversion rate") will be 14.0056 shares of our common stock per share of our HiMEDS<sup>SM</sup>, which is equal to \$50.00 divided by the initial stock price. Accordingly, if the market price of our common stock on the automatic conversion date equals the initial stock price, the value of those shares, assuming that this market price is the same as the adjusted applicable market value of our common stock, will equal \$50.00. If the market price for our common stock decreases to an amount that is less than the initial stock price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each share of our HiMEDS<sup>SM</sup>, assuming that the market price on the automatic conversion date is the same as the adjusted applicable market value of our common stock, will be less than \$50.00. Holders of our HiMEDS<sup>SM</sup> will realize the entire decline in equity value if, at the automatic conversion date, the adjusted applicable market value of our common stock is less than the initial stock price.

In the circumstances described in each of the three subparagraphs above, the number of newly issued shares of our common stock issuable upon conversion of each share of our HiMEDS<sup>SM</sup> on the automatic conversion date will be increased by an amount equal to any accumulated and unpaid dividends on our HiMEDS<sup>SM</sup> on the conversion date (taking into account any payment of such dividends on the automatic conversion date) divided by the applicable market value per share of our common stock used for purposes of determining the conversion rate.

The "adjusted applicable market value" means the product of (x) the applicable market value multiplied by (y) the anti-dilution factor in effect on the conversion date; provided, however, that if an adjustment to the anti-dilution factor is required to be made pursuant to the occurrence of any of the events described under "—Anti-dilution Adjustments" below during the period taken into

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consideration for determining the applicable market value, appropriate and customary adjustments shall be made to the anti-dilution factor.

The "applicable market value" means the average of the closing prices per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the conversion date; provided, however, that if we enter into a reorganization event (as defined under "—Anti-dilution Adjustments" below), applicable market value shall mean the exchange property (as defined under "—Anti-dilution Adjustments—Reorganization Events" below) unit value. Following the occurrence of any such event, references herein to conversion into shares of our common stock should be construed to be references to conversion into exchange property units. For purposes of calculating the exchange property unit value, (x) the value of any common stock shall be determined using the average of the closing price per unit of such common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the conversion date and (y) the value of any other property, including securities other than common stock, shall be the value of such property determined at the effective time of the applicable reorganization event.

The "anti-dilution factor" shall initially be equal to one and shall be subject to adjustment as described under "—Anti-dilution Adjustments" below. The anti-dilution factor is a cumulative factor that reflects the aggregate adjustments, if any, made to the low and optional conversion rates.

For purposes of determining the applicable market value or the current market price (as defined below) for our common stock or any other common stock, the closing price of our common stock or such other common stock on any date of determination means the closing sale price or, if no closing sale price is reported, the last reported sale price of our common stock or such other common stock on the New York Stock Exchange on that date. If our common stock or such other common stock is not listed on the New York Stock Exchange on any date of determination, the closing price of our common stock or such other common stock on that date means the closing sales price as reported in the composite transactions for the principal U.S. national or regional securities exchange on which our common stock or such other common stock is so listed or quoted, or if our common stock or such other common stock is not so listed or quoted on a U.S. national or regional securities exchange, as reported by the Nasdaq stock market, or, if our common stock or such other common stock is not so reported, the last quoted bid price for our common stock or such other common stock in the over-the-counter market as reported by the National Quotation Bureau or similar organization or, if that bid price is not available, the market value of our common stock or such other common stock on that date as determined by a nationally recognized independent investment banking firm retained by us for this purpose.

A "trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock or any security distributed in a spin-off or any other common stock, as the case may be, is not listed on the New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is then listed or, if our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq stock market or, if our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is not so

reported, on the principal over-the-counter market on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is then traded. No day on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, experiences any of the following, however, will count as a trading day:

- any suspension of or limitation imposed on trading of our common stock, any security distributed in a spin-off or such other common stock, as the case may be, on the principal U.S. national or regional securities exchange or association or over-the-counter market on which it is listed or traded;
- any event (other than an event listed in the bullet below) that disrupts or impairs the ability of market participants in general to effect transactions in or obtain market values for our common stock, any security distributed in a spin-off or such other common stock, as the case

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may be, on the principal U.S. national or regional securities exchange or association or over-the-counter market on which it is listed or traded; or

- the principal U.S. national or regional securities exchange or association or over-the-counter market on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is listed or trades closes on any exchange business day prior to its scheduled closing time unless, in the case of an exchange or the Nasdaq stock market, such earlier closing time is announced by the exchange or association at least one hour prior to the earlier of (1) the actual closing time for the regular trading session on that exchange and (2) the submission deadline for orders to be entered into the exchange for execution on that business day.

#### Provisional Conversion at the Option of Rite Aid

Prior to the automatic conversion date, we may, at our option cause the conversion of all, but not less than all, the shares of our HiMEDS<sup>SM</sup> then outstanding for shares of our common stock at the conversion rate determined in accordance with the conversion rate and market value determination provisions described under "—Automatic Conversion of our HiMEDS<sup>SM</sup>" assuming for purposes of calculation that the trading day immediately preceding the provisional conversion date is the automatic conversion date; provided that we may not send the notice of provisional conversion to you unless the amount determined by multiplying the closing price per share of our common stock and the applicable anti-dilution factor in effect on the day of such closing price exceeded 150% of the threshold appreciation price (or \$8.04) for at least 20 trading days within a period of 40 consecutive trading days ending on the trading day prior to the notice date. Such notice must be sent at least 3 business days prior to the first trading day that will be included in the calculation of adjusted applicable market value for purposes of determining the conversion rate applicable to such conversion and must specify the date for the provisional conversion which shall be at least 30, but not more than 60, days from the date of such notice. In addition, if we elect to deliver some or all of the amount of accumulated and unpaid dividends and the present value of all remaining dividend payments on your HiMEDS<sup>SM</sup> through and including February 1, 2008, in shares of our common stock (as described below), such notice will indicate whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and we will specify the combination in the notice. We will be able to cause this conversion only if, in addition to issuing you shares of our common stock as described above, we either pay you in cash, the sum of (which we refer to as the "dividend make-whole amount") (1) an amount equal to any accumulated and unpaid dividends on your shares of our HiMEDS<sup>SM</sup>, whether or not declared, plus (2) the present value of all remaining dividend payments on your shares of HiMEDS<sup>SM</sup> through and including February 1, 2008, in each case, out of legally available assets, or increase the number of shares of our common stock to be issued on conversion by an amount equal

to the dividend make-whole amount, divided by the applicable market value per share of our common stock used for purposes of determining the conversion rate. The present value of the remaining dividend payments will be computed using a discount rate equal to the Treasury Yield. "Treasury Yield" means the weekly average yield at the time of computation for United States Treasury securities at constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days prior to the date fixed for conversion (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the then-remaining term to February 1, 2008; provided, however, that if the then-remaining term to February 1, 2008 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the then-remaining term to February 1, 2008 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

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#### Conversion at the Option of the Holder

The holders of shares of HiMEDS<sup>SM</sup> have the right to convert them, in whole or in part, at any time prior to the automatic conversion date, into shares of our common stock at the rate (the "optional conversion rate") of 9.3284 shares of our common stock for each share of our HiMEDS<sup>SM</sup>, subject to adjustment under certain circumstances as described under "—Anti-dilution Adjustments" below. The optional conversion rate is equal to \$50.00 divided by the threshold appreciation price, which is equal to the conversion rate determined in accordance with the conversion rate and market value determination provisions described under "—Automatic Conversion of Our HiMEDS<sup>SM</sup>" assuming for the purposes of calculation that the conversion date is the automatic conversion date and that the adjusted applicable market value of our common stock on that date is equal to the threshold appreciation price.

Holders of shares of HiMEDS<sup>SM</sup> at the close of business on a record date for any payment of dividends will be entitled to receive any dividend then payable on that HiMEDS<sup>SM</sup> on the corresponding dividend payment date, even if optional conversion of our HiMEDS<sup>SM</sup> occurs between that record date and the corresponding dividend payment date. However, if you surrender any HiMEDS<sup>SM</sup> pursuant to your optional conversion right for conversion after the close of business on a record date for any payment of dividends and before the opening of business on the next dividend payment date, you must include with that HiMEDS<sup>SM</sup> a cash payment of an amount equal to the dividend on that HiMEDS<sup>SM</sup> which is to be paid on that dividend payment date.

Except as described above, upon any optional conversion of our HiMEDS<sup>SM</sup>, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on that HiMEDS<sup>SM</sup>, or for dividends or distributions on the shares of our common stock issued upon conversion.

#### Early Settlement Upon Cash Merger

Prior to the automatic conversion date, if we are involved in a merger in which at least 30% of the consideration for our common stock consists of cash or cash equivalents, which we refer to as a "cash merger," then on or after the date of the cash merger, each holder of shares of HiMEDS<sup>SM</sup> that remain outstanding after that date, if any, will have the right to accelerate and convert our HiMEDS<sup>SM</sup> at the conversion rate determined in accordance with the conversion rate and market value determination provisions described under "—Automatic Conversion of Our HiMEDS<sup>SM</sup>" assuming for the purposes of calculation that the trading day immediately preceding the effective date of the cash merger is the automatic conversion date. We refer to this right as the "merger early settlement right." We will provide

each of the holders with a notice of the completion of a cash merger within five business days after completion. The notice will specify a date, which will be at least 20, but not more than 30, days after the date of the notice, on which the optional early settlement will occur and a date, which will be on, or one business day prior to, the optional early settlement date, by which each holder's merger early settlement right must be exercised. The notice will set forth, among other things, the applicable conversion rate and the amount of the cash, securities and other consideration receivable by the holder upon conversion. To exercise the merger early settlement right, you must deliver to the transfer agent, at least one business day before the early settlement date, the certificate evidencing your shares of HiMEDS<sup>SM</sup>, if you hold our HiMEDS<sup>SM</sup> in certificated form. If you exercise the merger early settlement right, we will deliver to you on the early settlement date the kind and amount of securities, cash or other property that you would have been entitled to receive if you had converted your shares of HiMEDS<sup>SM</sup> immediately before the cash merger at the conversion rate referred to above. If you do not elect to exercise your merger early settlement right, you will receive from us on the automatic conversion date (or earlier if you exercise your optional conversion right or we exercise our provisional conversion right prior to the automatic conversion date), for each of your shares of HiMEDS<sup>SM</sup>, a number of exchange property units determined based upon the applicable conversion rate at the time of conversion. See "—Anti-dilution Adjustments —Reorganization Events" below.

#### Anti-dilution Adjustments

The conversion rate and the number of shares of our common stock to be delivered on the conversion date upon conversion will be subject to the following adjustments:

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(1) Stock Dividends. If we pay or make a dividend or other distribution on our common stock in common stock, each of the low conversion rate, the optional conversion rate and the anti-dilution factor in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be increased by dividing:

- each of the low conversion rate, the optional conversion rate and the anti-dilution factor by
- a fraction of which the numerator shall be the number of shares of our common stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution.

(2) Stock Purchase Rights. If we issue to all holders of our common stock rights, options, warrants or other securities, entitling them to subscribe for or purchase shares of our common stock for a period expiring within 45 days from the date of issuance of such rights, options, warrants or other securities at a price per share of our common stock less than the current market price on the date fixed for the determination of stockholders entitled to receive such rights, options, warrants or securities (other than pursuant to a dividend reinvestment, share purchase or similar plan), each of the low conversion rate, the optional conversion rate and the anti-dilution factor in effect at the opening of business on the day following the date fixed for such determination shall be increased by dividing:

- each of the low conversion rate, the optional conversion rate and the anti-dilution factor by
- a fraction, the numerator of which shall be the number of shares of our common stock outstanding at the close of business on the date fixed for such determination plus the number of shares of our common stock which the aggregate consideration expected to be received by us upon the exercise, conversion or exchange of such rights, options, warrants or securities would

purchase at such current market price and the denominator of which shall be the number of shares of our common stock outstanding at the close of business on the date fixed for such determination plus the number of shares of our common stock so offered for subscription or purchase, either directly or indirectly.

(3) Stock Splits; Reverse Splits; and Combinations. If outstanding shares of our common stock shall be subdivided, split or reclassified into a greater number of shares of common stock, each of the low conversion rate, the optional conversion rate and the anti-dilution factor in effect at the opening of business on the day following the day upon which such subdivision, split or reclassification becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of our common stock shall each be combined or reclassified into a smaller number of shares of common stock, each of the low conversion rate, the optional conversion rate and the anti-dilution factor in effect at the opening of business on the day following the day upon which such combination or reclassification becomes effective shall be proportionately reduced.

(4) Debt, Asset or Security Distributions. If we, by dividend or otherwise, distribute to all holders of our common stock evidences of our indebtedness, assets or securities (but excluding any rights, options, warrants or other securities referred to in paragraph (2) above, any dividend or distribution paid exclusively in cash referred to in paragraph (5) below and any dividend, shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of a spin-off referred to below, or dividend or distribution referred to in paragraph (1) above), each of the low conversion rate, the optional conversion rate and the anti-dilution factor in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution shall be increased by dividing:

- each of the low conversion rate, the optional conversion rate and the anti-dilution factor by
- a fraction, the numerator of which shall be the current market price on the date fixed for such determination less the then fair market value of the portion of the assets or evidences of indebtedness so distributed applicable to one share of our common stock and the denominator of which shall be such current market price.

In the case of the payment of a dividend or other distribution on our common stock of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other

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business unit of ours, which we refer to as a "spin-off," the low conversion rate, the optional conversion rate and the anti-dilution factor in effect immediately before the close of business on the record date fixed for determination of stockholders entitled to receive that distribution will be increased by dividing:

- each of the low conversion rate, the optional conversion rate and the anti-dilution factor, by
- a fraction, the numerator of which is the current market price of our common stock and the denominator of which is such current market price plus the fair market value, determined as described below, of those shares of capital stock or similar equity interests so distributed applicable to one share of common stock.

The adjustment to the low conversion rate, the optional conversion rate and the anti-dilution factor under the preceding paragraph will occur on the date that is the earlier of:

- the 10<sup>th</sup> trading day following the effective date of the spin-off; and
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the date of the securities being offered in the initial public offering of the spin-off, if that initial public offering is effected simultaneously with the spin-off.

For purposes of this section, "initial public offering" means the first time securities of the same class or type as the securities being distributed in the spin-off are offered to the public for cash.

In the event of a spin-off that is not effected simultaneously with an initial public offering of the securities being distributed in the spin-off, the fair market value of the securities to be distributed to holders of our common stock means the average of the closing sale prices of those securities over the first 10 trading days following the effective date of the spin-off. Also, for purposes of such a spin-off, the current market price of our common stock means the average of the closing sale prices of our common stock over the first 10 trading days following the effective date of the spin-off.

If, however, an initial public offering of the securities being distributed in the spin-off is to be effected simultaneously with the spin-off, the fair market value of the securities being distributed in the spin-off means the initial public offering price, while the current market price of our common stock means the closing sale price of our common stock on the trading day on which the initial public offering price of the securities being distributed in the spin-off is determined.

(5) Cash Distributions. If we, by dividend or otherwise, make distributions to all holders of our common stock exclusively in cash (excluding any cash that is distributed in a reorganization event to which the provisions described below under "—Reorganization Events" apply or as part of a distribution referred to in paragraph (4) above) immediately after the close of business on the date fixed for determination of the stockholders entitled to receive such distribution, each of the low conversion rate, the optional conversion rate and the anti-dilution factor shall be increased by dividing:

- each of the low conversion rate, the optional conversion rate and the anti-dilution factor by
- a fraction, the numerator of which shall be equal to the current market price on the date fixed for such determination less the per share amount of the distribution and the denominator of which shall be equal to such current market price.

(6) Tender and Exchange Offers. In the case that a tender or exchange offer made by us or any subsidiary for all or any portion of our common stock shall expire and such tender or exchange offer (as amended through the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of purchased shares) of an aggregate consideration having a fair market value per share of our common stock that exceeds the closing price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, then, immediately prior to the opening of business on the day after the date of the last time (which we refer to as the "expiration time") tenders could have been made pursuant to such tender or exchange offer (as amended through the expiration thereof), each of the low conversion rate, the optional conversion rate and the anti-dilution factor shall be increased by dividing:

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- each of the low conversion rate, the optional conversion rate and the anti-dilution factor immediately prior to the close of business on the date of the expiration time by
  - a fraction (A) the numerator of which shall be equal to (x) the product of (I) the current market price on the date of the expiration time and (II) the number of shares of common stock outstanding (including any tendered shares) on the date of the expiration time less (y) the



amount of cash plus the fair market value of the aggregate consideration payable to stockholders pursuant to the tender or exchange offer (assuming the acceptance, up to any maximum specified in the terms of the tender or exchange offer, of purchased shares), and (B) the denominator of which shall be equal to the product of (x) the current market price on the date of the expiration time and (y) the result of (I) the number of shares of our common stock outstanding (including any tendered shares) on the date of the expiration time less (II) the number of all shares validly tendered, not withdrawn and accepted for payment on the date of the expiration time (such validly tendered shares, up to any such maximum, being referred to as the "purchased shares").

The "current market price" per share of our common stock or any other security on any day means the average of the daily closing prices for the twenty consecutive trading days preceding the earlier of the day preceding the day in question and the day before the "ex date" with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, the term "ex date," when used with respect to any issuance or distribution, means the first date on which our common stock or such other security, as applicable, trades, regular way, on the New York Stock Exchange or, if our common stock or such other security, as applicable, is not at such time listed on the New York Stock Exchange, on such other principal U.S. securities exchange or quotation system on which our common stock or such other security, as applicable, is listed or quoted at that time, without the right to receive the issuance or distribution.

Reorganization Events. The following events are defined as "reorganization events":

- any consolidation or merger of Rite Aid Corporation with or into another person or of another person with or into Rite Aid Corporation; or
- any sale, transfer, lease or conveyance to another person of the property of Rite Aid Corporation as an entirety or substantially as an entirety; or
- any reclassification (other than a reclassification to which paragraph (3) above applies),

Upon a reorganization event, each share of HiMEDS<sup>SM</sup> shall thereafter, in lieu of a variable number of shares of our common stock, be converted into exchange property units. An "exchange property unit" represents the right to receive the kind and amount of securities, cash and other property receivable in such reorganization event (without any interest thereon, and without any right to dividends or distribution thereon which have a record date that is prior to the date of the reorganization event) per share of our common stock by a holder of common stock that (1) is not a person with which we are consolidated or into which we are merged or which merged into us or to which such sale or transfer was made, as the case may be (we refer to any such person as a "constituent person"), or an affiliate of a constituent person to the extent such reorganization event provides for different treatment of common stock held by our affiliates and non-affiliates, and (2) has failed to exercise the rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such reorganization event (provided that if the kind or amount of securities, cash and other property receivable upon such reorganization event is not the same for each share of our common stock held immediately prior to such reorganization event by other than a constituent person or an affiliate thereof and in respect of which such rights of election shall not have been exercised (which we refer to as a "non-electing share"), then for the purpose of this paragraph the kind and amount of securities, cash and other property receivable upon such reorganization event by each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Following any reorganization event, upon the conversion of each share of HiMEDS<sup>SM</sup>, the holder shall be entitled to a number of exchange property units determined using the conversion rate determined as of the conversion date. The amount of any securities

constituting all or a portion of an exchange property unit shall be subject to adjustment as described below. If an exchange property unit includes property other than common stock, upon conversion, we may elect to deliver additional shares of common stock in lieu of such other property; the number of such additional shares of common stock will be equal to the applicable market value of such other property divided by the applicable market value per share of such common stock. We may only deliver additional shares of common stock in lieu of such other property if we provide notice to the holders of our HiMEDS<sup>SM</sup> of our election to do so at least three business days prior to the first trading day that will be included in the calculation of applicable market value for purposes of determining the conversion rate applicable to such conversion.

In the event of such a reorganization event, the person formed by such consolidation, or merger or the person which acquires our assets shall execute and deliver to the transfer agent an agreement providing that the holder of each share of HiMEDS<sup>SM</sup> that remains outstanding after the reorganization event (if any) shall have the rights described in the preceding paragraph. Such supplemental agreement shall provide for adjustments to the amount of any securities constituting all or a portion of an exchange property unit which, for events subsequent to the effective date of such reorganization event, shall be as nearly equivalent as may be practicable to the adjustments provided for in this "—Anti-dilution Adjustments" section. The provisions described in the preceding two paragraphs shall similarly apply to successive reorganization events.

Holders have the right to settle their obligations under our HiMEDS<sup>SM</sup> early in the event of certain cash mergers as described above under "—Early Settlement Upon Cash Merger."

If at any time we make a distribution of property to holders of our common stock that would be taxable to those holders as a dividend for U.S. federal income tax purposes (that is, distributions of evidences of indebtedness or assets, but generally not dividends payable in shares of our common stock or rights to subscribe for our common stock), and, pursuant to the conversion rate adjustment provisions of our HiMEDS<sup>SM</sup>, the conversion rate is increased, that increase will give rise to a deemed taxable dividend to holders of shares of HiMEDS<sup>SM</sup> to the extent of our current and accumulated earnings and profits. See "Certain U.S. Income Tax Considerations—U.S. Holders—Adjustment of conversion price."

In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of our common stock resulting from any dividend or distribution of shares (or rights to acquire shares) or from any event treated as a dividend or distribution for income tax purposes or for any other reasons.

Adjustments to the conversion rate will be calculated to the nearest 1/10,000th of a share. No adjustment in the conversion rate or the anti-dilution factor will be required unless the adjustment would require an increase or decrease of at least one percent in the conversion rate. If any adjustment is not required to be made because it would not change the conversion rate or the anti-dilution factor by at least one percent, then the adjustment will be carried forward and taken into account in any subsequent adjustment.

No adjustment to the conversion rate or the anti-dilution factor need be made if holders may participate in the transaction that would otherwise give rise to an adjustment, so long as the distributed assets or securities the holders would receive upon conversion of the HiMEDS<sup>SM</sup>, if convertible, exchangeable, or exercisable, are convertible, exchangeable or exercisable, as applicable, without any loss of rights or privileges for a period of at least 60 days following conversion of the HiMEDS<sup>SM</sup>.

The conversion rate and the anti-dilution factor will not be adjusted:

- upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan;
-

upon the issuance of any shares of our common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

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- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date the HiMEDS<sup>SM</sup> were first issued;
  - for a change in the par value or no par value of the common stock; or
  - for accumulated and unpaid dividends.

We will be required, as soon as practicable after the conversion rate or the anti-dilution factor is adjusted, to provide written notice of the adjustment to the holders of shares of HiMEDS<sup>SM</sup>.

#### Fractional Shares

No fractional shares of our common stock will be issued to holders of shares of HiMEDS<sup>SM</sup>. In lieu of any fractional share otherwise issuable in respect of the aggregate number of shares of our HiMEDS<sup>SM</sup> of any holder which are converted upon mandatory conversion or any optional conversion or issuable in respect of any dividend payment upon mandatory conversion payable in shares of our common stock, that holder will be entitled to receive an amount in cash equal to such fraction multiplied by:

- in the case of mandatory conversion, provisional conversion and early settlement upon cash merger, the applicable market value per common share used for purposes of determining the conversion rate; or
- in the case of an optional conversion by a holder, the closing price of our common stock determined as of the second trading day immediately preceding the effective date of conversion.

Certain of our indentures limit our ability to pay cash in lieu of fractional shares.

#### Liquidation Rights

In the event of our voluntary or involuntary liquidation, our dissolution or the winding up of our affairs, the holders of shares of HiMEDS<sup>SM</sup> will be entitled to receive out of our assets available for distribution to stockholders, before any distribution of assets is made on our common stock, or any future class of securities which ranks junior to our HiMEDS<sup>SM</sup> as to the distribution of assets upon our voluntary or involuntary liquidation, our dissolution or the winding up of our affairs, a liquidating distribution in the amount of \$50.00 per share, plus an amount equal to the sum of all accumulated and unpaid dividends, whether or not declared, for the then-current dividend period and all prior dividend periods.

For the purpose of the immediately preceding paragraph, none of the following will constitute a voluntary or involuntary liquidation, dissolution or winding up of our affairs:

- the sale of all or substantially all of our property or business;
- the merger or consolidation of Rite Aid Corporation into or with any other person or corporation; or
- the merger or consolidation of any other person or corporation into or with Rite Aid Corporation.

After the payment to the holders of shares of HiMEDS<sup>SM</sup> of the full preferential amounts provided above, the holders of shares of HiMEDS<sup>SM</sup> will have no right or claim to any of our remaining assets.

In the event our assets available for distribution to the holders of shares of HiMEDS<sup>SM</sup> upon any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, are insufficient to pay in full all amounts to which the holders are entitled as provided above, no such distribution will be made on account of any other stock ranking equally with our HiMEDS<sup>SM</sup> as to the distribution of assets upon that liquidation, dissolution or winding up unless a pro rata distribution is made on our

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HiMEDS<sup>SM</sup>, with the amount allocable to each series of parity stock determined on the basis of the aggregate liquidation preference of the outstanding shares of each series and distributions to the shares of each series being made on a pro rata basis.

#### Voting Rights

The holders of the shares of HiMEDS<sup>SM</sup> are not entitled to any voting rights, except as required by applicable state law and as described below.

We will not, without the approval of the holders of at least a majority of the shares of our HiMEDS<sup>SM</sup> then outstanding:

- amend our restated certificate of incorporation, as amended, if the amendment would alter or change the powers, preferences, privileges or rights of the holders of shares of our HiMEDS<sup>SM</sup> so as to materially and adversely affect them;

We will not, without the approval of the holders of at least a majority of the shares of our HiMEDS<sup>SM</sup> then outstanding:

- issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any stock of any class ranking senior to our HiMEDS<sup>SM</sup> as to dividends or upon the distribution of assets upon our dissolution, liquidation or the winding up of our affairs with an aggregate liquidation preference of greater than \$50.0 million; or
- reclassify any of our authorized stock into any stock of any class, or any obligation or security convertible into or evidencing a right to purchase such stock, ranking senior to our HiMEDS<sup>SM</sup> as to dividends or upon the distribution of assets upon our dissolution, liquidation or the winding up of our affairs,

provided that no such vote will be required for us to take any of these actions to issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any stock of any class ranking equally with or junior to our HiMEDS<sup>SM</sup> as to dividends and upon the distribution of assets upon our dissolution, liquidation or the winding up of our affairs.

If and whenever six full quarterly dividends, whether or not consecutive, payable on our HiMEDS<sup>SM</sup> are not paid, the number of directors constituting our board of directors will be increased by two and the holders of our HiMEDS<sup>SM</sup> then outstanding will have a right to elect those additional directors to our board until all accumulated and unpaid

dividends on our HiMEDS<sup>SM</sup> have been paid in full. To exercise this right, any holder of our HiMEDS<sup>SM</sup> may by written notice request that we call a special meeting of the holders for the purpose of electing the additional directors and, if the non-payment of dividends is continuing, we must call that meeting within 35 days of the date of such written request. If we fail to call such a meeting upon request, any holder of our HiMEDS<sup>SM</sup> can call a meeting. Upon payment of all such accumulated and unpaid dividends on our HiMEDS<sup>SM</sup>, the holders of our HiMEDS<sup>SM</sup> then outstanding will no longer have the right to vote on directors and the term of office of each director so elected will terminate and the number of our directors will, without further action, be reduced by two.

In any case where the holders of our HiMEDS<sup>SM</sup> are entitled to vote, each holder shall be entitled to one vote for each share of our HiMEDS<sup>SM</sup> held by that holder.

#### Miscellaneous

We will at all times reserve and keep available out of our authorized and unissued common stock, solely for issuance upon the conversion of our HiMEDS<sup>SM</sup>, that number of shares of common stock as shall from time to time be issuable upon the conversion of all the shares of HiMEDS<sup>SM</sup> then outstanding. Our HiMEDS<sup>SM</sup> converted into our common stock or otherwise reacquired by us shall resume the status of authorized and unissued shares of our preferred stock, undesignated as to series, and shall be available for subsequent issuance.

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#### Transfer Agent, Registrar and Paying Agent

Computershare Investor Services, LLC will act as transfer agent, registrar, and paying agent for the payment of dividends for our HiMEDS<sup>SM</sup>.

#### Title

We, the transfer agent, registrar and paying agent may treat the registered holder of shares of HiMEDS<sup>SM</sup> as the absolute owner of those shares for the purpose of making payment and settling the related conversions and for all other purposes.

#### Book-Entry System

The Depository Trust Company, or the depository, will act as securities depository for our HiMEDS<sup>SM</sup>. Our HiMEDS<sup>SM</sup> will be issued only as fully-registered securities registered in the name of Cede & Co., the depository's nominee. One or more fully-registered global security certificates, representing the total aggregate number of shares of HiMEDS<sup>SM</sup>, will be issued and deposited with the depository and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. Those laws may impair the ability to transfer beneficial interests in shares of HiMEDS<sup>SM</sup> to those purchasers that do not participate in the depository so long as shares of HiMEDS<sup>SM</sup> are represented by global security certificates.

The depository is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a

"clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

The depository holds securities that its participants deposit with the depository. The depository also facilitates the clearance and settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thus eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. The depository is owned by a number of its direct participants and by the New York Stock Exchange, the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc., collectively referred to as participants. Access to the depository system is also available to others, including securities brokers and dealers, bank and trust companies that clear transactions through or maintain a direct or indirect custodial relationship with a direct participant, collectively referred to as indirect participants. The rules applicable to the depository and its participants are on file with the SEC.

Except as otherwise required by applicable law, no shares of HiMEDS<sup>SM</sup> represented by global security certificates may be exchanged in whole or in part for shares of HiMEDS<sup>SM</sup> registered, and no transfer of global security certificates will be made in whole or in part for shares of HiMEDS<sup>SM</sup> registered, and no transfer of global security certificates in whole or in part may be registered, in the name of any person other than the depository or any nominee of the depository, unless the depository has notified us that it is unwilling or unable to continue as depository for the global security certificates or has ceased to be qualified to act or that there is a continuing default by us in respect of our obligations under our HiMEDS<sup>SM</sup> or the certificate of designations. All of the shares of HiMEDS<sup>SM</sup> represented by one or more global security certificates or any portion of them will be registered in those names as the depository may direct.

As long as the depository or its nominee is the registered owner of the global security certificates, the depository or that nominee will be considered the sole owner and holder of the global security certificates and all of the shares of HiMEDS<sup>SM</sup> represented by those certificates for all purposes under

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our HiMEDS<sup>SM</sup>. Except in the limited circumstances referred to above or as otherwise required by applicable law, owners of beneficial interests in global security certificates will not be entitled to have the global security certificates or the shares of HiMEDS<sup>SM</sup> represented by those certificates registered in their names, will not receive or be entitled to receive physical delivery of our HiMEDS<sup>SM</sup> certificates in exchange and will not be considered to be owners or holders of the global security certificates or any of the shares of HiMEDS<sup>SM</sup> represented by those certificates for any purpose under our HiMEDS<sup>SM</sup>. All payments on the shares of HiMEDS<sup>SM</sup> represented by the global security certificates and all related transfers and deliveries of common stock will be made to the depository or its nominee as their holder.

Ownership of beneficial interests in the global security certificates will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with the depository or its nominee. Ownership of beneficial interests in global security certificates will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by the depository or its nominee with respect to participants' interests or by the participants with respect to interests of persons held by the participants on their behalf.

Procedures for conversion on the automatic conversion date or upon early conversion will be governed by arrangements among the depository, participants and persons that may hold beneficial interests through participants

designed to permit the settlement without the physical movement of certificates. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global security certificates may be subject to various policies and procedures adopted by the depository from time to time.

Neither we nor any of our agents will have any responsibility or liability for any aspect of the depository's or any participant's records relating to, or for payments made on account of, beneficial interests in global security certificates, or for maintaining, supervising or reviewing any of the depository's records or any participant's records relating to those beneficial ownership interests.

The information in this section concerning the depository and its book-entry system has been obtained from sources that we believe to be reliable, but we do not take responsibility for its accuracy.

#### Replacement of HiMEDS<sup>SM</sup> Certificates

If physical certificates are issued, we will replace any mutilated certificate at your expense upon surrender of that certificate to the transfer agent. We will replace certificates that become destroyed, lost or stolen at your expense upon delivery to us and the transfer of satisfactory evidence that the certificate has been destroyed, lost or stolen, together with any indemnity that may be required by the transfer agent and us.

We are, however, not required to issue any certificates representing shares of HiMEDS<sup>SM</sup> on or after the automatic conversion date. In place of the delivery of a replacement certificate following the automatic conversion date, the transfer agent, upon delivery of the evidence and indemnity described above, will deliver the shares of our common stock issuable pursuant to the terms of our HiMEDS<sup>SM</sup> formerly evidenced by the certificate.

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#### CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary is a discussion of U.S. federal income tax considerations relevant to the purchase, ownership and disposition of our HiMEDS<sup>SM</sup> and our common stock received upon conversion, and is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations, Internal Revenue Service ("IRS") rulings, and administrative and judicial decisions currently in effect, all of which are subject to change (possibly with retroactive effect) or possible differing interpretations. Unless otherwise stated, this discussion is limited to the tax consequences to those holders who hold HiMEDS<sup>SM</sup> and common stock as capital assets. This discussion does not purport to deal with persons in special tax situations, such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, dealers in securities or currencies, persons holding shares of our HiMEDS<sup>SM</sup> or shares of our common stock as a hedge against currency risk or as a position in a "straddle" or conversion transaction, or persons whose functional currency is not the U.S. dollar. This discussion does not address the tax consequences to partnerships or other pass-through entities or persons investing through such partnerships or entities.

**PROSPECTIVE INVESTORS CONSIDERING THE PURCHASE OF OUR HiMEDS<sup>SM</sup> SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE APPLICATION OF U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

For purposes of this discussion, "U.S. holder" means a beneficial owner of HiMEDS<sup>SM</sup> that is for United States federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation (or other entity taxed as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons with the authority to control all substantial decisions of the trust, or a trust in existence on August 20, 1996 that has elected to continue to be treated as a "United States person" (as defined for U.S. federal income tax purposes). "Non-U.S. holder" means any beneficial owner of HiMEDS<sup>SM</sup> that is a nonresident alien or a corporation, trust or estate that is not a U.S. holder.

#### U.S. Holders

#### Distributions and Dividends

Distributions with respect to our HiMEDS<sup>SM</sup> (whether paid in cash directly by us, paid from the proceeds of the sale of common stock by the transfer agent on behalf of a U.S. holder, or paid in common stock upon conversion) and distributions with respect to our common stock generally will be characterized as dividend income when paid to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax purposes. To the extent that the amount of a distribution with respect to our HiMEDS<sup>SM</sup> or common stock exceeds our current and accumulated earnings and profits, such distribution will be treated first as a tax-free return of capital to the extent of the U.S. holder's adjusted tax basis in such HiMEDS<sup>SM</sup> or common stock, as the case may be, which reduces such basis dollar-for-dollar, and thereafter as capital gain. Such gain will be long-term capital gain provided that the U.S. holder has held such HiMEDS<sup>SM</sup> or common stock, as the case may be, at the time of the distribution for more than one year. Although the matter is not free from doubt, if we pay dividends by delivering shares of common stock to the transfer agent to be sold on the U.S. holders behalf, we intend to treat such U.S. holder as receiving a taxable dividend equal to the net cash proceeds received by such U.S. holder (which will equal the cash dividend payable). If this position is not respected, the IRS may treat such U.S. holder as (i) receiving a taxable dividend equal to the fair market value of the common stock on the date received by the transfer agent and (ii) recognizing capital gain or loss equal to the difference between the amount of the net cash proceeds received and the U.S. holder's adjusted tax basis in our common stock that is disposed of (which, for this purpose, will equal the fair market value of our common stock on the date received by the transfer agent).

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Distributions constituting dividend income received by an individual U.S. holder in respect of our HiMEDS<sup>SM</sup> and common stock before January 1, 2009 generally will be subject to taxation at a maximum rate of 15%. Distributions on our HiMEDS<sup>SM</sup> and common stock constituting dividend income paid to U.S. holders that are corporations generally will qualify for the dividends received deduction, subject to applicable limitations. Each U.S. holder should consult its tax advisor regarding the availability of the reduced dividend tax rate and the dividends received deduction in the light of its particular circumstances.

Investors who are U.S. corporations should be aware that under certain circumstances, a corporation that receives an "extraordinary dividend" (as defined in section 1059 of the Code) is (i) required to reduce its stock basis (but not below zero) by the portion of such dividend that is not taxed because of the dividends received deduction and (ii) treat the non-taxed portion of such dividends as gain from the sale or exchange of our HiMEDS<sup>SM</sup> for the taxable year in which such dividend is received (to the extent that the non-taxed portion of such dividend exceeds such U.S. holder's basis). U.S. holders that are individuals who receive an "extraordinary dividend" would be required to treat any losses



on the sale of HiMEDS<sup>SM</sup> as long-term capital losses to the extent such dividends received by them qualify for the reduced 15% tax rate. Investors should consult their tax advisor with respect to the potential application of the extraordinary dividend rules to an investment in our HiMEDS<sup>SM</sup>.

#### Conversion into Common Stock

Except as discussed below, a U.S. holder generally will not recognize (i.e. take into account for U.S. federal income tax purposes) gain or loss upon the conversion of our HiMEDS<sup>SM</sup>, except to the extent of any cash or common stock received attributable to accumulated and unpaid dividends, which will be treated as described above under "Distributions and Dividends." The adjusted tax basis of common stock received on conversion, other than shares of common stock attributable to accumulated but unpaid dividends, generally will equal the adjusted tax basis of the HiMEDS<sup>SM</sup> converted (reduced by the portion of adjusted tax basis allocated to any fractional common stock exchanged for cash, and the holding period of such common stock received on conversion generally will include the period during which the U.S. holder held its converted HiMEDS<sup>SM</sup> prior to conversion. A U.S. holder's adjusted tax basis in any shares of common stock received as a dividend upon conversion will equal the fair market value of such common stock, and a U.S. holder's holding period for such shares shall begin on the day after receipt thereof.

As discussed above (see "Description of HiMEDS<sup>SM</sup>—Provisional Conversion at the Option of Rite Aid"), in the event we exercise our provisional right to cause the early conversion of the HiMEDS<sup>SM</sup>, we will pay a U.S. holder cash or common stock in an amount equal to the sum of the accrued and unpaid dividends and the present value of all future dividend payments on that U.S. holder's HiMEDS<sup>SM</sup> through and including the automatic conversion date. In this event, although the matter is not free from doubt, such cash generally should be taxable, but only to the extent of gain realized by the U.S. holder on the conversion. For this purpose, a U.S. holder will realize gain on the conversion equal to the excess, if any, of the sum of the fair market value of our common shares and the cash received upon early conversion (other than amounts paid for accrued but unpaid dividends) over the U.S. holder's adjusted tax basis in our HiMEDS<sup>SM</sup> immediately prior to conversion. Any such gain will be capital gain, unless the receipt of such cash is considered to have the effect of a dividend, in which case it will be taxable as dividend income to the extent of our earnings and profits. To the extent the amount of cash that the U.S. holder receives exceeds the gain realized, the excess amount should not be taxable to such U.S. holder but will reduce its adjusted tax basis in our common shares. A U.S. holder will not be permitted to recognize any loss realized by it upon conversion of HiMEDS<sup>SM</sup> stock into common shares.

U.S. holders should be aware that the tax treatment described above relating to the payments made in respect of future dividends is not certain and may be challenged by the IRS on grounds that the cash and common stock received that is attributable to future dividends represents a taxable dividend to the extent we have earnings and profits at the time of conversion, or alternatively, as ordinary income. Under this characterization, the U.S. holder would be taxable on cash and common

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stock received on account of future dividends even if it realized a loss on its early conversion of our HiMEDS<sup>SM</sup> into our common shares.

Cash received upon conversion in lieu of a fractional common share generally will be treated as a payment in a taxable exchange for such fractional common share, and gain or loss will be recognized on the receipt of cash in an amount equal to the difference between the amount of cash received and the adjusted tax basis allocable to the fractional common share deemed exchanged.

### Adjustment of Conversion Rate

U.S. holders of our HiMEDS<sup>SM</sup> may receive not fewer than 9.3284 shares and may receive a greater number of shares of our common stock, depending on when the shares are converted and, if converted on the automatic conversion date, pursuant to a provisional conversion at the option of Rite Aid or pursuant to an early conversion upon a cash merger, the market value of our common stock on such date. A U.S. holder's right to receive a greater number of shares of our common stock at the automatic conversion date, pursuant to a provisional conversion at the option of Rite Aid or pursuant to an early conversion upon a cash merger, as compared to the 9.3284 shares of common stock that such holder would receive upon conversion at the U.S. holder's option at an earlier date, could be viewed as a constructive distribution of stock to such U.S. holder under section 305 of the Code, which, if so treated, would be subject to tax as a dividend to the extent of our current and accumulated earnings and profits. While the matter is not free from doubt due to lack of authority directly on point, we intend to take the position that such a right on the part of the holder of our HiMEDS<sup>SM</sup> to receive a greater number of shares of common stock, as described in this paragraph, should not result in a constructive distribution of stock.

In addition, under certain circumstances, adjustments (or failure to make adjustments) to the conversion rate of our HiMEDS<sup>SM</sup> may result in constructive distributions under Section 305(c) of the Code to the holders of our HiMEDS<sup>SM</sup>, or holders of our common stock includable in income in the manner described under "Distributions and Dividends," above. Thus, under certain circumstances, U.S. holders may recognize income in the event of a constructive distribution even though they may not receive any cash or property.

### Dispositions

A U.S. holder generally will recognize capital gain or loss on a sale or exchange of our HiMEDS<sup>SM</sup> or our common stock equal to the difference between the amount realized upon the sale or exchange (not including any proceeds attributable to any declared accrued but unpaid dividends, which will be taxable as described above to U.S. holders of record who have not previously included such dividends in income) and the U.S. holder's adjusted tax basis in the shares sold or exchanged. Such capital gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period for the shares sold or exchanged is more than one year. Long-term capital gains of individuals are generally taxed at a maximum marginal tax rate of 15%. The deductibility of net capital losses is subject to limitations.

### Information Reporting and Backup Withholding on U.S. Holders

Certain U.S. holders may be subject to backup withholding with respect to the payment of dividends on our HiMEDS<sup>SM</sup> or common stock and to certain payments of proceeds on the sale or redemption of our HiMEDS<sup>SM</sup> unless such U.S. holders provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules from a payment to a U.S. holder is allowable as a credit against such holder's U.S. federal income tax, which may entitle the holder to a refund, provided that the holder provides the required information to the IRS. U.S. holders are urged to consult their tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding.

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Non-U.S. Holders

## Distributions and Dividends

Generally, dividends (including any constructive distributions taxable as dividends and any cash or common stock paid upon conversion that is treated as a dividend) paid to a non-U.S. holder with respect to our HiMEDS<sup>SM</sup> or our common stock will be subject to a 30% U.S. withholding tax, or such lower rate as may be specified by an applicable tax treaty, unless the dividends are (i) effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and the non-U.S. holder provides the payor with a Form W-8ECI) and (ii) if a tax treaty applies, attributable to a U.S. permanent establishment maintained by the non-U.S. holder. Dividends effectively connected with such trade or business, and, if a treaty applies, attributable to such permanent establishment, generally will be subject to U.S. federal income tax on a net basis at applicable individual or corporate rates. A non-U.S. holder that is a corporation may be subject to a "branch profits tax" at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) subject to certain adjustments. A non-U.S. holder (including, in certain cases of non-U.S. holders that are entities, the owner or owners of such entities) will be required to satisfy certain certification requirements in order to claim a reduced rate of withholding pursuant to an applicable income tax treaty.

## Conversion into Common stock

A non-U.S. holder will not recognize any gain or loss in respect of the receipt of common stock upon the conversion of our HiMEDS<sup>SM</sup>, except that common stock received that is attributable to accumulated and unpaid dividends will be treated as described above under "Distributions and Dividends."

## Dispositions

A non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on gain realized on the sale, exchange or other taxable distribution of our HiMEDS<sup>SM</sup> or our common stock (including the deemed exchange that gives rise to a payment of cash in lieu of a fractional common share) so long as:

- the gain is not effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and, if a tax treaty applies, the gain is not attributable to a U.S. permanent establishment maintained by such non-U.S. holder);
- in the case of a non-U.S. holder that is an individual, such holder is not present in the United States for 183 or more days in the taxable year of the sale or disposition or does not have a "tax home" in the United States for U.S. federal income tax purposes and certain other conditions are met; and
- we are not and have not been a United States real property holding corporation for U.S. income tax purposes at any time during the five-year period preceding such sale or other disposition.

We believe that we have not been and are not currently a United States real property holding corporation, and we do not expect to become one in the future based on anticipated business operations.

## Information Reporting and Backup Withholding on Non-U.S. Holders

Payment of dividends (including constructive dividends), and the tax withheld with respect thereto, is subject to information reporting requirements. These information reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable income tax treaty or withholding was not required because the dividends were effectively connected with a trade or business in the United States conducted by the non-U.S. holder. Copies of the information returns

reporting such dividends and withholding may also be made available under the provisions of an applicable income tax treaty or agreement to the tax authorities in the country in which the non-U.S. holder resides. U.S. backup withholding generally will apply on payment of dividends to non-U.S. holders unless such non-U.S. holders furnish to the payor a Form W-8BEN (or other applicable form), or otherwise establish an exemption.

Payment by a U.S. office of a broker of the proceeds of a sale of our HiMEDS<sup>SM</sup> or common stock is subject to both backup withholding and information reporting unless the non-U.S. holder, or beneficial owner thereof, as applicable, certifies that it is a non-U.S. holder on Form W-8BEN, or otherwise establishes an exemption. Subject to exceptions, backup withholding and information reporting generally will not apply to a payment of proceeds from the sale of our HiMEDS<sup>SM</sup> or common stock if such sale is effected through a foreign office of a broker.

Any amount withheld under the backup withholding rules from a payment to a holder is allowable as a credit against such holder's U.S. federal income tax, which may entitle the holder to a refund, provided that the holder provides the required information to the IRS. Moreover, certain penalties may be imposed by the IRS on a holder who is required to furnish information but does not do so in the proper manner. Non-U.S. holders are urged to consult their tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury Regulations.

Each prospective non-U.S. holder of HiMEDS<sup>SM</sup> should consult that holder's tax advisor with respect to the federal, state, local and foreign tax consequences of the acquisition, ownership and disposition of HiMEDS<sup>SM</sup>.

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## UNDERWRITING

We are offering the shares of HiMEDS<sup>SM</sup> described in this prospectus through a number of underwriters. J.P. Morgan Securities Inc. is acting as book-running manager of the offering and as representative of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

Name	Number of Shares
J.P. Morgan Securities Inc.	1,610,000
Citigroup Global Markets Inc.	690,000
Total	2,300,000

The underwriters are committed to purchase all the HiMEDS<sup>SM</sup> offered by us if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the HiMEDS<sup>SM</sup> directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \$0.30 per share. Any such dealers may resell shares to certain other brokers or dealers at a discount of up to \$0.03 per share from the initial public offering price. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters.

The underwriters have an option to buy up to 200,000 additional shares of HiMEDS<sup>SM</sup> from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus to exercise this over-allotment option. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of HiMEDS<sup>SM</sup> are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting fee is equal to the public offering price per share of HiMEDS<sup>SM</sup> less the amount paid by the underwriters to us per share of HiMEDS<sup>SM</sup>. The underwriting fee is \$0.50 per share. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Without over-allotment exercise	With full over-allotment exercise
Per Share	\$ 0.50	\$ 0.50
Total	\$ 1,150,000	\$ 1,250,000

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately \$1,250,000.

Subject to certain exceptions, we have agreed that we will not (1) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or preferred stock or securities convertible into or exchangeable or exercisable for any shares of our common stock or preferred stock, or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock or preferred stock, whether any such transaction

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described in clause (1) or (2) above is to be settled by delivery of our common stock, preferred stock or other securities, in cash or otherwise, without the prior written consent of J.P. Morgan Securities Inc. for a period of 75 days after the date of this prospectus supplement.

We, our directors and executive officers, and certain of our significant shareholders have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which we and each of these persons or entities, with limited exceptions, for a period of 75 days after the date of this prospectus supplement, may not, without the prior written consent of J.P. Morgan Securities Inc., (1) offer, pledge, announce the intention to sell,

sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable for our common stock (including, without limitation, common stock which may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their

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business, for which they have received and may continue to receive customary fees and commissions. J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. are the exclusive joint lead arrangers and joint bookrunners under

our senior credit facility. An affiliate of J.P. Morgan Securities Inc. is a lender, the syndication agent and collateral processing agent under the senior credit facility and an affiliate of Citigroup Global Markets Inc. is a lender, the administrative agent and collateral processing agent under the senior credit facility. In connection with acting as arrangers, lenders and agents under the senior credit facility, J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. and their respective affiliates each receive, and will receive, customary fees. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

## LEGAL MATTERS

The validity of the HiMEDS<sup>SM</sup> and the common stock issuable upon conversion of the HiMEDS<sup>SM</sup> offered hereby will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. The underwriters are being represented in connection with this offering by Cravath, Swaine & Moore LLP, New York, New York.

## WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. We also furnish to our stockholders annual reports, which include financial statements audited by our independent certified public accountants and other reports which the law requires us to send to our stockholders. The public may read and copy any reports, proxy statements or other information that we file at the SEC's public reference room at Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549. The public may obtain information on the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "<http://www.sec.gov>." You may obtain a copy of any of these documents, at no cost, by writing or telephoning us at the following address:

Rite Aid Corporation  
30 Hunter Lane  
Camp Hill, Pennsylvania 17011  
Attention: Investor Relations  
Phone: (717) 761-2633

Our common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol "RAD." You can inspect and copy reports, proxy statements and other information about us at the NYSE's offices at 20 Broad Street, New York, New York 10005 and at the offices of the Pacific Exchange, 301 Pine Street, San Francisco, California 94104 and 618 South Spring Street, Los Angeles, California 90014.

The SEC allows us to "incorporate by reference" into this prospectus supplement information that we file with the SEC. This means we can disclose important information to you by referring you to the documents containing this information. Any information we incorporate by reference is considered to be part of this prospectus supplement and any information filed by us with the SEC subsequent to the date of this prospectus supplement until the termination of this offering will be deemed to automatically update and supercede the information contained herein and in the accompanying prospectus. We are incorporating by reference into this prospectus supplement the following documents that we have filed with the SEC:

- our Annual Report on Form 10-K for the fiscal year ended February 28, 2004, which we filed with the SEC on April 26, 2004;
- our proxy statement on Schedule 14A, which we filed with the SEC on May 21, 2004; and

- our Quarterly Report on Form 10-Q for the fiscal quarter ended May 29, 2004, which we filed with the SEC on June 29, 2004;
- our Quarterly Report on Form 10-Q for the fiscal quarter ended August 28, 2004, which we filed with the SEC on September 28, 2004;
- our Quarterly Report on Form 10-Q for the fiscal quarter ended November 27, 2004, which we filed with the SEC on December 21, 2004;
- our current reports on Form 8-K, which we filed with the SEC on August 20, 2004, October 8, 2004, January 4, 2005, January 5, 2005 and January 13, 2005.

We incorporate by reference any future filings we make with the SEC in accordance with Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of the offering made under this prospectus supplement. We do not incorporate by reference any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K in any future filings, unless specifically stated otherwise.

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## PROSPECTUS

\$1,000,000,000

Rite Aid Corporation

Debt Securities

Guarantees of Debt Securities

Common Stock

Preferred Stock

Warrants

We, Rite Aid Corporation, may offer, issue and sell from time to time, together or separately, our:

- debt securities, which may be senior secured debt securities, senior unsecured debt securities or subordinated debt securities;
- guarantees for the benefit of the holders of certain debt securities;
- shares of our common stock;
- shares of our preferred stock; and
- warrants to purchase our common stock, preferred stock, debt securities or other securities.

This prospectus provides you with a general description of the securities which we may offer. Each time we offer securities for sale, we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the securities. A prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any accompanying prospectus supplement before you make your investment decision.

Investing in the securities involves risks. See "Risk Factors" beginning on page 2.



THIS PROSPECTUS MAY NOT BE USED TO SELL SECURITIES, UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.

We may offer securities through underwriting syndicates managed or co-managed by one or more underwriters or dealers, through agents or directly to purchasers. The prospectus supplement for each offering of securities will describe in detail the plan of distribution for that offering. For general information about the distribution of securities, please see "Plan of Distribution" in this prospectus.

Our common stock is listed on the New York Stock Exchange and the Pacific Exchange under the trading symbol "RAD".

NEITHER THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This prospectus is dated January 14, 2005

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission using a "shelf" registration process. By using the shelf process, we may, from time to time, sell any combination of the securities described in this prospectus, in one or more offerings, up to a total dollar amount of \$1,000,000,000, or the equivalent denominated in foreign currencies. This prospectus provides you with a general

description of the securities that we may offer. Each time we use this prospectus to offer securities for sale, we will provide a supplement to this prospectus that will describe the specific information about the offering and the terms of the securities. A prospectus supplement may also add to, update or change the information contained in this prospectus. You should read this prospectus, the applicable prospectus supplement and the information contained in the documents we refer to under the heading "Where You Can Find More Information" in this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with any different information. We are not making an offer to sell our securities in any jurisdiction where the offer or sale is not permitted or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

You should assume that the information in this prospectus is accurate as of the date of the prospectus. Our business, financial condition and results of operations may have changed since that date.

When used in this prospectus, the terms "Rite Aid Corporation," "Rite Aid," "the company," "we," "us" and "our" refer to Rite Aid Corporation and its consolidated subsidiaries, unless we specify or the context clearly indicates otherwise.

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#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents that we incorporate by reference herein include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict" and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies.

Factors that could cause our 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;
- the outcomes of pending lawsuits and governmental investigations;
- competitive pricing pressures and continued consolidation of the drugstore industry; and
- the efforts of third party payors to reduce prescription drug reimbursements and encourage mail order, changes in state or federal legislation or regulations, the success of planned advertising and merchandising strategies, general economic conditions and inflation, interest rate movements, access to capital, and our relationships with our suppliers.

We undertake no obligation to revise the forward-looking statements included or incorporated by reference in this prospectus to reflect any future events or circumstances. Our actual results, performance or achievements could differ

materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled "Risk Factors" included in this prospectus. In addition, you are advised to review any further disclosures we make on related subjects in reports we file with the SEC.

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## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (or the SEC) under the Securities Exchange Act of 1934 (or the Exchange Act). You may read and copy all or a portion of this information at the SEC's Public Reference Room located at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional office located at 233 Broadway, New York, New York 10279. You may obtain further information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings are also available to the public on the SEC's Internet site located at <http://www.sec.gov>. Our common stock is listed and traded on the New York Stock Exchange and the Pacific Exchange under the symbol "RAD". You may inspect our reports, proxy statements and other information at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The SEC allows us to "incorporate by reference" into this prospectus information that we file with the SEC. This means we can disclose important information to you by referring you to the documents containing this information. Any information we incorporate by reference is considered to be part of this prospectus and any information filed by us with the SEC subsequent to the date of this prospectus will be deemed to automatically update and supercede the information contained herein. We are incorporating by reference into this prospectus the following documents that we have filed with the SEC:

- Our Annual Report on Form 10-K, filed with the SEC on April 26, 2004, for the fiscal year ended February 28, 2004;
- Our Quarterly Reports on Form 10-Q for the periods ended May 29, 2004, August 28, 2004 and November 27, filed with SEC on June 29, 2004, September 28, 2004, and December 21, 2004, respectively; and
- Our Current Reports on Form 8-K, filed with the SEC on August 20, 2004, October 8, 2004, January 4, 2005 and January 5, 2005; and
- The description of our common stock contained in our Registration Statement on Form 8-A, filed with the SEC under the Exchange Act.

We incorporate by reference any future filings we make with the SEC in accordance with Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of the offering made under this prospectus. We do not incorporate by reference any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K in any future filings, unless specifically stated otherwise.

We will provide without charge upon written or oral request, a copy of any or all of the documents which are incorporated by reference into this prospectus, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to this prospectus. Requests should be directed to:

Rite Aid Corporation  
30 Hunter Lane

Camp Hill, Pennsylvania 17011  
Attention: Investor Relations  
(717) 761-2633

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## RITE AID CORPORATION

### Our Business

We are the third largest retail drugstore chain in the United States based on revenues and number of stores. We operate approximately 3,400 drugstores in 28 states across the country and the District of Columbia.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. Our pharmacists fill more than 200 million prescriptions annually which account for approximately 64% of our annual 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 and the discovery of new and better drug therapies. We offer approximately 24,000 front-end products, which account for the remaining 36% of our annual sales. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, seasonal merchandise and numerous other everyday and convenience products, as well as photo processing. We distinguish our stores from other national chain drugstores, in part, through our private brands and our strategic alliance with General Nutrition Companies, Inc. (GNC), a leading retailer of vitamin and mineral supplements. We offer approximately 2,100 front-end products under the Rite Aid private brand, which contribute approximately 11% of our front-end sales in categories where private brand products are sold.

Our stores range in size from approximately 5,000 to 40,000 square feet. The overall average size of each store in our chain is approximately 12,700 feet. The larger stores are concentrated in the western United States. Approximately 53% of our stores are freestanding; 38% of our stores include a drive-thru pharmacy; 72% include one-hour photo shops; and 29% include a GNC store within Rite-Aid store.

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Our headquarters are located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011, and our telephone number is (717) 761-2633. We were incorporated in 1968 and are a Delaware corporation.

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## RISK FACTORS

Before you invest in our securities, you should be aware that there are various risks. You should carefully consider the risk factors set forth in this prospectus, the accompanying prospectus supplement and the reports that we file with the

SEC, as well as other information we include or incorporate by reference in this prospectus, before deciding whether an investment in that security is suitable for you.

#### 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 are highly leveraged and have the ability to incur a significant amount of additional indebtedness. We also have off balance sheet obligations under our accounts receivable securitization program. Our debt obligations adversely affect our operations in a number of ways and while we believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal year 2006, there can be no assurance that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds for that purpose, restructure or otherwise refinance our debt. Our earnings were insufficient to cover our fixed charges for fiscal 2004 by \$2.7 million.

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

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

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

Borrowings under our senior credit facility are based upon variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

The indebtedness outstanding under our senior credit facility bears an interest rate that varies depending upon LIBOR. If we borrow additional amounts under our senior credit facility, the interest rate on those borrowings will vary depending upon LIBOR. If LIBOR rises, the interest rates on this outstanding debt will also increase. Therefore, an increase in LIBOR would increase our interest payment obligations under the senior credit facility and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest.

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

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

- incur liens and debt;

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

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

If we obtain modifications of our agreements or are required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2005, 2004, 2003, 2002 and 2001, we modified certain covenants contained in our then existing senior credit facility and loan agreements. In fiscal 2000, we obtained waivers of compliance contained in our then existing credit facilities and public indentures. In connection with obtaining these modifications and waivers, we paid significant fees and transaction costs.

#### Risks Related to our Operations

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

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

Our new store development program requires entering into 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 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 or the regions where we

have made these commitments, these

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commitments must still be met. Further, if we subsequently dispose of the property that we acquire, we may receive less than the purchase price or the net book value of such property which may result in financial loss.

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

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

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

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

If we were convicted of any crime, certain licenses and government contracts, such as Medicaid plan reimbursement agreements that are material to our operations, may be revoked, which would have a material adverse effect on our results of operations and financial condition. In addition, substantial penalties, damages or other monetary remedies assessed against us could also have a material adverse effect on our results of operations, financial condition and cash flows.

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

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

We obtain approximately 90% of the dollar value of our prescription drugs from a single supplier, McKesson Corp. (or McKesson), pursuant to a contract that runs through March 2009. Pharmacy sales represent approximately 64% of

our total sales and, therefore, our relationship with McKesson is important to us. Any significant disruptions in our relationship with McKesson may temporarily make it difficult for us to continue to operate our business until we found a replacement supplier which could 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, mail order pharmacies and drug importation. We may not be able to effectively compete

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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 to compete effectively in our markets or increase our sales volume in response to further increased competition.

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. Sales of prescription drugs represent approximately 64% of our sales, and approximately 93% of all of the prescription drugs that we sell are with third-party payors. The top five third-party payors account for approximately 30% of our total sales, the largest of which is approximately 10.5% of our total sales. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations. Also, these third-party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Furthermore, the passing in December 2003 of the Medicare Prescription Drug, Improvement and Modernization Act will grant a prescription drug benefit to participants. As a result of this benefit, we may be reimbursed for some prescription drugs at prices lower than our current reimbursement levels. Approximately 12% of our revenues are from state-sponsored Medicaid agencies. There have been a number of proposals and enactments by various states to reduce Medicaid reimbursement levels in response to budget problems, some of which propose to reduce reimbursement levels in the applicable states significantly, and we expect other similar proposals in the future. If third-party payors reduce their reimbursement levels or if Medicare or state Medicaid programs cover prescription drugs at lower reimbursement levels, our margins on these sales would be reduced, and the profitability of our business and our results of operations, financial condition or cash flows could be adversely affected.

Another adverse trend for drugstore retailing has been the rapid growth in mail-order and internet based 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. In addition to these forms of mail-order distribution, there has also been an increasing number of internet-based prescription distributors that specialize in offering certain high demand lifestyle drugs at deeply discounted prices. A number of these internet-based distributors operate outside the reach of regulations that govern legitimate drug retailers. Competition from Canadian imports has also been increasing significantly recently and also creates volume and pricing pressure. Imports from foreign countries may increase further if recently introduced legislation seeking to legalize the importation of drugs from Canada and other countries is eventually enacted. These alternate distribution channels 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.

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

Our pharmacy business is subject to federal, state and local regulation. These include local registrations of pharmacies in the states where our pharmacies are located, applicable Medicare and

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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 and could adversely affect the continued operation of our business. Furthermore, our pharmacies could be affected by federal and state reform programs, such as healthcare reform initiatives, which could, in turn negatively affect our business. The passing of these initiatives or any new federal or state programs could adversely affect our results of operations, financial condition and cash flows.

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

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

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions and adequacy of warnings. 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 can offer no assurance that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self insure or we suffer reputational harm as a result of an error or omission.

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

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

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### RATIO OF EARNINGS TO FIXED CHARGES

We have calculated the ratio of earnings to fixed charges in the following table by dividing earnings by fixed charges. For this purpose, earnings include pre-tax income from continuing operations plus fixed charges before capitalized interest. Fixed charges include interest, whether expensed or capitalized, amortization of debt expense, preferred stock dividend requirement and that portion of rental expense which is representative of the interest factor in those rentals.

	Year Ended					Thirty-Nine
	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks)	February 26, 2000 (52 weeks)	Weeks Ended November 22, 2004 (39 weeks)
	(Dollars in thousands)					
Fixed Charges:						
Interest Expense	\$ 313,498	\$ 330,020	\$ 396,064	\$ 649,926	\$ 542,028	\$ 224,973
Interest Portion of Net Rental Expense (1)	184,643	189,463	182,260	159,066	146,852	153,233
Fixed Charges Before Capitalized Interest and Preferred Stock Dividend Requirements	498,141	519,483	578,324	808,992	688,880	378,206
Preferred Stock Dividend Requirement (2)	37,074	49,540	42,354	42,445	15,554	39,343
Capitalized Interest	133	301	806	1,836	5,292	160
Total Fixed Charges	\$ 535,348	\$ 569,324	\$ 621,484	\$ 853,273	\$ 709,726	\$ 417,709
Earnings:						
Income (Loss) from Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Change	\$ 34,516	\$ (154,016)	\$ (839,426)	\$ (1,282,807)	\$ (1,123,296)	\$ 85,279
Share of Loss From Equity Method Investees	—	—	12,092	36,675	15,181	—

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Preferred Stock Dividend Requirement (2)	(37,074)	(49,540)	(42,354)	(42,445)	(15,554)	(39,343)
Fixed Charges Before Capitalized Interest	535,215	569,023	620,678	851,437	704,434	417,549
Total Adjusted Earnings (Loss)	532,657	365,467	(249,010)	(437,140)	(419,235)	463,485
Ratio of Earnings to Fixed Charges	—	—	—	—	—	1.11
Earnings to Fixed Charges (Deficiency)	\$ (2,691)	\$ (203,857)	\$ (870,494)	\$ (1,290,413)	\$ (1,128,961)	\$ 45,776

(1)The interest portion of net rental expense is estimated to be equal to one-third of the minimum rental expense for the period.

(2)The preferred stock dividend requirement is computed as the pre-tax earnings (assuming a 35% effective tax rate) that would be required to cover preferred stock dividends.

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## USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, we intend to use the net proceeds from the sale of any offering of securities offered for general corporate purposes. These purposes may include, but are not limited to:

- working capital;
- capital expenditures;
- the repayment or refinancing of our indebtedness; and
- acquisitions.

When a particular series of securities is offered, a prospectus supplement related to that offering will set forth our intended use of the net proceeds received from the sale of those securities. We will have significant discretion in the use of any net proceeds. The net proceeds may be invested temporarily in short-term marketable securities or applied to repay indebtedness until they are used for their stated purpose.

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## DESCRIPTION OF SECURITIES

This prospectus contains summary descriptions of the debt securities (including any guarantee thereof), common stock, preferred stock and warrants that we may sell from time to time. These summary descriptions are not meant to be complete descriptions of each security. The particular terms of any security will be described in the related prospectus supplement.

## DESCRIPTION OF DEBT SECURITIES AND GUARANTEES

The debt securities offered by this prospectus will be senior secured debt securities, senior unsecured debt securities or subordinated debt securities. Debt securities may be guaranteed by us or one or more of our subsidiaries. Guarantees may be full or limited, senior or subordinated and secured or unsecured, or a combination thereof. We will issue the senior secured debt securities, the senior unsecured debt securities and the subordinated debt securities under indentures that we will enter into with BNY Midwest Trust Company, as trustee. We refer to the indenture under which senior secured debt securities and the senior unsecured debt securities may be issued in this prospectus as the "senior indenture" and the senior indenture and the subordinated indenture in this prospectus collectively as the "indentures." To the extent that debt securities are guaranteed, the guarantees will be set forth in the indenture or supplements thereto or guarantee agreements. To the extent that debt securities or related guarantees are secured, the security interest will be granted under and subject to the indenture or supplements thereto, security agreements, pledge agreements, mortgages, intercreditor agreements, lien subordination agreements and other documents as may be necessary. We refer to these documents collectively as "security documents." We will file forms of the indentures and any related security documents with the SEC as exhibits to the registration statement of which this prospectus forms a part or in a Current Report on Form 8-K. We have summarized selected provisions of the indentures and the debt securities below. This summary is not complete and is qualified in its entirety by reference to the indentures and the security documents. For purposes of this "Description of Debt Securities and Guarantees" section of this prospectus, references to the terms "Rite Aid," "us" or "we" mean Rite Aid Corporation only, unless we state otherwise or the context clearly indicates otherwise.

We may issue debt securities from time to time in one or more series under the indentures. We will describe the particular terms of each series of debt securities we offer in a supplement to this prospectus. The terms of our debt securities will include those set forth in the applicable indenture, any related security documents and those made a part of the applicable indenture by the Trust Indenture Act of 1939. You should read the summary below, the applicable prospectus supplement and the provisions of the applicable indenture and any related security documents before investing in our debt securities.

The provisions of each of the indentures are substantially identical in substance, except that the subordinated indenture provides for the subordination of the subordinated debt securities and the senior indenture has no counterpart for that section. We have described the subordination provisions of the subordinated indenture below under "—Subordination Under the Subordinated Indenture." The terms of the security arrangements for each series of our senior secured debt securities will be established in a supplemental indenture to the senior indenture and will be described in the applicable prospectus supplement.

Subject to the exceptions, and subject to compliance with the applicable requirements, set forth in the applicable indenture, we may discharge our obligations under the indentures with respect to our debt securities as described below under "—Defeasance and Covenant Defeasance."

#### The Terms of the Debt Securities

We may issue debt securities and any related guarantees in one or more series from time to time under each of the indentures. The total principal amount of debt securities that may be issued under the indentures is unlimited. We may limit the maximum total principal amount for the debt securities of any series. However, any limit may be increased by resolution of our board of directors. We will

establish the terms of each series of debt securities in a supplemental indenture, board resolution or company order. Unless we inform you otherwise in a prospectus supplement, each series of our senior secured debt securities will rank equally in right of payment with all of our other senior debt, except that our senior secured debt will effectively rank senior to our senior unsecured debt to the extent of the value of the collateral securing the senior secured debt. The subordinated debt securities will rank junior in right of payment and be subordinate to all of our senior debt as described below under "—Subordination Under the Subordinated Indenture."

We will describe the specific terms of the series of debt securities being offered in a prospectus supplement. These terms will include some or all of the following:

- the title of the debt securities;
- whether the debt securities are senior secured debt securities, senior unsecured debt securities or subordinated debt securities;
- the specific indenture under which the debt securities will be issued;
- any limit on the total principal amount of the debt securities;
- the ability to issue additional debt securities of the same series;
- the price or prices at which we sell the debt securities;
- the date or dates on which the principal of the debt securities will be payable, including the maturity date, or the method used to determine or extend those dates;
- the interest rate or rates of the debt securities, if any, which may be fixed or variable, or the method used to determine the rate or rates;
- the date or dates from which interest will accrue on the debt securities, or the method used for determining those dates;
- the right, if any, to extend the interest payment periods and the duration of any such deferral period, including the maximum period during which the interest payment periods may be extended;
- the priority of payment of the debt securities;
- the interest payment dates and the regular record dates for interest payments, if any, or the method used to determine those dates;
- the basis for calculating interest if other than a 360-day year of twelve 30-day months;
- the place or places where:
  - payments of principal, premium, if any, and interest on the debt securities will be payable;
  - the debt securities may be presented for registration of transfer, conversion or exchange, as applicable; and
  - notices and demands to or upon us relating to the debt securities may be made;
- any provisions that would allow or obligate us to redeem or purchase the debt securities, including any sinking fund or amortization provisions, prior to their maturity and the prices at which we may, or are required to do so;
- the denominations in which we will issue the debt securities, if other than denominations of an integral multiple of \$1,000;
- any provisions that would determine the amount of principal, premium, if any, or interest on the debt securities by reference to an index or pursuant to a formula;
- the currency, currencies or currency units in which the principal, premium, if any, and interest on the debt securities will be payable, if other than U.S. dollars, and the manner for determining the equivalent principal amount in U.S. dollars;

- any provisions for the payment of principal, premium, if any, and interest on the debt securities in one or more currencies or currency units other than those in which the debt securities are stated to be payable;
- the percentage of the principal amount at which the debt securities will be issued and, if other than 100%, the portion of the principal amount of the debt securities which will be payable if the maturity of the debt securities is accelerated or the method for determining such portion;
- if the principal amount to be paid at the stated maturity of the debt securities is not determinable as of one or more dates prior to the stated maturity, the amount which will be deemed to be the principal amount as of any such date for any purpose, including the principal amount which will be due and payable upon any maturity other than the stated maturity or which will be deemed to be outstanding as of any such date, or, in any such case, the manner in which the deemed principal amount is to be determined;
- to whom interest on any debt security shall be payable, if other than the person in whose name the security is registered on the record date for such interest, the extent to which, or the manner in which, any interest payable on a temporary global debt security will be paid if other than the manner provided in the applicable indenture;
- any variation of the defeasance and covenant defeasance sections of the relevant indenture and the manner in which our election to defease the debt securities will be evidenced, if other than by a board resolution;
- whether any of the debt securities will initially be issued in the form of a temporary global security and the provisions for exchanging a temporary global security for definitive debt securities;
- whether any of the debt securities will be issued in the form of one or more global securities and, if so:
  - the depositary for the global securities;
  - the form of any additional legends to be borne by the global securities;
  - the circumstances under which the global securities may be exchanged, in whole or in part, for individual debt security certificates; and
  - whether and under what circumstances a transfer of the global securities may be registered in the names of persons other than the depositary for the global securities or its nominee;
- whether the interest rate of the debt securities may be reset;
- whether the stated maturity of the debt securities may be extended;
- any additions to or changes in the events of default for the debt securities and any change in the right of the trustee or the holders of the debt securities to declare the principal amount of the debt securities due and payable;
- any additions to or changes in the covenants and definitions in the relevant indenture, including any restrictions on our ability to incur debt, redeem our stock, grant liens, merge or sell our assets;
- any additions or changes to the relevant indenture necessary to issue the debt securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons;
- the appointment of any paying agents, authenticating agents, transfer agents, registrars or other agents for the debt securities, if other than the trustee;
- the terms, if any, upon which holders may convert or exchange debt securities into or for our common stock, preferred stock or other securities or property;

- the terms and conditions, if any regarding any mandatory conversion or exchange of debt securities;
- the period(s), if any, within which the price or prices at which and the other terms and conditions upon which such debt securities may, pursuant to any optional or mandatory redemption provisions, be redeemed, in whole or in part, at our option;
- our obligation, if any, to redeem, repay or repurchase such debt securities pursuant to any sinking fund or other analogous provision, or at the option of the holder thereof, and the period or periods within which, the price or prices at which and the other terms and conditions upon which such debt securities will be redeemed, repaid or repurchased, in whole or in part, pursuant to such obligations;
- the guarantors of each series, if any, and the extent of the guarantees (including provisions relating to seniority, subordination, security and release of the guarantees), if any;
- the terms and conditions, if any, securing the debt securities;
- any applicable subordination provisions for any subordinated debt securities in addition to or in lieu of those described in this prospectus;
- any restriction or condition on the transferability of the debt securities;
- provisions, if any, granting special rights to holders of the debt securities upon the occurrence of specified events;
- any restrictions on our subsidiaries; and
- any other terms of the debt securities, including terms in lieu of those described in this prospectus.

We may sell the debt securities, including original issue discount securities, at par or at a substantial discount below their stated principal amount. Unless we inform you otherwise in a prospectus supplement, we may issue additional debt securities of a particular series without the consent of the holders of the debt securities of such series outstanding at the time of issuance. Any such additional debt securities, together with all other outstanding debt securities of that series, will constitute a single series of securities under the applicable indenture. In addition, we will describe in a prospectus supplement, material U.S. federal income tax considerations and any other special considerations for any debt securities we sell which are denominated in a currency or currency unit other than U.S. dollars. Unless we inform you otherwise in a prospectus supplement, the debt securities will not be listed on any securities exchange.

#### Guarantees

We, or one or more of our direct or indirect subsidiaries, or any combination of them, may, severally or jointly and severally, guarantee any or all of the series of debt securities. Guarantees may be full or limited, senior or subordinated, secured or unsecured, or any combination thereof. In all cases, however, the obligations of each guarantor under its guarantee will be limited as necessary to prevent the guarantee from being rendered voidable under fraudulent conveyance, fraudulent transfer or similar laws affecting the rights of creditors generally. We will describe the specific terms of any guarantees in a prospectus supplement. These terms will include some or all of the terms detailed in this section.

All guarantees will bind the successors of the guarantors and will inure to the benefit of holders of the debt securities guaranteed. The guarantees will terminate upon the first to occur of:

- full payment of the principal, interest and premium, if any, of all debt securities guaranteed;
- other discharge of all debt securities guaranteed; or
- such other events described in a prospectus supplement.

Guarantees may be reinstated or described in the applicable prospectus supplement. The guarantee of a subsidiary will be released:

- upon the sale or other disposition (including by way of consolidation or merger) of the subsidiary;
- upon the sale or disposition of all or substantially all of the assets of the subsidiary; or
- upon the happening of other events described in the applicable prospectus supplement;

in each case other than a sale or disposition to us or one of our affiliates. The guarantee of a subsidiary will also be released upon:

- the merger or consolidation of the subsidiary with or into, or the dissolution and liquidation of the subsidiary into, a subsidiary that is or becomes a guarantor of, or another person that guarantees, the debt securities guaranteed; or
- the designation of the subsidiary as an unrestricted subsidiary.

Except as set forth in any applicable prospectus supplement, the guarantee will constitute a guarantee of payment and not of collection. Accordingly, the trustee or, in some circumstances the holders of the debt securities guaranteed, may institute a legal proceeding directly against the guarantor to enforce rights under the guarantee without first instituting a legal proceeding against the issuer of the debt security guaranteed or any other person or to realize upon any security for the debt securities guaranteed.

#### Structural Subordination

Rite Aid is a holding company that conducts substantially all of its operations through its subsidiaries. Its only significant assets are the capital stock of its subsidiaries and its subsidiaries generate substantially all of its operating income and cash flow. As a result, dividends or advances from its subsidiaries are the principal source of funds necessary to meet its debt service obligations. Contractual provisions or laws, as well as its subsidiaries' financial condition and operating requirements, may limit Rite Aid's ability to obtain cash from its subsidiaries that it may require to pay its debt service obligations, including payments on the debt securities. In addition, holders of debt securities will be effectively subordinated to all of the liabilities of Rite Aid's subsidiaries with regard to the assets and earnings of Rite Aid's subsidiaries.

#### Form, Exchange and Transfer of the Debt Securities

Unless we inform you otherwise in a prospectus supplement, we will issue the debt securities in registered form, without coupons, in denominations of integral multiples of \$1,000.

Holders will generally be able to exchange debt securities for other debt securities of the same series with the same total principal amount and the same terms but in different authorized denominations.

Holders may present debt securities for exchange or for registration of transfer at the office of the security registrar or at the office of any transfer agent we designate for that purpose. The security registrar or designated transfer agent will exchange or transfer the debt securities if it is satisfied with the documents of title and identity of the person making the request. We will not charge a service charge for any exchange or registration of transfer of debt securities. However, we may require payment of a sum sufficient to cover any tax or other governmental charge payable for the registration of transfer or exchange. Unless we inform you otherwise in a prospectus supplement, we will appoint the trustee as security registrar. We will identify any transfer agent in addition to the security registrar in a prospectus supplement. At any time, we may:

- designate additional transfer agents;
- rescind the designation of any transfer agent; or



- approve a change in the office of any transfer agent.

However, we are required to maintain a transfer agent in each place of payment for the debt securities at all times.

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In the event we elect to redeem a series of debt securities, neither we nor the applicable trustee will be required to register the transfer or exchange of any debt security of that series:

- during the period beginning at the opening of business 15 days before the day we mail the notice of redemption for the series and ending at the close of business on the day the notice is mailed;
- or
- if we have selected the series for redemption, in whole or in part, except for any unredeemed portion of the series

#### Global Securities

Unless we inform you otherwise in a prospectus supplement, some or all of the debt securities of any series may be represented, in whole or in part, by one or more registered global securities. The global securities will have a total principal amount equal to the debt securities they represent. Unless we inform you otherwise in a prospectus supplement, each global security representing debt securities will be deposited with, or on behalf of, The Depository Trust Company, referred to as DTC, or any other successor depository we may appoint. In such case, each holder's beneficial interest in global securities will be shown on the records of DTC and transfers and beneficial interests will only be effected through DTC's records. We refer to DTC or any other depository in this prospectus as the depository. Each global security will be registered in the name of the depository or its nominee. Each global security will bear a legend referring to the restrictions on exchange and registration of transfer of global securities that we describe below and any other matters required by the relevant indenture. Unless we inform you otherwise in a prospectus supplement, we will not initially issue debt securities in definitive form.

Global securities may not be exchanged, in whole or in part, for definitive debt securities, and no transfer of a global security, in whole or in part, may be registered in the name of any person other than the depository for the global security or any nominee of the depository unless:

- the depository has notified us that it is unwilling or unable to continue as depository for the global security or has ceased to be qualified to act as depository as required by the applicable indenture unless we have approved a successor depository within 90 days;
- we determine in our sole discretion that the global security will be so exchangeable or transferable; or
- any other circumstances in addition to or in lieu of those described above that we may describe in a prospectus supplement have occurred.

All debt securities issued in exchange for a global security or any portion of a global security will be registered in the names directed by the depository.

Any additional terms of the depository agreement with respect to any series of debt securities and the rights of and limitations on owners of beneficial interests in a global security representing a series of debt securities may be described in a related prospectus supplement.

#### Payment and Paying Agents

Unless we inform you otherwise in a prospectus supplement, we will pay interest on the debt securities to the persons in whose names the debt securities are registered at the close of business on the regular record date for each interest payment. However, unless we inform you otherwise in a prospectus supplement, we will pay the interest payable on the debt securities at their stated maturity to the persons to whom we pay the principal amount of the debt securities. The initial payment of interest on any series of debt securities issued between a regular record date and the related interest payment date will be payable in the manner provided by the terms of the series, which we will describe in a prospectus supplement.

Unless we inform you otherwise in a prospectus supplement, we will pay principal, premium, if any, and interest on the debt securities at the offices of the paying agents we designate. However, except in the case of a global security, we may pay interest by:

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- check mailed to the address of the person entitled to the payment as it appears in the security register; or
  - wire transfer in immediately available funds to the place and account designated in writing by the person entitled to the payment as specified in the security register.

We will designate the trustee under the applicable indenture as the sole paying agent for the debt securities unless we inform you otherwise in a prospectus supplement. If we initially designate any other paying agents for a series of debt securities, we will identify them in a prospectus supplement. At any time, we may designate additional paying agents or rescind the designation of any paying agents. However, we are required to maintain a paying agent in each place of payment for the debt securities at all times.

Any money deposited with the applicable trustee or any paying agent for the payment of principal, premium, if any, and interest on the debt securities that remains unclaimed for two years after the date the payments became due, may be repaid to us upon our request. After we have been repaid, holders entitled to those payments may only look to us for payment as our unsecured general creditors. The trustees and any paying agents will not be liable for those payments after we have been repaid.

#### Restrictive Covenants

We will describe any restrictive covenants, including restrictions on any subsidiary (whether or not such subsidiary guarantees the debt securities), for any series of debt securities in a prospectus supplement.

#### Consolidation, Merger and Sale of Assets

Unless we inform you otherwise in a prospectus supplement, Rite Aid may not consolidate with or merge into, or sell, assign, convey, transfer or lease all or substantially all of its properties and assets to any person, other than a direct or indirect wholly owned subsidiary, referred to as a "successor person," unless:

- we are the surviving corporation or the successor person is a corporation, partnership, trust or other entity organized and validly existing under the laws of any domestic jurisdiction;
- the successor person assumes Rite Aid's obligations with respect to the debt securities and the relevant indenture;
- immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, would occur and be

continuing; and

- we have delivered to the applicable trustee any certificate and opinion required under the relevant indenture.

As used in the indentures, the term "corporation" means a corporation, association, company, limited liability company, joint-stock company or business trust.

We will describe any restrictions on the ability of subsidiary guarantors to merge or engage in other extraordinary corporate events in a prospectus supplement.

#### Events of Default

Unless the context clearly indicates otherwise, we use the terms "indenture" and "trustee" in this subsection to mean the relevant indenture and trustee with respect to any series of debt securities we may offer.

Unless we inform you otherwise in a prospectus supplement, each of the following will be an event of default under the indenture for a series of debt securities:

- our failure to pay any interest on that series for 30 days after the interest becomes due and payable;

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- our failure to pay principal or premium, if any, on that series when due, regardless of whether such payment becomes due because of maturity, redemption, acceleration or otherwise, or is required by any sinking fund established with respect to such series;
  - our failure to perform, or our breach in any material respect of, any other covenant or warranty in the indenture, other than a covenant or warranty included in the indenture solely for the benefit of another series of debt securities issued under the indenture, for 90 days after either the trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities have given us written notice of the breach in the manner required by the indenture;
  - certain events involving bankruptcy, insolvency or reorganization; and
  - any other event of default we may provide for that series.

If an event of default described in the first, second, third or fifth bullet points above occurs and is continuing, either the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of a series may declare the principal amount of the debt securities due and immediately payable. In order to declare the principal amount of the debt securities due and immediately payable, the trustee or the holders must deliver a notice that satisfies the requirements of the indenture. Upon a declaration by the trustee or the holders, we will be obligated to pay the principal amount of the debt securities.

If an event of default described in the fourth bullet point above occurs, then the principal amount of the debt securities shall be immediately due and payable without any declaration or any other action on the part of the trustee or any holder.

An event of default will be deemed waived at any time after a declaration of acceleration but before a judgment for payment of the money due has been obtained if:

- we have paid or deposited with the trustee all overdue interest, the principal and any premium due otherwise than by the declaration of acceleration and any interest on such amounts, and any

interest on overdue interest, to the extent legally permitted, and all amounts due to the trustee, and

- all events of default, other than the nonpayment of the principal which became due solely by virtue of the declaration of acceleration, have been cured or waived.

The trustee is under no obligation to exercise any of its rights or powers at the request or direction of any holders of debt securities unless those holders have offered the trustee security or indemnity satisfactory to the trustee against the costs, expenses and liabilities which it might incur as a result. The holders of a majority of the outstanding debt securities have, with certain exceptions, the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or the exercise of any trust or power of the trustee with respect to the debt securities.

The holder of any debt security will have an absolute and unconditional right to receive payment of the principal, any premium and, within certain limitations, any interest on that debt security on its maturity date or redemption date and to institute suit to enforce those payments.

We are required to furnish each year to the trustee an officers' certificate to the effect that we are not in default under the indenture or, if there has been a default, specifying the default and its status.

#### Modification and Waiver

Unless the context clearly indicates otherwise, we use the terms "indenture" and "trustee" in this subsection to mean the relevant indenture and the applicable trustee with respect to any series of debt securities we may offer.

We may enter into one or more supplemental indentures with the trustee without the consent of the holders of the debt securities in order to:

- evidence the succession of another person to us, or successive successions and the assumption of our covenants, agreements and obligations by a successor;

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- add to the covenants for the benefit of the holders or to surrender any of our rights or powers;
  - add events of default for any series of debt securities;
  - add or change any provisions of the indenture to the extent necessary to issue debt securities in bearer form;
  - add to, change or eliminate any provision of the indenture applying to one or more series of debt securities, provided that if such action adversely affects the interests of any holders of debt securities of any series, the addition, change or elimination will become effective with respect to that series only when no security of that series remains outstanding;
  - convey, transfer, assign, mortgage or pledge any property to or with the trustee or to surrender any right or power conferred upon us by the indenture;
  - establish the form or terms of any series of debt securities;
  - provide for uncertificated securities in addition to certificated securities;
  - evidence and provide for successor trustees or to add or change any provisions to the extent necessary to appoint a separate trustee or trustees for a specific series of debt securities;
  - correct any ambiguity, defect or inconsistency under the indenture, provided that such action does not adversely affect the interests of the holders of debt securities of any series in any material respect;

- supplement any provisions of the applicable indenture necessary to defease and discharge any series of debt securities, provided that such action does not adversely affect the interests of the holders of any series of debt securities in any material respect;
- comply with the rules or regulations of any securities exchange or automated quotation system on which any debt securities are listed or traded; or
- add, change or eliminate any provisions of the indenture in accordance with any amendments to the Trust Indenture Act of 1939, provided that the action does not adversely affect the rights or interests of any holder of debt securities.

We may enter into one or more supplemental indentures with the trustee in order to add to, change or eliminate provisions of the indenture or to modify the rights of the holders of one or more series of debt securities if we obtain the consent of the holders of a majority in principal amount of the outstanding debt securities of each series affected by the supplemental indenture, treated as one class. However, without the consent of the holders of each outstanding debt security affected by the supplemental indenture, we may not enter into a supplemental indenture that:

- changes the stated maturity of the principal of, or any installment of principal of or interest on, any debt security, except to the extent permitted by the applicable indenture;
- reduces the principal amount of, or any premium or interest on, any debt security;
- reduces the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity thereof;
- changes the currency of payment of principal, premium, if any, or interest;
- impairs the right to institute suit for the enforcement of any payment on any debt security;
- reduces the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the applicable indenture;
- reduces the percentage in principal amount of outstanding debt securities of any series necessary for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults;

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- makes any change that adversely affects the right to convert or exchange any debt security or decreases the conversion or exchange rate or increases the conversion price of any convertible or exchangeable debt security; or
  - changes the terms and conditions pursuant to which any series of debt securities are secured in a manner adverse to the holders of that series of debt securities.

We may not amend the subordinated indenture to change the subordination of any outstanding subordinated debt securities without the consent of each holder of senior debt that the amendment would adversely affect.

Holders of a majority in principal amount of the outstanding debt securities of any series may waive past defaults or compliance with restrictive provisions of the applicable indenture.

However, the consent of holders of each outstanding debt security of a series is required to:

- waive any default in the payment of principal, premium, if any, or interest; or
- waive any covenants and provisions of the indenture that may not be amended without the consent of the holder of each outstanding debt security of the series affected.

In order to determine whether the holders of the requisite principal amount of the outstanding debt securities have taken an action under the indenture as of a specified date:

- the principal amount of an original issue discount security that will be deemed to be outstanding will be the amount of the principal that would be due and payable as of such date upon acceleration of the maturity to such date;
- if, as of such date, the principal amount payable at the stated maturity of a debt security is not determinable, for example, because it is based on an index, the principal amount of such debt security deemed to be outstanding as of such date will be an amount determined in the manner prescribed for such debt security;
- the principal amount of a debt security denominated in one or more foreign currencies or currency units that will be deemed to be outstanding will be the U.S. dollar equivalent, determined as of such date in the manner prescribed for such debt security, of the principal amount of such debt security or, in the case of a debt security described in the two preceding bullet points, of the amount described above; and
- debt securities owned by us or any other obligor upon the debt securities or any of their affiliates will be disregarded and deemed not to be outstanding.

Some debt securities, including those for which payment or redemption money has been deposited or set aside in trust for the holders and those that have been fully defeased, will not be deemed to be outstanding.

We will generally be entitled to set any day as a record date for determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver or other action under the indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or such shorter period as we may specify, or the trustee may specify, if it set the record date.

#### Subordination Under the Subordinated Indenture

We have defined some of the terms we use in this subsection at the end of this subsection. The subordinated debt securities issued under the subordinated indenture will:

- be general unsecured obligations;

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- be subordinate and rank junior in right of payment to all of our senior debt to the extent provided in the subordinated indenture or in any supplemental indenture;
  - rank equally in right of payment with all of our other subordinated indebtedness unless otherwise provided in a supplemental indenture; and
  - with respect to the assets and earnings of our subsidiaries, effectively rank below all of the liabilities of our subsidiaries.

This means we will not make any payment of principal, premium, if any, interest, or any other amounts, if any, on the subordinated debt securities if:

- we have defaulted in the payment of principal, premium, if any, interest or any other amounts due on any of our senior debt beyond any applicable grace period; or
- the maturity of any of our senior debt has been accelerated because of a default,

until such default is cured, waived in writing or ceases to exist or such senior debt is discharged or paid in full. If the maturity of one or more series of our subordinated debt securities is accelerated, then we will not make any payment of principal, premium, if any, interest or any other amounts, if any, on the subordinated debt securities until the holders of all of our senior debt outstanding at the time of acceleration receive payment in full of the senior debt (including any amounts due upon acceleration, if applicable).

If our assets are distributed to our creditors upon our dissolution, winding-up, receivership, reorganization, assignment for the benefit of creditors, marshaling of assets and liabilities or bankruptcy, insolvency or similar proceedings, all amounts due or to become due on all of our senior debt must be paid in full before we may make any payments on our subordinated debt securities.

Under the subordinated indenture, the term "senior debt" means the principal, premium, if any, interest, or other amounts due, if any, in connection with all of our debt (unless otherwise provided in a supplemental indenture), whether created, incurred or assumed before, on or after the date of the subordinated indenture. However, senior debt does not include:

- our debt to any of our subsidiaries;
- any series of subordinated debt securities issued under the subordinated indenture, unless otherwise specified by the terms of any such series;
- any of our other debt which by the terms of the instrument creating or evidencing it is specifically designated as being subordinated to or pari passu with the subordinated debt securities; and
- any trade payables.

Under the subordinated indenture, the term "debt" means, with respect to any person at any date of determination, without duplication:

- all indebtedness for borrowed money;
- all obligations evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses;
- all obligations under letters of credit or bankers' acceptances or other similar instruments, or related reimbursement obligations, issued on the account of such person;
- all obligations to pay the deferred purchase price of property or services, except trade payables;
- all obligations as lessee under capitalized leases;
- all debt of others secured by a lien on any asset of such person, whether or not the debt is assumed by the person, provided that, for purposes of determining the amount of any debt of the type described in this bullet point, if recourse with respect to the debt is limited to the asset, the amount of the debt will be limited to the lesser of the fair market value of the asset or the amount of the debt;

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- all debt of others guaranteed by such person to the extent the debt is guaranteed by such person; and
  - to the extent not otherwise included in this definition, all obligations for claims in respect of derivative products, including interest rate, options, swaps, collars and similar arrangements.

Under the subordinated indenture, the term "trade payables" means, with respect to any person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such person or any of its subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or

services.

The subordinated indenture does not limit our ability to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the subordinated debt securities.

A prospectus supplement relating to each series of subordinated debt securities will describe any subordination provisions applicable to such series in addition to or different from those described above.

By reason of the subordination of the subordinated debt securities, in the event we become insolvent, holders of our senior debt and holders of our other obligations that are not subordinated to our senior debt may receive more, ratably, than holders of the subordinated debt securities. However, this subordination will not prevent the occurrence of an event of default or limit the right of acceleration in respect of the subordinated debt securities.

#### Defeasance and Covenant Defeasance

Unless the context clearly indicates otherwise, we use the terms "indenture" and "trustee" in this subsection to mean the relevant indenture and the applicable trustee with respect to any series of debt securities we may offer.

Unless we inform you otherwise in a prospectus supplement, the provisions of the indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants, will apply to the debt securities of any series.

**Defeasance and Discharge.** We will be discharged from all of our obligations with respect to the debt securities, except for certain obligations to exchange or register the transfer of debt securities, to replace stolen, lost or mutilated debt securities, to maintain paying agencies and to hold money for payment in trust, upon the deposit in trust for the benefit of the holders of such debt securities of money or U.S. government obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal, premium, if any, and interest on the debt securities on the respective stated maturities of the debt securities in accordance with the terms of the applicable indenture and the debt securities. Such defeasance or discharge may occur only if, among other things, we have delivered to the trustee an opinion of counsel to the effect that holders of the debt securities will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge were not to occur. Such opinion must be based on a ruling of the U.S. Internal Revenue Service or a change in U.S. federal income tax law occurring after the date hereof, because this result would not occur under current U.S. federal income tax law.

**Defeasance of Certain Covenants.** We may, at our option, elect to have our obligations released with respect to certain covenants, including those described under "—Consolidation, Merger and Sale of Assets" that are described in a prospectus supplement. If we do so, our failure to comply with those covenants will not constitute a default or an event of default with respect to the applicable series of notes. In the event covenant defeasance occurs, certain events of default, as described in the applicable prospectus supplement, will not apply to the applicable series of notes. In order to exercise such covenant defeasance option, we will be required to deposit, in trust for the benefit of the holders of the debt securities, money or U.S. government obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal, premium, if any, and interest on the debt securities on the



respective stated maturities in accordance with the terms of the indenture and the debt securities. We will also be required, among other things, to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and defeasance were not to occur. In the event we exercise this option with respect to any debt securities and the debt securities were declared due and payable because of the occurrence of any event of default, the amount of money and U.S. government obligations so deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities, but might not be sufficient to pay amounts due on such debt securities upon any acceleration resulting from the event of default. In such case, we would remain liable for those payments.

We may exercise our defeasance option with respect to such debt securities notwithstanding our prior exercise of our covenant defeasance option.

#### Notices

Holders of our debt securities will receive notices by mail at their addresses as they appear in the security register.

#### Title

We may treat the person in whose name a debt security is registered on the applicable record date as the owner of the debt security for all purposes, whether or not it is overdue.

#### Governing Law

New York law will govern the indentures and the debt securities, without regard to its conflicts of law principles.

#### Regarding the Trustee

The trustee under the indentures will be BNY Midwest Trust Company.

#### Conversion or Exchange Rights

A prospectus supplement will describe the terms, if any, on which a series of debt securities may be convertible into or exchangeable for our common stock, preferred stock or other securities. These terms will also include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. Such provisions will also include the conversion or exchange price (or manner of calculation), the conversion or exchange period, the events requiring an adjustment of the conversion or exchange price, and provisions affecting conversion or exchange in the event of the redemption of such series of debt securities.

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#### DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 1,000,000,000 shares of common stock, par value of \$1.00 per share, and 20,000,000 shares of preferred stock, par value of \$1.00 per share. As of December 16, 2004, there were 520,602,938 shares of common stock issued and outstanding and 4,522,437 shares of Series D Cumulative Pay-in-Kind Preferred Stock (the "Series D Preferred Stock") issued and outstanding.

## Common Stock

The holders of our common stock are entitled to receive ratably, from funds legally available for the payment thereof, dividends when and as declared by resolution of our board of directors, subject to any preferential dividend rights granted to the holders of any outstanding preferred stock. In the event of our liquidation or dissolution, holders of our common stock are entitled to share equally in all assets remaining after payment of liabilities and the liquidation preference of any outstanding series of preferred stock. Each holder of our common stock is entitled to one vote for each share held on record on all matters submitted to a vote of our security holders. Except as otherwise provided by law, the holders of our common stock vote as one class. The shares of our common stock do not have cumulative voting rights. As a result, subject to the voting rights of the holders of any shares of our preferred stock, including the voting rights of the Series D Preferred Stock, which may at the time be outstanding, the holders of our common stock entitled to exercise more than 50% of the voting rights in an election of directors can elect 100% of the directors to be elected in a particular year if they choose to do so. In such event, the holders of the remaining common stock voting for the election of directors will not be able to elect any persons to our board of directors. Holders of our common stock do not have preemptive, subscription, redemption or conversion rights. The outstanding shares of our common stock are, and any shares of common stock that we sell in any offering will be, duly authorized, validly issued, fully paid and nonassessable, which means that its holders will have paid their purchase price in full and we may not require them to pay additional funds.

## Preferred Stock

Our board of directors have the authority, without further action by our shareholders, to issue shares of our preferred stock in one or more series and may determine, with respect to any such series, the powers, preferences and rights of such series, and its qualifications, limitations and restrictions, including, without limitation:

- the number of shares to constitute such series and the designations thereof;
- the voting power, if any, of holders of shares of such series and, if voting power is limited, the circumstances under which such holders may be entitled to vote;
- the rate of dividends, if any, and the extent of further participation in dividend distributions, if any, whether dividends shall be cumulative or non-cumulative, and whether the dividends are payable in cash, securities, other property or a combination of the foregoing;
- whether or not such series shall be redeemable, and, if so, the terms and conditions upon which shares of such series shall be redeemable;
- the extent, if any, to which such series shall have the benefit of any sinking fund provision for the redemption or purchase of shares;
- the rights, if any, of such series, in the event of our dissolution, liquidation, winding up of our affairs or upon any distribution of our assets; and
- whether or not the shares of such series shall be convertible (including any mandatory conversion provisions), and, if so, the terms and conditions upon which shares of such series shall be convertible.

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You should refer to the prospectus supplement relating to the series of preferred stock being offered for the specific terms of that series, including:

- the title of the series and the number of shares in the series;

- the price at which the preferred stock will be offered;
- the dividend rate or rates or method of calculating the rates, the dates on which the dividends will be payable, whether or not dividends will be cumulative or noncumulative and, if cumulative, the dates from which dividends on the preferred stock being offered will cumulate, whether the dividends are payable in cash, securities, other property or a combination of the foregoing;
- the voting rights, if any, of the holders of shares of the preferred stock being offered;
- the provisions for a sinking fund, if any, and the provisions for redemption, if applicable, of the preferred stock being offered;
- the liquidation preference per share;
- the terms and conditions, if applicable, upon which the preferred stock being offered will be convertible into our common stock (including any mandatory conversion provisions), or other securities, including the conversion price, or the manner of calculating the conversion price, and the conversion period;
- the terms and conditions, if applicable, upon which the preferred stock being offered will be exchangeable for debt securities, including the exchange price, or the manner of calculating the exchange price, and the exchange period;
- any listing of the preferred stock being offered on any securities exchange;
- a discussion of any material U.S. federal income tax considerations applicable to the preferred stock being offered;
- the relative ranking and preferences of the preferred stock being offered as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;
- any limitations on the issuance of any class or series of preferred stock ranking senior or equal to the series of preferred stock being offered as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;
- any limitations on our ability to take certain actions without the consent of a specified number of holders of preferred stock; and
- any additional rights, preferences, qualifications, limitations and restrictions of the series.

Upon issuance, the shares of preferred stock will be fully paid and nonassessable. Holders of preferred stock will not have any preemptive rights.

#### Preferred Stock Dividend Rights

Holders of preferred stock will be entitled to receive, when, as and if declared by our board of directors, dividends in additional shares of preferred stock (whether or not of the same class), shares of common stock, or cash dividends, or a combination of the foregoing, at the rates and on the dates set forth in the prospectus supplement. Dividend rates may be fixed or variable or both. Different series of preferred stock may be entitled to dividends at different dividend rates or based upon different methods of determination. Each dividend will be payable to the holders of record as they appear on our stock books on record dates determined by our board of directors. Dividends on preferred stock may be cumulative or non-cumulative, as specified in the prospectus supplement. If our board of directors fails to declare a dividend on any preferred stock for which dividends are non-cumulative, then the right to receive that dividend will be lost, and we will have no obligation to pay the dividend for that dividend period, whether or not dividends are declared for any future dividend period.

Unless otherwise set forth in the related prospectus supplement, no full dividends will be declared or paid on any preferred stock unless full dividends for the dividend period commencing after the immediately preceding dividend payment date and any cumulative dividends still owing have been or contemporaneously are declared and paid on all other series of preferred stock which have the same rank as, or rank senior to, that series of preferred stock. When those dividends are not paid in full, dividends will be declared pro rata, so that the amount of dividends declared per share on that series of preferred stock and on each other series of preferred stock having the same rank as that series of preferred stock will bear the same ratio to each other that accrued dividends per share on that series of preferred stock and the other series of preferred stock bear to each other. In addition, generally, unless full dividends including any cumulative dividends still owing on all outstanding shares of any series of preferred stock have been paid, no dividends will be declared or paid on the common stock and generally we may not redeem or purchase any common stock. No interest will be paid in connection with any dividend payment or payments which may be in arrears.

Unless otherwise set forth in the related prospectus supplement, the dividends payable for each dividend period will be computed by annualizing the applicable dividend rate and dividing by the number of dividend periods in a year, except that the amount of dividends payable for the initial dividend period or any period shorter than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months and, for any period less than a full month, the actual number of days elapsed in the period.

#### Preferred Stock Rights Upon Liquidation

If we liquidate, dissolve or wind up our affairs, either voluntarily or involuntarily, the holders of each series of preferred stock will be entitled to receive liquidating distributions in the amount set forth in the prospectus supplement relating to the series of preferred stock. If the amounts payable with respect to preferred stock of any series and any stock having the same rank as that series of preferred stock are not paid in full, the holders of the preferred stock will share ratably in any such distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After the holders of each series of preferred stock having the same rank are paid in full, they will have no right or claim to any of our remaining assets. Neither the sale of all or substantially all of our property or business nor a merger or consolidation by us with any other corporation will be considered a dissolution, liquidation or winding up by us of our business or affairs.

#### Preferred Stock Redemption

Any series of preferred stock may be redeemable in whole or in part at our option, as set forth in the related prospectus supplement. In addition, any series of preferred stock may be subject to mandatory redemption pursuant to a sinking fund. The redemption provisions that may apply to a series of preferred stock, including the redemption dates and the redemption prices for that series, will be set forth in the related prospectus supplement.

If a series of preferred stock is subject to redemption, the related prospectus supplement will specify the year we can begin to redeem shares of the preferred stock, the number of shares of the preferred stock we can redeem each year, and the redemption price per share. We may pay the redemption price in cash, stock or other securities of us or of third parties, as specified in the related prospectus supplement. If the redemption price is to be paid only from the proceeds of the sale of our capital stock, the terms of the series of preferred stock may also provide that if no capital stock is sold or if the amount of cash received is insufficient to pay in full the redemption price then due, the series of preferred stock will automatically be converted into shares of the applicable capital stock pursuant to conversion provisions specified in the related prospectus supplement.

If fewer than all the outstanding shares of any series of preferred stock are to be redeemed, whether by mandatory or optional redemption, our board of directors will determine the method for selecting the shares to be redeemed, which may be by lot or pro rata or by any other method determined to be equitable. From and after the redemption date, dividends will cease to accrue on the shares of preferred stock called for redemption and all rights of the holders of those shares other than the right to receive the redemption price will cease.

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### Preferred Stock Conversion Rights

The prospectus supplement will state any conversion rights, including any mandatory conversion rights, under which shares of preferred stock are convertible into shares of common stock or another series of preferred stock or other securities or property.

### Preferred Stock Voting Rights

The prospectus supplement will set forth any voting rights of that series of preferred stock. Unless otherwise indicated in the prospectus supplement, if we issue full shares of any series of preferred stock, each share will be entitled to one vote on matters on which holders of that series of preferred stock are entitled to vote. Because each full share of any series of preferred stock will be entitled to one vote, the voting power of that series will depend on the number of shares in that series, and not on the aggregate liquidation preference or initial offering price of the shares of that series of preferred stock. Unless otherwise indicated in a prospectus supplement, holders of our preferred stock do not vote on matters submitted for a vote of our common stockholders.

### Permanent Global Preferred Securities

A series of preferred stock may be issued in whole or in part in the form of one or more global securities that will be deposited with a depositary or its nominee identified in the related prospectus supplement. For most series of preferred stock, the depositary will be DTC. A global security may not be transferred except as a whole to the depositary, a nominee of the depositary or their successors unless it is exchanged in whole or in part for preferred stock in individually certificated form. Any additional terms of the depositary arrangement with respect to any series of preferred stock and the rights of and limitations on owners of beneficial interests in a global security representing a series of preferred stock may be described in the related prospectus supplement.

### Series D Cumulative Convertible Pay-in-Kind Preferred Stock

As of December 16, 2004, there were 4,522,437 shares of Series D Preferred Stock issued and outstanding. We have authorized 6,000,000 shares of Series D Preferred Stock. As of such date, the outstanding shares of Series D Preferred Stock were convertible into 82,226,121 shares of our common stock. The outstanding shares of Series D Preferred Stock are duly authorized, validly issued, fully paid and nonassessable.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of us, holders of Series D Preferred Stock shall be entitled to receive out of our assets legally available for distribution to security holders, before any distribution of assets is made to holders of common stock or any other class or series of capital stock ranking junior to Series D Preferred Stock, a liquidation preference of \$100, subject to certain adjustments, plus all accrued and unpaid dividends thereon. If, upon any voluntary or involuntary liquidation, dissolution or winding up of us, the amounts payable to holders of Series D Preferred Stock and any other shares of preferred stock ranking as to such distribution on a parity with the Series D Preferred Stock are not paid in full, the holders of Series D Preferred Stock and of such other shares of preferred stock will share ratably in any such distribution of our assets in proportion to the full respective preferential amounts to which they are entitled.

Each holder of Series D Preferred Stock is entitled to vote with holders of common stock and each holder of Series D Preferred Stock is entitled to one vote for each share of common stock issuable upon conversion of such holder's

Series D Preferred Stock. The holders of Series D Preferred Stock are entitled to vote separately as a class to elect two directors to our board of directors. Each share of Series D Preferred Stock is convertible into the number of shares of our common stock equal to the liquidation preference (\$100.00) divided by the conversion price, which is \$5.50 per share, subject to certain antidilution adjustments. Without the prior consent of the holders of a majority of the Series D Preferred Stock, we may not authorize, create or issue any securities that are senior to the Series D Preferred Stock, or take certain other actions that would adversely affect the rights, privileges and preferences of the Series D Preferred Stock.

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Each holder of Series D Preferred Stock is entitled to receive cumulative preferential dividends at the rate of 8.0% on the liquidation preference, payable quarterly in arrears. Dividends shall be paid, at our option, either in cash, additional shares of Series D Preferred Stock, or a combination thereof. From time to time, on or after October 25, 2004, we may redeem shares of Series D Preferred Stock at 105% of the liquidation preference plus any unpaid partial dividends to the applicable redemption date. Holders of Series D Preferred Stock have no preemptive rights to subscribe for any additional securities we may issue. We have granted the holders of Series D Preferred Stock certain registration rights with respect to the Series D Preferred Stock and the common stock into which the Series D Preferred Stock may be converted.

#### Anti-Takeover Effects of Delaware Laws and Our Charter and Bylaw Provisions

Some provisions of Delaware law and our certificate of incorporation and bylaws could make the following more difficult:

- acquisition of us by means of a tender offer;
- acquisition of control of us by means of a proxy contest or otherwise; or
- removal of our incumbent officers and directors.

These provisions are designed to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us, and that the benefits of this increased protection outweigh the disadvantages of discouraging those proposals, because negotiation of those proposals could result in an improvement of their terms.

#### Charter and By-Law Provisions

The Rite Aid certificate of incorporation specifies that our board of directors shall be divided into three classes, as nearly equal in number as possible, and shall consist of not less than three nor more than 15 directors elected for three-year staggered terms. The term of one class of directors expires at each annual meeting of security holders. Our bylaws provide that the number of directors on our board may be fixed by our board only. The number of directors may be increased or decreased by our board only. In the interim period between annual meetings of security holders or of special meetings of security holders, vacancies and newly created directorships may be filled by our board. Any directors so elected will hold office until the next election of the class to which such directors have been elected. Our certificate of incorporation requires that any mergers, consolidations, asset dispositions and other transactions involving a beneficial owner of more than 10% of the voting power of the then-outstanding classes of stock entitled to vote in the election of directors be approved, unless certain conditions are satisfied, by the affirmative vote of the

holders of shares representing not less than 75% of the outstanding shares of stock entitled to vote. These special voting requirements do not apply if the transaction is approved by a majority of the Continuing Directors (as defined below) or the consideration offered to our security holders meets specified fair price standards (including related procedural requirements as to the form of consideration and continued payment of dividends). "Continuing Director" as defined in our certificate of incorporation means a member of our board who was not affiliated with a Related Person (as defined below) and was a member of our board prior to the time that the Related Person acquired the last shares of common stock entitling such Related Person to exercise, in the aggregate, in excess of 10% of the total voting power of all classes of voting stock, or any individual, corporation, partnership, person or other entity ("Person") recommended to succeed a Continuing Director by a majority of Continuing Directors. "Related Person," as defined in our certificate of incorporation, means any Person or affiliate or associate of such Person, who has beneficial ownership directly or indirectly of shares of stock of Rite Aid entitling such Person to exercise more than 10% of the total voting power of all classes of voting stock. Under our certificate of incorporation and bylaws, security holders may consent to any action required or permitted to be

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taken at any meeting of security holders without prior notice or a vote if a written consent or consents, setting forth the action so taken, shall be signed by holders of outstanding stock having not less than the minimum number of votes that would be necessary to take the action at a meeting at which all shares entitled to vote thereon were present and voted.

#### Other Limitations on Stockholder Actions

Our certificate of incorporation also provides that no director shall be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except as required by law, as in effect from time to time. Currently, Delaware law requires that liability be imposed for the following:

- any breach of the director's duty of loyalty to our company or our stockholders;
- any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

Our bylaws also provide that we will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of us) arising out of the fact that such person is or was our director or officer, or served any other enterprise at our request as a director, officer, employee, agent or fiduciary. We will reimburse the expenses, including attorneys' fees, actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to our best interests.

#### Delaware Anti-Takeover Law

We are subject to Section 203 of the Delaware General Corporation Law. Section 203 prohibits Delaware corporations from engaging in a wide range of specified transactions with any interested stockholder. An interested stockholder is any person, other than the corporation and any of its majority-owned subsidiaries, who owns 15% or more of any class or series of stock entitled to vote generally in the election of directors. Section 203 may tend to deter any potential unfriendly offers or other efforts to obtain control of our company that are not approved by our board. This may

deprive the stockholders of opportunities to sell shares of our common stock at prices higher than the prevailing market price.

#### Listing of Common Stock

Our common stock trades on the New York Stock Exchange and the Pacific Exchange under the trading symbol "RAD".

#### Transfer Agent and Registrar

Computershare serves as the transfer agent and registrar of our common stock.

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## DESCRIPTION OF WARRANTS

We may issue warrants to purchase any combination of our or any other entity's debt securities, common stock, preferred stock or other securities, including additional warrants. We may issue warrants independently or together with any offered securities. The warrants may be attached to or separate from the other offered securities. We will issue the warrants under one or more warrant agreements between us and a warrant agent that we will name in the prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with holders or beneficial owners of warrants.

The prospectus supplement relating to any warrants that we may offer will include the specific terms relating to the terms of the warrants. The prospectus supplement will include some or all of the following terms:

- the title of the warrants;
- the aggregate number of warrants offered;
- the price or prices at which the warrants will be issued;
- the designation, number and terms of the debt securities, common stock, preferred stock, rights or other securities purchasable upon exercise of the warrants;
- the exercise price of the warrants;
- any provisions for adjustment of the number or amount of securities receivable upon exercise of the warrants or the exercise price of the warrants;
- the dates or periods during which the warrants are exercisable;
- the designation and terms of any securities with which the warrants are issued;
- if the warrants are issued as a unit with another security, the date, if any, on and after which the warrants and the other security will be separately transferable;
- the rights, if any, we have to redeem the warrants;
- if applicable, a discussion of any material U.S. federal income tax considerations applicable to the warrants;
- if the exercise price is not payable in U.S. dollars, the foreign currency, currency unit or composite currency in which the exercise price is denominated;
- any minimum or maximum amount of warrants that may be exercised at any one time;
- any terms, procedures and limitations relating to the transferability, exchange or exercise of the warrants;



- the name of the warrant agent;
- information with respect to book-entry procedures, if any; and
- any other material terms of the warrants.

Each warrant will entitle the holder of warrants to purchase the amount of debt or equity securities, at the exercise price stated or determinable in the prospectus supplement for the warrants. Warrants may be exercised at any time up to the close of business on the expiration date shown in the applicable prospectus supplement, unless otherwise specified in such prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void. Warrants may be exercised as described in the applicable prospectus supplement. When the warrant holder makes the payment and properly completes and signs the warrant certificate at the corporate trust office of the warrant agent or any other office indicated in a prospectus supplement, we will, as soon as possible, forward the debt or equity securities that the warrant holder has purchased. If the warrant holder exercises the warrant for less than all of the warrants represented by the warrant certificate, we will issue a new warrant certificate for the remaining warrants.

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## PLAN OF DISTRIBUTION

We may sell the common stock, preferred stock and any series of debt securities and warrants being offered hereby in one or more of the following ways from time to time:

- to underwriters or dealers for resale to the purchasers;
- directly to purchasers;
- through agents or dealers to the purchasers; or
- through a combination of any of these methods of sale.

A prospectus supplement with respect to each series of securities will state the terms of the offering of the securities, including:

- the terms of the offering;
- the name or names of any underwriters or agents;
- the purchase price of the securities and the net proceeds to be received by us from the sale;
- any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation;
- any delayed delivery arrangements;
- any initial public offering price;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchange on which the securities may be listed.

If we use underwriters or dealers in the sale, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including

- negotiated transactions;
- at a fixed public offering price or prices, which may be changed;
- at market prices prevailing at the time of sale; or
- at prices related to prevailing market prices.

Offerings of our equity securities pursuant to this prospectus may also be made into an existing trading market for

such securities in transactions at other than a fixed price either:

- on or through facilities of any national securities exchange or quotation service on which such securities may be listed or quoted at the time of sale; and
- to or through a market maker otherwise than on such exchanges.

Such at-the-market offerings will be conducted by underwriters acting as our principal or agent, who may also be third-party sellers of securities.

Underwriters or agents in any distribution contemplated hereby, including at-the-market offerings referred to below, may from time to time include Citigroup Global Markets Inc. or J.P. Morgan Securities Inc., or their respective affiliates.

To the extent that we make sales to or through one or more underwriters or agents in at-the-market offerings in accordance with the provisions of Rule 415(a)(4) under the Securities Act, we will do so pursuant to the terms of a distribution agreement between us and the underwriters or agents. If we engage in at-the-market sales pursuant to a distribution agreement, we will issue and sell shares of our common stock to or through one or more underwriters or agents, which may act on an agency basis or on a principal basis. During the term of any such agreement, we may sell shares on a daily basis in exchange transactions or otherwise as we agree with the underwriters or agents. The

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distribution agreement will provide that any shares of our common stock sold will be sold at prices related to the then prevailing market prices for our common stock. Therefore, exact figures regarding proceeds that will be raised or commissions to be paid cannot be determined at this time and will be described in a prospectus supplement. Pursuant to the terms of the distribution agreement, we also may agree to sell, and the relevant underwriters or agents may agree to solicit offers to purchase, blocks of our common stock or other securities. The terms of each such distribution agreement will be set forth in more detail in a prospectus supplement to this prospectus. The aggregate number of shares offered by us pursuant to at-the-market offerings will not exceed 10% of the aggregate market value of our common stock held by non-affiliates. In the event that any underwriter or agent acts as principal, or broker-dealer acts as underwriter, it may engage in certain transactions that stabilize, maintain or otherwise affect the price of our securities. We will describe any such activities in the prospectus supplement relating to the transaction.

In connection with offerings made through underwriters or agents, we may enter into agreements with such underwriters or agents pursuant to which we receive our outstanding securities in consideration for the securities being offered to the public for cash. In connection with these arrangements, the underwriters or agents may also sell securities covered by this prospectus to hedge their positions in these outstanding securities, including in short sale transactions. If so, the underwriters or agents may use the securities received from us under these arrangements to close out any related open borrowings of securities.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable

prospectus supplement (or a post-effective amendment).

We may loan or pledge securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or in connection with a simultaneous offering of other securities offered by this prospectus.

Offers to purchase the securities offered by this prospectus may be solicited, and sales of the securities may be made, by us of those securities directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act with respect to any resales of the securities. The terms of any offer made in this manner will be included in the prospectus supplement relating to the offer.

The securities may also be offered and sold, if so indicated in a prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for us. A prospectus supplement will identify any remarketing firm and will describe the terms of its agreement, if any, with us and its compensation.

If indicated in the applicable prospectus supplement, we may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment. We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the applicable prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The delayed delivery contracts will be subject only to those conditions set forth in the applicable prospectus supplement, and the applicable prospectus supplemental will set forth any commissions we pay for solicitations of these delayed delivery contracts.

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If underwriters are used in the sale of any securities, the securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Unless otherwise stated in a prospectus supplement, the obligations of the underwriters to purchase any securities will be conditioned on customary closing conditions and the underwriters will be obligated to purchase all of such series of securities, if any are purchased.

Underwriters, dealers, agents and remarketing firms may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the underwriters, dealers, agents and remarketing firms may be required to make. Underwriters, dealers, agents and remarketing agents may be customers of, engage in transactions with, or perform services in the ordinary course of business for us and/or our affiliates.

Each series of securities will be a new issue of securities and will have no established trading market other than our common stock which is listed on the New York Stock Exchange and Pacific Exchange. Any common stock sold will be listed on the New York Stock Exchange and Pacific Exchange, upon official notice of issuance. The securities, other than the common stock, may or may not be listed on a national securities exchange.

Any underwriters to whom securities are sold by us for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without

notice.

The anticipated date of delivery of the securities offered by this prospectus will be described in the applicable prospectus supplement relating to the offering. The securities offered by this prospectus may or may not be listed on a national securities exchange or a foreign securities exchange. No assurance can be given as to the liquidity or activity of any trading in the offered securities.

In compliance with the guidelines of the National Association of Securities Dealers, Inc., the aggregate maximum discount, commission or agency fees or other items constituting underwriting compensation to be received by any NASD member or independent broker-dealer will not exceed 8% of any offering pursuant to this prospectus and any applicable prospectus supplement; however, it is anticipated that the maximum commission or discount to be received in any particular offering of securities will be significantly less than this amount."

If more than 10% of the net proceeds of any offering of securities made under this prospectus will be received by NASD members participating in the offering or affiliates or associated persons of such NASD members, the offering will be conducted in accordance with NASD Conduct Rule 2710(h).

## LEGAL MATTERS

Unless otherwise indicated in the applicable prospectus supplement, certain legal matters will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. If the validity of any securities is also passed upon by counsel for the underwriters of an offering of those securities, that counsel will be named in the prospectus supplement relating to that offering.

## EXPERTS

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus by reference from our Annual Report on Form 10-K for the fiscal year ended February 28, 2004 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" effective March 2, 2003, the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended, effective March 4, 2001 and the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective March 3, 2002) and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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2,300,000 HiMEDS<sup>SM</sup>

7.0% Series E Mandatory Convertible Preferred Stock

Prospectus Supplement

January 25, 2005

JPMorgan

Citigroup